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## EXECUTIVE SUMMARY

1. At the request of the Office of the Auditor General Nepal (OAGN) in 2013, a peer review team of the Comptroller & Auditor General of India assessed the performance of OAGN with reference to the Performance Measurement Framework prepared by the INTOSAI Working Group on the Value and Benefits of SAIs. The present SAI Performance Report is a result of the assessment conducted under the SAI Performance Measurement Framework by the team. As agreed between the two SAIs, this SAI Performance Report includes an assessment on all the seven domains under the SAI Performance Measurement Framework and covers the period 2013-14, i.e. audit work on the accounts of Financial Year 2012-13.
2. The Interim Constitution 2007 has given a constitutional status to the Auditor General (AG) of Nepal and the Audit Act of 1991 gives a wide range of powers to the AG. He submits an Annual Report (AR) to the President, who causes it to be submitted to the Legislature Parliament through the Prime Minister. The Annual Report is placed in the public domain immediately after it is submitted to the President and a press briefing is held. The Annual Report is referred to the Public Accounts Committee (PAC) for discussion which also monitors progress reports on budget implementation. Due to the absence of a Parliament, there was no PAC for the last two years and the AR could not be laid in the Parliament, nor were the AR for the last three years discussed in the PAC.
3. There has been significant improvement in the timeliness of submission of the AR to the President during the last three years. We feel that this is an opportune moment for the OAGN to muster support and get the required statutory backing to publish more than one AR while the Constituent Assembly deliberates on the future constitutional set up of the country. There is also sufficient scope to improve the contents and layout of the AR, given the efforts of the OAGN to reach a wider audience. Deciding on an appropriate materiality level would definitely make it more incisive, focussed and compact.
4. The OAGN conducts financial and performance audits. However, the financial audit is essentially a compliance audit whose key characteristic is the assessment of whether a subject matter is in compliance with the authorities which govern the audited entity. The scope and extent of financial audit is limited to expression of an opinion only in few cases like the Consolidated Fund Account, State Owned Enterprises and financial statements of the controlling entities and some donor funded projects.
5. OAGN has prepared a risk based audit plan, which is a positive development. Yet, it covered all the entities for audit during the year, as it has interpreted the Interim Constitution to imply that it is mandatory to audit all the entities under its statutory powers. This has an impact on the quality of audit. The audit plan runs from mid August to mid February during which most of the staff remain in the field for audit. Subsequently, the entire staff remains at headquarters at Kathmandu from mid February

to mid August to finalise the AR and perform other activities. There have been issues on monitoring the implementation of the annual audit plan.

6. Though the AG is required to conduct final audit of the financial and other activities of the offices and bodies and to submit his AR to the President, significant audit observations included in the AR were based on the provisional financial statements of State Owned Entities.
7. The Interim Constitution empowers the AG to conduct Performance Audits (PAs). Every year the SAI conducts 20-25 PAs under the PA Directorate and the summary findings are included in the Annual Report under the respective ministry. OAGN has conducted 22 PAs in the period of our assessment, out of which three PAs were conducted as pilot audits. The PA teams also conduct Financial Audit of the entities. The Performance Audit Reports are not published separately, nor is a separate chapter incorporated in the AR. We feel that the PA work may be managed by the respective directorates for more effective results, as the latter has specific domain knowledge of the entities selected for PA. The OAGN has also carried out some value added services such as IT Audits and one Environmental Audit. It also proposes to conduct gender based audit in future.
8. There is no exclusive follow up division/ directorate in the OAGN, neither is there any institutional mechanism to systematically track follow up action on the audit recommendations and observations as well as those made by the PAC. Follow up starts only when the entity furnishes reply to OAGN.
9. There is appropriate and effective constitutional and statutory legal framework which ensures a sufficiently broad mandate, access to information, right and obligation to report. However, the OAGN does not have autonomy on financial and human resources management. While the annual budget adheres to the ceiling imposed by the National Planning Commission, there have been persistent cuts in both charged and voted budgets. The human resource requirements are dependent upon the Public Service Commission and the OAGN has no powers to appoint staff and regulate their service conditions. The sanctioned staff strength (449) has remained stagnant for the last twenty years while the number of audited entities has increased.
10. There is a good quality assurance (QA) system in the form of a QA Handbook, a QA Committee and a QA Directorate. There is a system for annual quality review of 50 audit files. However, this is only a post quality review and the results of this review are presently not communicated to the HR and the concerned audit directorates.
11. OAGN has put in place a Code of Ethics for the staff in line with ISSAI 30. It contains a declaration to be signed by each auditor requiring him to observe integrity, maintain independence, professional secrecy and competence.
12. The internal control system within OAGN is not robust. There is no system to ensure that the audit process has followed the laid down quality standards. The OAGN has a half year audit plan during which almost the entire office goes out in the field for audit.

The half year audit plan and the burden of mandatory regularity audits affect the quality of audit. Teams are saddled with a large number of audits which are neither adequately supervised nor completed as per schedule. The sectional work at Headquarters remains relatively neglected during mid August to mid February. As a result, the replies of the entities are not adequately monitored and quality control on audit files cannot be ensured. There is no robust second level review of audit files and the audit observations included in the AR are often incorporated without the final replies of the department/ ministry.

- 13.** Professional development of staff requires more attention. There is limited induction training to the new recruits. The recruitment, promotion and welfare is guided by the Civil Service Regulations. There are capacity constraints in the existing infrastructure. A Communication Strategy is being developed in assistance with the Consultant and the OAGN is enthused about reaching to a wider audience on its value and benefits. The OAGN has held interaction with Chief Accounting Officers and Chief Executive officers of State Owned Enterprises(SOEs) and has also conducted a stakeholder survey to assess its effectiveness. The AR has received good media coverage and there is ample scope to leverage radio services to disseminate its value and benefits, given the severe and frequent electricity outages in the country.
- 14.** OAGN has benefitted from continuous donor support. It has received 2.3 million USD from the Multi Donor Trust Fund (MDTF) during the last four years as part of a project to strengthen the Office of the Auditor General, Nepal.
- 15.** The SAI is at a crucial stage in its evolution. Its strategy coupled with sustained Government and donor support would provide a sound base for sustained development and future improvements. It urgently needs to rally support for more statutory powers while the Constituent Assembly(CA) deliberates on the new Constitution.

## QUALITY ASSURANCE STATEMENT

1. This assessment was prepared by the following team:

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The team leader takes full responsibility for the contents of the report.

2. The report has been quality assured by Sh. Ramu Prasad Dotel, Assistant Auditor General of the Office of the Auditor General of Nepal (OAGN).
3. The purpose of the quality assurance was to verify the accuracy of the facts regarding OAGN as recorded in the assessment. Issues raised during the QA process and after the draft version have been addressed in this final version.
4. The Performance Report uses the SAI Performance Indicator set and the scoring methodology prescribed in the SAI PMF Framework. Before the scoring of the 22 indicators under the 7 domains, a brief narrative has been provided under each indicator which outlines the SAI's main strengths and weaknesses.
5. Mission of OAGN: "Provide quality audit service to the nation for the efficient management of public resources."
6. Vision of OAGN: "An independent, efficient and effective audit institution to promote good governance."

## OBSERVATIONS ON OAGN PERFORMANCE AND IMPACT

### a) Integrated assessment of OAGN Performance

The table below shows how the various factors both within and outside the control of OAGN impact its external performance, in terms of delivering financial, compliance and performance audits, value added services and its annual report.

	Financial Audit: Results and Procedures	Compliance Audit: Results and Procedures	Performance Audit: Results and Procedures	SAI Added Value Services	SAI Annual Report
<b>Context (Outside the control of OAGN)</b>					
<b>Country Governance Environment and Contextual Factors</b>	<ul style="list-style-type: none"> <li>Given the years of political uncertainty and consequent absence of legislative oversight and the fact that key accountability bodies like the Commission for Investigation of Abuse of Authority (CIAA) and AG were leaderless for several years, a strong OAGN performance is key to the nation for efficient management of public resources.</li> <li>Membership of INTOSAI, ASOSAI and donor support from MDTF has benefitted OAGN through adoption of global best practices and participation in regional capacity development programs.</li> <li>Weak internal audit and delay in budget submission and approval pose a challenge to the mission and vision of OAGN.</li> <li>Weak IT systems and internet connectivity within the country makes it prohibitively expensive to adopt modern IT systems, hampering audit efficiency as well as internal and external communication.</li> </ul>				
<b>Public Financial Management Environment</b>	<ul style="list-style-type: none"> <li>OAGN covers the audit of expenditure and receipts as per the Budget Statement and funds channelled through the Financial Comptroller General Office (FCGO). However, expenditure as per the Statement of Technical and Other Assistance (Blue Book) does not fall within the scope of audit by OAGN. Similarly, extra budgetary expenditure, expenditure from grants received in District Development Committee (DDC) directly from the donors and expenditure incurred by the entities such as municipalities, Village Development Committee (VDC) and public schools do not fall within the audit purview of OAGN.</li> <li>Implementation of the Treasury Single Account (TSA) and access to its data has opened up opportunities for selection of entities and transactions for a more focussed audit.</li> <li>Weak internal control environment, difference in the figures of revenue, appropriation, savings, foreign grants and loans between the FCGO and Nepal Rastra Bank (NRB) and under-developed internal audit reduces the scope for more efficient financial and compliance audit approaches (systems based auditing, reliance on internal controls and reliance on the work on internal audit).</li> <li>Limited follow up of the audit observations and implementation of the recommendations imply that the OAGN Annual Report focuses</li> </ul>				

on the same compliance and performance issues year after year.

#### **SAI Environment (Foundational factor which OAGN can influence in the long term)**

##### **Independence and Legal Framework**

- Limitations to financial independence constrain the nature and volume of activities that OAGN can perform each year.
- There is no functional independence in staff appointment and the AG needs to seek approval of GoN for creating posts.
- Otherwise, the broad provisions in legislation for all forms of audit and reporting to Parliament on any matters of concern and the constitutional independence of the AG provides a strong basis for an effective OAGN.
- Previous delays in publication of the Annual Reports have been controlled and OAGN now publishes and disseminates its work in the form of an Annual Report in a timely manner.

#### **SAI Capability (Largely under the control of OAGN)**

##### **Strategy for Organizational Development**

- OAGN strategy provides for both effective delivery of its mandate as well as continual capacity development, within the constraints of its available resources.
- We did not notice a direct correlation between the monitoring of the strategy and SAI performance relating to financial, compliance and performance audit activities.

##### **Audit Standards and Methodology**

- OAGN has prepared a risk based audit plan which is a positive development. Yet, the coverage of all the entities for audit during the year has an impact on the quality of audit. Besides, the audit could become more focussed by determining a materiality level.
- Aligning the audit plan to the available manpower and budget would ensure more effective audit outputs within the given limited resources.
- OAGN financial and performance audit manual employs modern audit techniques to deliver effective audit output.
- OAGN documentation of audit work and quality control procedures, while being satisfactory in design, are not properly implemented, especially regarding the level of supervision and review of audit work by supervisors and managers.
- Though the responsibility for quality control lies on the supervisor of the audit, more often, it becomes a perfunctory exercise with the supervisor filling in some information in a yes/ no template.
- There is a good quality assurance system in the form of a QA Handbook, a QA Committee and a QA Directorate. There is a system for annual quality review of 50 audit files. However, this is only a post quality review and the results of this review require to be communicated to the HR and the concerned audit directorates.
- Financial audit plans do not outline detailed responsibilities of members of the audit team, weakening their potential to ensure effective implementation of the audits.
- The AG is empowered to conduct the audit of SOEs, yet in some cases the audit is conducted not on the final accounts but on the

	provisional financial statements.
<b>Management and Support Structures</b>	<ul style="list-style-type: none"> <li>• OAGN has put in place a Code of Ethics for the staff in line with ISSAI 30. It contains a declaration to be signed by each auditor requiring him to observe integrity, maintain independence, professional secrecy and competence.</li> <li>• Financial management and reporting within OAGN is sound enabling limited resources to be used effectively. The SAI has introduced a time recording system (e-Attendance) for effective utilisation of the scarce staff resource.</li> <li>• OAGN has an approved organisational structure up to the AAG level while the job description covering the duties and responsibilities of staff has been prepared only up to the Audit Superintendent level. However, the need for defining the responsibilities of each functional unit has been recognised in the Strategic Plan 2013-15.</li> <li>• Though there is a policy for rotation of staff every three years, it has not been uniformly followed.</li> <li>• The budgetary and expenditure framework of OAGN follows the procedures laid in Financial Procedure(FP) Act and Rules. However, there have been issues in efficient management of the budget in terms of savings under both recurrent head and the total budget.</li> <li>• No internal control system has been introduced in compliance to such a requirement in the FP Regulations. Neither is any statement of internal control prepared. There are opportunities to improve internal control systems in the SAI.</li> <li>• OAGN does not have adequate physical infrastructure to provide office space for its entire staff. This is compounded by the lack of IT hardware, internet connectivity and a shared server which would otherwise have facilitated more effective sharing of information across OAGN, adoption of an electronic audit management system and remote supervision of audit work.</li> </ul>
<b>Human Resources</b>	<ul style="list-style-type: none"> <li>• There is no Human Resources Strategy. Though a Human Resource Development Plan was developed in 2005, it was specifically geared towards strengthening the training department.</li> <li>• A Performance Based Incentive Scheme is in operation under which the staff is given monetary incentive on the basis of some indicators. However, the entire staff is covered under the scheme. The evaluation based on these parameters need to be aligned to the quality attributes evaluated during the QA review of files.</li> <li>• Performance Appraisal is conducted as per the Civil Service Regulations. This envisages completion of the Performance Evaluation annually for the non-gazetted staff and annually, bi annually for the gazetted staff.</li> <li>• Auditors recruited through the Public Service Commission receive in service professional training within the organisation. There is no comprehensive induction training before they assume responsible positions in OAGN.</li> <li>• A comprehensive training need analysis aligned with the level of competence and experience of the staff was not carried out by</li> </ul>



	<p>OAGN. The Performance Appraisal System also does not identify the training requirements of the staff. We did not find any objective analysis for nomination of staff for various trainings and no system to link training with job allocation.</p> <ul style="list-style-type: none"> <li>Increasing professional capacity for audit has been identified as Goal 3 in the Strategic Plan 2013-15. This is sought to be achieved, inter alia, by providing opportunity to the staff to acquire professional qualification (CA/ACCA/CIA/CPA/MBA/LLM/ME etc.) and a budget of 30 million NR has been earmarked.</li> <li>OAGN has an annual, in house training programme which is basically prepared as part of the annual budgetary exercise to demand money from the National Planning Commission(NPC). No separate training programme is developed which is linked to objectives in the Strategic Plan.</li> </ul>
<b>Communication and Stakeholder Management</b>	<ul style="list-style-type: none"> <li>Though there is currently no internal communication strategy of OAGN, the consultant has prepared a strategy paper for communicative action by the OAGN.</li> <li>A spokesperson has been nominated for external communication who reports to the AG.</li> <li>Annual press conference is organised after the AR is submitted to the President. This has generated good media coverage of the audit product.</li> <li>The OAGN has a Service Charter containing description of the service to be provided, the responsible officer and the time limit within which the service has to be delivered.</li> <li>Communication with the Legislature through the PAC has been hampered due to political uncertainty. Interaction with the executive has been a positive development.</li> <li>A stakeholder survey has been conducted (February 2014) in which feedback from 200 executive staff was collected in five districts to evaluate the effectiveness of audit covering issues related to quality of audit, reliability, expertise, impartiality and honesty.</li> <li>There is an attempt by the OAGN to provide access to information on public audit to the citizens through regular interactions with the Civil Society Organisations. Two such interactions were held in January and April 2014. Besides, the OAGN also interacts through its Audit Journal and the Audit Advisory Committee formed in January 2014.</li> </ul>

## **b) The Value and Benefits of OAGN – Making a Difference to the Lives of Citizens**

OAGN provides benefits to citizens by promoting good governance and providing information to citizens through its reports and communication activities. It strengthens accountability, integrity and transparency of government and public entities through its audit activities, reporting and publication of findings, in the following ways:

- OAGN contributes to strengthening aggregate fiscal discipline by improving the collection and accounting of government revenue, e.g.
  - Consolidated Fund Accounts were qualified based on discrepancies between the revenue reported by the NRB and the FCGO which created pressure to ensure all revenues are properly accounted for.
  - Rupees two billion 504 million was realized on the basis of audit observations.
  - Audit of public debt has led to awareness on the increasing per capita debt liability.
- OAGN financial audits of the entities each year provides a check on whether funds are being spent for the purposes intended by Parliament, promoting efficient resource allocation and utilisation.
- OAGN activities contribute towards effective service delivery, e.g. the Performance Audits conducted in important areas of public policy in vital sectors of the country provide positive feedback to the executive to improve performance and thereby service delivery.

With its new communications strategy and media coverage, OAGN is increasingly demonstrating relevance to stakeholders, and responding to matters of public interest, though there is scope to do more in this area by opening up further channels for public engagement in the work of OAGN.

At present, OAGN is focusing on building itself as an effective SAI. As it continues to do so, it will generate opportunities to be a model organization and lead by example in reforming the public sector in Nepal. One current example is its adoption and implementation of a code of ethics.

Without limiting the audit function to pointing irregularities, the Auditor General since last year has adopted a policy of suggesting some practical and realistic reforms such as

- Implementation and monitoring of the decisions of the PAC
- Implementation of AR Recommendations
- Improvements in the Accounting System
- Reforms in Budgeting and Public Expenditure Management
- Including all kinds of Foreign Aid in the Budget

#### c) **External Enablers and Constraints to Stronger Impact from OAGN Performance**

The country governance environment and weak Public Financial Management (PFM) system combine to limit the impact that OAGN currently has. At a country level, international observers note that political competition in Nepal has always revolved around access to and distribution of the state's resources leading to systems of patronage and corruption. Against this backdrop, the legislative scrutiny by the PAC has been non-existent due to the absence

of a Parliament. These factors constrain the ability of OAGN to successfully drive its mission and vision statements.

Weaknesses in the PFM environment, particularly inadequate reconciliations between the NRB and FCGO figures and agencies lying outside the budget/TSA, poor internal controls and internal audit undermines the ability of OAGN to contribute to fiscal discipline.

A general failure to implement and enforce implementation of recommendations in OAGN reports undermines the ability of OAGN to contribute to more effective service delivery.

Against these constraints, the level and nature of donor support to OAGN provides an opportunity for OAGN to have greater impact.

#### **d) Analysis of the OAGN's capacity development efforts and prospects for further improvement**

OAGN is conscious of the need for capacity development. It has developed its own Strategic Plan for 2013-15 identifying the strengths and weaknesses and charting the future course of action. It requires monitoring the implementation of the milestones embedded in the Strategic Plan.

OAGN has benefited from the support received from the MDTF (2.3 Million US Dollars) during the last four years as part of a project to strengthen the OAGN.

Presently, required staff are recruited by Public Service Commission and regulated by Civil Service Act. However, OAGN has to revisit the recruitment policies and procedures for recruiting personnel having suitable qualifications. The SAI has identified the need for a policy for strengthening and enhancing competence, knowledge, skill and ability of its staff. This is sought to be achieved through national and international training programs. Since the professional capacity development is a continuous process it has been included in the strategic plan period of 2013-2015 also. Some of the activities outlined in this goal shall be covered by the strengthening of office of the Auditor General project (SOAGP). In view of above, OAG has formulated **"To Increase Professional Capacity for Audit"** as goal 3 in its Strategic Plan. To realize this goal following objectives have been set:

- To make legal and administrative arrangement for multidisciplinary staff
- To seek approval and budget to continue incentive scheme to motivate staff
- To arrange adequate training and skill development opportunity to staff
- To organise knowledge and experience sharing activities
- To strengthen training facilities and
- To design training course/material and provide training supported by practical session.

The SAI has allocated time, budget, responsibility and the critical success factors to achieve the above objectives which can be effectively managed through continuous internal monitoring and support from the other SAI and donors.

## 1. INTRODUCTION

The Comptroller & Auditor General of India was requested for a Peer Review by the Office of the Auditor General Nepal in 2013 to assess the performance of OAGN with reference to the Performance Measurement Framework prepared by the INTOSAI Working Group on the Value and Benefits of SAIs. The present SAI Performance Report is a result of the assessment conducted under the SAI Performance Measurement Framework by the team. As agreed between the two SAIs, this SAI Performance Report includes an assessment on all the seven domains under the SAI Performance Measurement Framework and covers the period 2013-14, i.e. audit work on the accounts of Financial Year 2012-13. A preliminary field visit was conducted for a week in the last week of February 2014. It was followed by a 22 days detailed field work in the OAGN (from 16 May to 7 June 2014).

## 2. COUNTRY AND OAGN BACKGROUND INFORMATION

### 2.1. Description of country governance arrangements and wider environment in which OAGN operates

1. Nepal lies in South Asia between India and China and has a population of approximately 28 million. It is a low income country with GDP per capita of USD 700 (ADB 2012). It ranks 157<sup>th</sup> out of 187 countries on the Human Development Index (UNDP 2013).
2. Nepal is at a crucial stage in its history. It has struggled on multiple fronts over the last two to three decades: from a monarchy to a republic; from authoritarianism to democracy and from a centralized state to autonomy at the regional and local level. Linked closely to these struggles was a decade long armed conflict between 1996 and 2006 - often referred to as the Peoples War- led by Maoist insurgents against the State. This was a conflict that claimed many lives and displaced many people, generating a range of negative impacts on people's livelihoods in the process, including decline in food production and food security, reduction in travel and transport of goods and destruction of local infrastructure. Since the signing of the Comprehensive Peace Agreement in 2006, "New Nepal" has continued to grapple with uncertainty and change- there have been, for example five different governments in six years- but at the same time some impressive progress has been made in a number of areas. With support from international development agencies and bilateral donors, the Government has implemented a range of policies designed to tackle poverty, promote livelihoods and economic opportunities.
3. Nepal was a constitutional monarchy until Parliament approved an Interim Constitution in 2007. The Constituent Assembly (CA) voted to abolish the monarchy and the new state structure was confirmed by the newly elected CA in May 2008. The second CA was convened in January 2014 following the election of its members in a national poll in

November 2013. The body has 601 members of whom 575 are elected and 26 are chosen by the cabinet. Its predecessor, the first CA served from May 2008 to May 2012 when it was dissolved after failing to meet a deadline for the drawing up of a new constitution. The second CA has a deadline of March 2015 by which to agree to a fresh constitution. The head of the state is the President as set out in the Interim Constitution. The PM is chosen by a ballot of the CA and the cabinet is chosen by the PM in consultation with his party and coalition partners. The Supreme Court acts as the court of appeal and review and has powers of original jurisdiction. It presides over 16 appellate courts and 75 district courts.

## **2.2. Description of public sector budgetary environment**

### **The Public Financial Management System**

1. The setup of central ministries involved in public finances in Nepal is complex. The main actors are the MoF and the NPC. There are several departments or agencies under the general authority of the MoF. One is the FCGO, which carries out the treasury function. On the revenue side, the Inland Revenue Department (IRD) is responsible for tax administration and collection. Another important actor is the Public Procurement Monitoring Office (PPMO), which reports directly to the Prime Minister's Office.
2. The NPC and the MoF have evolved in parallel. Between 1963 and 1968, a Ministry of Economic Planning was in charge of all fiscal and economic affairs; in 1968, the MoF and the NPC were established as separate bodies. The MoF is now formally the lead ministry for economic, revenue, and expenditure affairs, and the NPC is the government's advisory body for planning and policy development.
3. Of the potential core finance functions a finance ministry could undertake, only a small number (three out of 18) rest solely with the MoF itself: foreign aid coordination, tax policy, and budget preparation. In practice, the bulk of macroeconomic responsibilities are shared with the NPC and the Central Bank (five out of 18: macro-fiscal forecasting and analysis, fiscal policy formulation, the interface between monetary and fiscal policy, fiscal risk analysis, and financial sector supervision). The FCGO carries out a large share of core expenditure work (five out of 18: treasury and cash management, internal control, internal audit, accounting policy, and debt management). The other five functions (tax administration, customs administration, intergovernmental relations, public asset management, and procurement) are spread over other agencies and departments, some, but not all, of which are formally in a line management relationship with the MoF.
4. The FCGO is quite strong in administrative heft. The Financial Comptroller General (FCG) is in District Treasury Comptroller Offices (DTCOs) or in the treasury offices of other ministries. The head office itself is comparable to the MoF in size. The FCGO has received considerable donor support in recent years, and it, not the MoF, houses the Public Expenditure and Financial Accountability (PEFA) Secretariat, which is the main PFM reform coordination body.

5. Apart from the MoF, the NPC plays a significant role in financial management in Nepal. The country's Prime Minister is the chair of the NPC. One particular challenge with implementing capital expenditures is that the NPC assesses/reviews priority (P1) projects following approval of the annual budget. Logically, any review by a planning commission should take place *prior* to finalization of the budget.
6. During several past reviews by the multilateral organizations and other donors, weak Public Financial Management (PFM) practices were recognized throughout the GoN. The Public Expenditure and Financial Accountability (PEFA) assessment carried out in 2007 by the Government with support from World Bank found a high risk environment in financial management. Consequently, a PFM Reform Program (PFMRP) was envisioned and is being developed.

### **Budget forecasting and preparation**

7. The Resource Committee produces the forecasts of fiscal aggregates. This comprises the NPC vice chair and members, with support from Nepal Rastra Bank (NRB), the MoF, and the FCGO. The process starts in November when the Resource Committee reviews estimates of revenue and financing and sets the aggregate ceiling for the next fiscal year, commencing July 15. The Economic Affairs and Policy Analysis Division of the MoF prepares annual economic policy analysis and macroeconomic forecasts. The NRB also prepares a set of parallel forecasts, notably on growth rate estimates. The Resource Committee reviews both sets of projections and determines the parameters to include in the macro-fiscal framework. Formal multiyear fiscal planning was introduced in 2002 through a Medium Term Expenditure Framework (MTEF), prepared by the NPC in parallel with the 10th National Development Plan. The MTEF is updated annually on a rolling basis, with the first year setting the expenditure for the annual budget and with two forward years. The framework estimates the spending requirements needed to cover recurrent, development and statutory expenditure. Resources required to cover the expenditure are determined on the basis of state revenues, foreign grants and loans and domestic borrowing.
8. The MoF is responsible for overseeing the budget process. By the end of January, it allocates total planned expenditure across line ministries and agencies. At the same time, it issues the Budget Preparation Directory and the Budget Operations Manual to line ministries, departments, divisions, and other government agencies, both of which are quite comprehensive. These documents prescribe the timetable, procedures, and forms to be completed, as well as their budget ceilings. Although these ceilings are presented as "approved," it is held that lower ceilings are often provided to the line ministries to leave room for negotiations later. The concerned ministries then send budget ceilings along with sector guidelines to the departments, district offices, and local bodies under their mandate. Subject to the ceiling and guidelines prepared by each ministry and the MoF, district-level offices prepare their budget and send it up to the concerned department. The departments then consolidate these and prepare their budget and send it to the ministry, which should then submit the request to the NPC and the MoF. According to the

Budget Circular, the line ministries are required to submit their budgets to the MoF by the end of March, but this often does not occur until May.

9. Once the MoF finalizes the programs and allocations, the Finance Minister introduces the final draft budget to Parliament through his/her annual budget speech. This typically occurs during the first or second week of July. On the same day, the draft Finance Bill and the draft Appropriation Bill are presented to the Parliament. While a clear annual budget calendar is mentioned in the manual, there are often delays in submission and approval by the Parliament. In the last seven years (FY 2007 to FY 2013) while the budget has been submitted to the Parliament in July, it has been approved not earlier than August. The CA did not approve the budget till November in both FY2009 and FY 2010 and not until April 2013 for FY 2013. The delay in submission adversely impacts timely review and budgetary debates. Further, the delay in approval has its effect on budget execution.

### **Budget Execution**

10. More than 4,000 spending units carry out budget execution, making it relatively complex. After the budget is approved for the fiscal year, the MoF issues letters of authorization to confirm the budget allocations to the line ministries according to the Red Book, which in turn, issue authorizations to their subsidiary spending units. These letters include the budget statement, which indicates the budget heads, subheads and amounts, and details of financing sources for projects in the development budget. Copies of the budget statements and authorization letters are also sent to the OAGN and the FCGO. The FCGO also issues authorizations to the District Treasury Controller Offices (DTCOs) in respect of items under their control.
11. Despite the formal annual budget calendar, there is no hard deadline in practice for inclusion of new capital projects. After the MoF and NPC have held budget discussions with line ministries and have agreed to the spending amounts for projects and agencies, the Red Book often contains revisions. Typically, the line ministries become aware of the changes only after the budget is approved. The departments, division offices and local bodies must then readjust their work programs, rewrite project implementation plans, and develop new procurement plans. These revised work plans are again sent to the respective line ministries and the NPC (if categorized as P1, which is over 85 percent of all projects) for approval.

### **In-year budget revisions and reallocation**

12. Virement rules are extremely flexible in Nepal and, as a result, a large amount of re-budgeting takes place throughout the year. There are specific restrictions, such as no reallocation between capital and current budgets and no reallocation from wages within the current budget. The MoF must approve virement from one budget heading to another, or reallocation of more than 25 percent within a budget head. However, line ministries have considerable scope to modify their originally approved budget. There is a virement cap equal to 25 percent on any particular line item for line ministries and 10 percent for subordinate spending units. In other words, line ministries may unilaterally



approve transfers *within* a budget heading of up to 25 percent of the value of the budget line. The high level of virement during budget execution ensures flexibility but weakens the credibility of the budget preparation process. Virement transactions are recorded by the FCGO and published in the annual report. However, they are reported only on the basis of volume, not with regard to frequency.

### **Accounting, cash management and payment controls**

13. The expenditure and revenue of GoN is recorded and reported on cash basis of accounting. The Government expenditure is classified into recurrent, capital and financing heads. Budget releases are tightly controlled by the FCGO to manage cash flow. For government-funded expenditures, the FCGO and DTCOs control execution by releasing the initial budget allotment for two months to spending units once the budget has been approved (or the one-third appropriation bill has been passed). Subsequent releases are made on a rolling monthly or trimester basis according to authorized allotments, but only after statements of expenditure are submitted for the prior periods. Although the budget system law requires release of funds to ministries and districts within 15 days, delays are common.
14. Implementation of a Treasury Single Account (TSA) has improved the budget execution process by enabling real-time checks for payment against expenditure transactions. The TSA system has been rolled out in all the 75 districts. Each DTCO within TSA districts has only four main bank accounts: recurrent expenditures, capital expenditures, revenue, and deposits. There are less than 300 separate bank accounts in total, compared with over 14,000 spending unit accounts prior to implementation of the TSA system. Payment requests are brought to the DTCO, which then enters the data in the TSA system. Given automatic controls in the District Expenditure Control System, the DTCO can process cheques only for amounts within the limit of the released budget.
15. The government has also made strides in its fiscal accounting methods. Recently, it has updated its Chart of Accounts to comply with the Government Finance Statistics Manual (GFSM) classification for the 2011/12 budget. However, the budget still lacks detailed functional and programmatic coding. Furthermore, appropriate accounting codes for expenditures are not practiced at the district level. While central-level road expenditure is properly classified as capital expenditure and follows appropriate Chart of Accounts coding, much of district-level capital expenditure (68 percent) is accounted for as transfers, which falls under the recurrent budget.

### **Procurement and contracting of goods and services**

16. The government reformed the legal and institutional setup of public procurement processes in 2007. These reforms included the adoption of a new Public Procurement Act (PPA) and associated regulations, the decentralization of procurement, and the creation of the Public Procurement Monitoring Office (PPMO) under the Prime Minister's Office. Its central oversight role is limited compared with similar offices in other countries. For example, the PPMO does not have a legal mandate to ensure information related to



bidding processes is made public. Its role is primarily facilitative: It is obliged to suggest further reforms in procurement policy and laws, issue technical guidelines and manuals and models for standard bidding documents, roll out training for officials at public entities involved in procurement, and collect statistics on procurement. Prior to this, procurement was regulated under the Financial Act and Regulations, with no designated central oversight apart from the general control role played by the FCGO. Two further reform measures, announced in the 2010 budget, were multiyear contracting for priority projects and multi-location tender submissions (including e-tendering). These have supported improvements in budget predictability and procurement transparency.

### **Local government bodies**

- 17.** The administrative configuration of local government is complex and multilayered, and is expected to evolve further through ongoing processes of decentralization and federalism. There are currently two administrative tiers below central government: districts and below them, municipalities and villages. The principal executive bodies at each level are the District Development Committees DDCs, the Municipalities and the VDCs. There are 75 DDCs, 130 Municipalities and about 3,633 VDCs. Local bodies are heavily reliant on fiscal transfers from central government, which come from multiple sources. Fiscal and financial relations between central and local governments, and among the various local bodies, are complex. Local levels see a combination of sector allocations through line ministry budgets (covering all of primary education and health care), block grants, own-source revenues raised locally, and conditional grants from the Ministry of Federal Affairs and Local Development (MoFALD) (using a formula-based allocation model). For DDCs, the central government must provide recurrent grants to cover salaries, allowances, and operational costs, as well as minimum capital grants. Additional capital grants are allocated to local bodies based on factors such as population, area and development level. The formula applies equally to all 75 districts, regardless of local revenue collection, project costs, and geographical diversity. VDCs each receive a block grant based on a formula that takes into account population, area and the cost index of the DDC. The amount ranges from NRs 1.5 million to NRs 3 million per VDC (70 percent capital 30 percent recurrent), with a top-up grant allocated based on concentration of disadvantaged groups.

### **External control and oversight bodies**

- 18.** External control and oversight institutions in Nepal follow a familiar pattern in theory, but suffer from crucial gaps in practice. Nepal is formally a parliamentary democracy, with many commonalities with the Westminster type. In such a setup, the role of the legislature is elementary for accountability purposes. The OAGN is a supreme audit institution. The Commission for the Investigation of Abuse of Authority (CIAA) and the National Vigilance Centre (NVC) are more peculiar. The CIAA is an investigative anti corruption agency and the NVC is an additional anticorruption body.

### **Commission for the Investigation of Abuse of Authority**

19. The CIAA has substantial formal powers, and plays the role of an ombudsperson, investigator and prosecutor. The CIAA is a constitutional body empowered to investigate and curb corruption and improper conduct in Nepal. According to Article 120 of the Interim Constitution, the CIAA may conduct “inquiries into, and investigations of, improper conduct or corruption.” Furthermore, the CIAA can “file cases or take any action against any person holding a public post found guilty of abusing powers”. The agency’s main focus is on detection and punishment of corruption, but it is also entrusted with social and institutional reform, allowing it to make recommendations on amending national policies and legal provisions in order to curb corruption and promote good governance.
20. The CIAA is led by the Chief Commissioner – a post that was vacant for more than six years. The Chief Commissioner and four other Commissioners are appointed by the President on the recommendation of Constitutional Council for a period of six years. The CIAA processes all complaints and opens preliminary investigations according to its strategic plan. If, after thorough analysis, merit is established with minimum evidence obtained, a *prima facie* case is set up and an investigation officer is appointed to the case. This individual conducts inquiries, analyzes findings, and prepares a report that is submitted to the Commission, which then makes a decision.

### **National Vigilance Centre**

21. The NVC is focused on establishing good governance and controlling corruption through preventative measures. Whereas the CIAA is in charge of investigations into corruption, the NVC is focused on its prevention. The Centre's specific duties include collecting information on whether or not functions of ministries, departments, and offices are being carried out properly; monitoring property and income of persons in public office; managing the complaint boxes in all public agencies; conducting surveillance and surprise audits; and providing guidance to concerned bodies on corruption prevention.

## **2.3. Description of OAGN’s legal and institutional framework and organizational structure and resources**

### **Mandate**

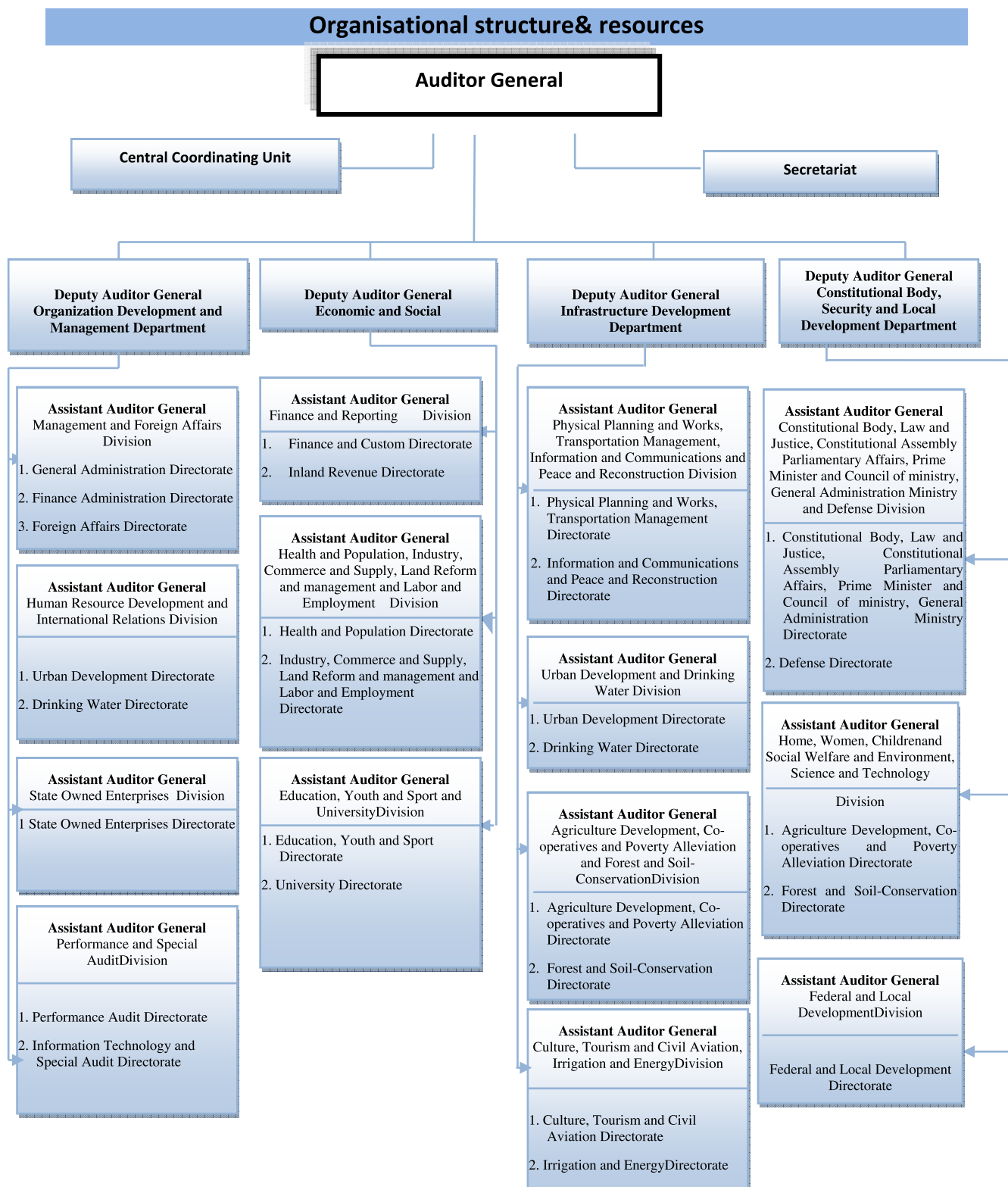
1. The **Interim Constitution 2007** (Articles 122 to 124) has given a constitutional status to the Auditor General of Nepal. The Office of the Auditor General Nepal (OAGN) is the Supreme Audit Institution (SAI) of Nepal established in 1959 with the appointment of the first Auditor General under the Constitution of the Kingdom of Nepal, 1958. Article 122 of the Constitution states that the AG is appointed by the President on the recommendation of the Constitutional Council which consists of the PM as Chairman, the Speaker of the Legislative Parliament and three ministers designated by the PM as members. The above Article also specifies the term of his office (age of 65 or a term of 6 years, whichever is earlier), manner of removal (akin to a judge of the Supreme Court), qualifications

(bachelor's degree in Commerce/ Accounts, CA or experience in the field of auditing of not less than 20 years) and remuneration which shall not be altered to his disadvantage.

2. The **Audit Act of 1991** gives a wide range of powers to the AG which includes provisions for checking the status of program and project at any time, to require contractors to produce relevant documents which are in their possession and to hire the services of any expert on the task of audit. The Act covers a wide span under the matters to be audited by the AG. Section 4 mentions that the AG, with due regard to regularity, economy, efficiency, effectiveness and propriety, shall audit the following matters to examine whether:

- a) The amount appropriated in the concerned heads and subheads by the Appropriation Act for respective services and activities have been expended for the specified purposes of designated services or activities within the approved limit;
- b) The financial transactions comply with the existing laws and the evidence relating to items of income and expenditure are sufficient;
- c) The accounts have been maintained in the prescribed forms and such accounts fairly represent the position of the transactions;
- d) The inventory of government assets is accurate and up to date and the arrangement for protection and management of governmental property is adequate;
- e) The arrangements for internal audit and internal control of cash, kind and other governmental property against any loss, damage and abuse are adequate and if so, are they pursued;
- f) The accounts of revenue, all other incomes and deposits are correct and the rules relating to evaluation, realization and methods of book keeping are adequate and if so, are they followed;
- g) The accounts relating to public debts, security, deposit, debt relief fund and the amounts set aside for debt services and repayment of debts are accurate;
- h) The accounts of income and expenditure of industrial and business services, and their balance of cash and kind, and the arrangements and rules relating to their financial transactions are adequate and if so, are they observed;
- i) The organization, management and job allocation of the office are sufficient and proper and are that operating accordingly;
- j) Any function is being unnecessarily performed in duplication by any employee or agency or any essential function is being omitted;
- k) The available resources, means and assets are properly utilized and the maintenance and perspiration thereof against any loss or damage has been properly arranged;
- l) The progress has been achieved within scheduled time and the quality and quantity of the work is satisfactory;
- m) The objective and policy of the Office is explicit and the program is delineated conforming to the specified objective and policy;
- n) The program is being implemented within the limits of approved cost estimate and the proceeds received in comparison to the cost is reasonable and
- o) The arrangements for maintaining data relating to target, progress and cost are adequate and reliable.

3. Section 5 of the Act delineates the matters to be audited in view of **propriety**. It states that the Auditor General shall audit following matters considering the propriety thereof-
  - a) On the propriety of any expenditure and its authorization, if in the opinion of the Auditor General such expenditure is a reckless one or is an abuse of national property, whether movable or immovable, despite that the expenditure conforms to the authorization, and
  - b) on the propriety of all authorizations issued in respect of any grant of national property whether movable or immovable, fixed or current, or underwriting of any revenue, or any contract, license or permits relating to mining, forest, water resources, etc. and any other act of abandoning movable or immovable assets of the nation.
4. Similarly the AG is entrusted with the audit of **corporate bodies** wholly owned by the Government of Nepal (GoN) and prior consultation with the AG is mandatory for appointing auditors for auditing corporate bodies *substantially* owned by GoN.
5. The Act mandates that the AG shall submit **Annual Report (AR)** to the President who causes it to be laid in the Legislature Parliament through the PM himself or the Minister concerned and in case of no meetings of the Legislature Parliament, to the speaker of the Legislature- Parliament. It also empowers the AG to submit, at any time, a report, if deems necessary to take immediate action against any loss or damage already happening. The AG also has powers to issue directives to Government offices and corporate bodies wholly or substantially owned to make proper arrangements on matters of accounts and to maintain them regularly and it shall be the duty of concerned offices to abide by such directives.
6. There is a distinct provision in the Act itself ( Section 12) for necessary legal action to be taken in respect of faults and irregularities observed during the audit of income and expenditure and other financial activities of GoN, according to relevant legislation.
7. There are other specific laws and executive decisions under which the AG is mandated to conduct audit of different Boards, Trusts, Councils and Universities.



**Source: Strategic Plan 2013 –15**

8. The leadership structure of OAGN consists of the AG, four DAGs and 14 AAGs. At the time of assessment, one post of DAG (Constitutional Body, Security and local Development Department) was vacant. There are four sector wise Departments headed by the DAG, fourteen divisions headed by the AAGs and 27 directorates headed by Directors. The audit of entities is carried out by the respective directorates manned by Directors, Audit Officers, Audit Superintendent and Audit Inspectors. There is no functional independence in HR issues. The second

amendment in the Civil Service Act 1992 integrated the audit service and staff of the OAGN with the Civil Service. Thus, the audit staff is administered by the Civil Service Act and Regulations including promotion, incentives, penal provisions for higher management of the OAGN, performance appraisal etc. The Public Service Commission recruits the staff and the conditions of service are the same as those of other government staff. Section 9 of the Audit Act 1991 (unamended) stated that there shall be officers and employees as approved from time to time by the GoN in order to assist the AG in the performance of his duties. It further provided that a separate cadre of officers and employees in the OAGN shall be constituted and the recruitment and other conditions of service within the cadre shall be prescribed in the Rules to be framed under this Act. However, entire Section 9 was amended in 2007.

### **3. ASSESSMENT OF THE OAGN'S ENVIRONMENT, CAPABILITY AND PERFORMANCE**

#### **3.1 Domain A: SAI Reporting**

##### **SAI-1: Financial Audit Results. Score 3**

###### **Mandate and related issues**

1. Article 123 (1) of the Interim Constitution of Nepal 2007 states that the accounts of the Supreme Court, the Legislature-Parliament, the Constituent Assembly, the Commission for the Investigation of Abuse of Authority (CIAA), the Office of the Auditor-General, the Public Service Commission, the Election Commission, the National Human Rights Commission, the Office of the Attorney General and other offices of the Constitutional Bodies, the Nepal Army, the Armed Police or Nepal Police, and all other government offices and courts shall be audited by the Auditor-General in such manner as may be determined by law, with due consideration given to the regularity, economy, efficiency, effectiveness and the propriety thereof. Section 4 of the Audit Act 1991 provides for the matters to be examined by the AG with due regard to the regularity, economy, efficiency, effectiveness and propriety. Further, Section 3 (1) of the Audit Act states that the AG may conduct final audit of financial transaction and other activities relating thereto, of the offices, institution or entities under jurisdiction, either in detail or sporadically or in sample basis and present facts obtained there from, make comments thereon and present report.
2. The OAGN conducts financial audit of all the entities and 20-25 Performance Audits every year. AG also certifies the accounts of the Consolidated Fund of Nepal. Although the office carries out compliance audits of all the entities, yet it terms these audits as financial audits. Given the stagnant staff position (approved position- 449 since last 21 years; men in position- 384; 2012-13 AR) and the spiralling expenditure and receipts of

the country, the emphasis on covering all the entities for audit in a year puts a severe strain on the quality of audit. Besides the regular audits, the SAI also conducts what it terms as Short Procedure Audit in which a large number of small entities (2081 in FY 2012) are covered in a day through a standard checklist.

3. The OAGN conducts Financial Audits (detailed and short procedure audit for all entities except the Municipalities, Village Development Committees and Public Schools) and Performance Audits, though the former is essentially a Compliance Audit carried out by assessing whether activities, financial transactions and information comply, in all material aspects, with the authorities which govern the entity. There is no expression of audit opinion on the set of financial statements except in the case of Consolidated Fund Account, State Owned Enterprises (SOEs), committees and controlling entities. Further, these compliance audits also combine aspects of economy, efficiency and effectiveness. During discussion with the officers in OAGN, it emerged that this diffuse nature of audit has been due to the interpretation of the mandate given under the Interim Constitution and the Audit Act. These enabling provisions have been interpreted by the OAGN in a manner wherein all Financial Audits (thought these are essentially Compliance Audits) also cover aspects of economy, efficiency and effectiveness.
4. The need to seek clarity and to conduct financial and performance audit separately has been highlighted in the Strategic Plan 2010-12. It has been reiterated in the Strategic Plan of 2013-15 as Goal 1 (To Strengthen Independence). This Strategic Plan anticipates achieving clarity in the scope, nature and types of audit. This is an opportune moment for the SAI to rally support in ensuring clarity in its mandate during the currency of the new Constituent Assembly.
5. The OAGN conducts Financial Audit (conducted as Compliance Audit) of all the entities except Municipalities, Village Development Committees and Public Schools. This has also emanated from the interpretation of the mandate of the OAGN under the Interim Constitution and the Audit Act. It is felt that the SAI can deploy its scarce resources effectively by limiting the financial audits to high risk entities identified on the basis of a risk matrix. The mandate under Section 3(1) of the Audit Act provides leeway to the AG to conduct audit of financial transactions either in detail or sporadically or on sample basis. Article 124(1) of the Interim Constitution states that the AG shall submit to the President, an annual report on the works it has performed. Further, Article 124 (2) states that the annual report shall contain, inter alia, the offices wherein the AG has carried out audits in that year. This constraint of covering all the entities every year has been highlighted in the Strategic Plan of 2010-12. It states clearly that the provision to conduct audit of all entities needs to be addressed by making appropriate legislative arrangements. The Strategic Plan 2013-15 has also identified the need for selection of audit entities based on a risk based profile.
6. The Interim Constitution and the Audit Act mandate the audit of State Owned Enterprises (SOEs) by the AG. The audit is either taken up by OAGN or by the Chartered Accountants appointed by the AG. Section 3 (1) of the Audit Act states that the AG may conduct final audit of the financial and other activities of the offices and bodies. Further



section 8 of the Audit Act provides that the AG shall submit his Annual Report to the President on the final audit of government offices and bodies. Final audit presupposes submission of final approved accounts by the entities and bodies. However, the audit of SOEs is generally conducted on the provisional financial statements of the entity and followed by issue of the Preliminary Audit Report (PAR)/ Management Letter. Though the entity is mandated to submit the final approved accounts, in most cases this is not submitted and the significant observations on the provisional financial statements of SOEs are included in the AR. This system requires a serious review by the OAGN management.

### **Audit Planning**

7. The Audit Plan of FY 2013 has been a positive development. In contrast to the last year plan, the entities have been categorised on the basis of risk (materiality, sensitivity, complexity of transaction and control environment). Yet, a total of 4324 units have been selected for audit (2851 entities for detailed audit and 1473 for short audit procedure to be conducted in one day). Although the number of entities under short procedure audit has been reduced from 2081 in the previous year to 1473, yet the overall audit universe has not come down. In fact the number of units has gone up from 3781 (FY 2012) to 4324 (FY 2013). Against 4324 units planned for audit, OAGN conducted audit of 4740 entities during 2013-14. Given the stagnant number of staff (sanctioned strength of 449, since the last twenty years), increase in the number of entities to be audited and their spiralling expenditure and revenue, the interpretation of the mandate to cover all the entities for audit needs urgent review so that the SAI is successful in its mission to provide quality audit services to the nation for the efficient management of public resources.

### **Audit Execution**

8. The field audit cycle runs for six months from mid August (Financial year from 16 July to 15 July) to mid February. The audit cycle begins with the formulation and preparation of an Annual Audit Plan in July. The approved plan is circulated to the Audit Directorates. The latter prepare the Ministry wise audit plan, also called the operational plan which also contains a risk assessment of the Ministry. This is finalised in August and the teams are allocated the entities for audit. The audit teams prepare entity wise audit plan and get it approved from the concerned AAG. Detailed audit is conducted in the premises of the entity and after the exit conference; the Preliminary Audit Report (PAR) is issued from the field within a period of 15 days after the completion of audit, to the entity, DTCO, Department and the Ministry. This PAR is structured around the concepts of criteria, condition, causes, consequences and corrective action. It also provides recommendation for corrective action. As per the Financial Procedure Act (1998), the entity is required to send detailed reply to all the audit observations within a period of 35 days after the date of issue of the PAR. The OAGN has been issuing a controlling entity wise audit report to all the Chief Accounting Officers (CAOs) since FY 2012 (issued to 8 CAOs). In FY 2013 it was issued to all the CAOs under GoN. This audit report consolidates



the amount of irregularities noticed during audit of the subordinate entities of the Ministry during the year and essentially states that the financial operations of the Ministry are in compliance to the extant FP Act and Rules, subject to the irregular amounts noticed during field audit. This is issued before the submission of the Annual Report to the President. The significant unsettled audit objections are carried over to the Annual Report, which is submitted to the President in mid April. The Annual Report is put in the public domain after submission to the President.

### **Annual Report**

9. The Annual Report (in Nepali language) contains Ministry wise audit observations/recommendations on Regularity audits, Financial audits and Performance audits in Chapter 2. There has been significant improvement in the timeliness of submission of the AR during the last three years. This report has been consolidated in a single volume which has made it a bulky document. Earlier the AR was published in five volumes. There is ample scope for improving the aesthetic appeal of the AR and make it more reader friendly. The SAI has published a summary of the AR this year in Nepali and English.

### **Follow up Provisions**

10. Article 124 (2) of the Interim Constitution 2007 states that the Annual Report of the AG shall contain, inter alia, the efforts made to settle irregularities and the achievements obtained therein. Further, Section 19 of the Financial Procedures Act (FP) 1998 states that the Chief Accounting Officer (Secretary of the Ministry) shall be responsible for supervising whether irregular amounts have been settled. The latter also states that the concerned office shall, in relation to irregular amounts as reported by the Office of Auditor General in the course of audit, have settlement and verification thereof as prescribed, within thirty five days from the date of receipt of such irregular amounts. This time limit may also be extended on the basis of a written request to the OAGN. Section 19 (3) further contains that if the settlement and verification of irregular amounts is not made even within the time-limit extended pursuant to Sub-section (2), the Auditor General shall give information thereof to the Secretary, and it shall be his responsibility to take action as set forth in the information so received. If Chief Accounting Officer fails to take action, the Auditor General shall give information thereof to the departmental minister or minister of state.
11. Section 21 (3) of the FP Act contains provisions for the settlement of irregularities appearing in the Annual Report. It states that it shall be the responsibility of the Secretary to give responses in writing to the Public Accounts Committee of the Legislature-Parliament in relation to the irregular amounts indicated in the AR of the Auditor General, to appear at the meeting of the committee, take part in the discussions and express his or her comments thereon at the meeting and take, or cause to be taken, acts and actions on the settlement of irregular amounts. Section (4) mentions that after the suggestions submitted to the Legislature-Parliament following discussions in the PAC of the Legislature-Parliament pursuant to Sub-section (3) have been approved by

the Legislature-Parliament, it shall be the duty of the concerned Ministry to implement or cause to be implemented the suggestions set forth in the report. There is also a provision for the formation of an Irregular Amounts Settlement Committee under the FP Act for the settlement of those irregularities which could not be cleared within the time limit given in section 19(1) of the FP Act. This Committee consists of a member of the PAC as the Chairman, four other members who include the DAG/AG, Secretary of the Ministry, FCGO/ representative, one CA and a person designated by the GoN as member secretary. The functions and duties are as prescribed in Section 24 of the FP Act. Rule 98 and 99 of the Financial Procedure Regulation 2007 also contain provision for the settlement of irregularities pointed out by OAGN.

### **The follow-up system**

- 12.** After issue of the PAR, the entity has to furnish reply within 35 days. Subject to the replies and the documents, some of the audit observations are settled in the OAGN while the outstanding objections are carried over to the Record Book of Irregular Items. The entities continue to furnish documents and replies throughout the year and as per the Service Charter of OAGN, the replies to such communication has to be given within 15 days. The process of follow up is limited to review of replies received from the audited entities. A review of the replies furnished by the entities revealed that the latter is concerned only with those irregularities which have a financial component. There is no thrust on rectifying the systemic and thematic issues highlighted in the PARs and the Annual Report. This concern has been reported in para 2.9 of Chapter 3 in the Annual Report 2013.
- 13.** In case of irregularities which feature in the Annual Report, some objections are selected by the PAC for detailed examination. The report of the PAC contains recommendations for further course of action to be taken by the Ministry/ Department. There is no fixed time limit for ensuring corrective action by the Ministries. In the case of non selected irregularities (by the PAC) also, there is no system for timely furnishing of remedial/ corrective action taken notes by the Ministries. There is no systematic reporting on the implementation of the recommendations and the OAGN Annual Report does not attempt to estimate the financial benefits of implementing key audit recommendations, where these are measurable. The Annual Report publishes financial data on the amount of irregularities which were settled during the financial year and the outstanding amount of irregularities which persist in the various ministries. Though the OAGN has taken initiative to conduct meetings with the Secretaries and the Chief Secretary to sensitise the executive on timely action on the audit observations, absence of effective follow up on the part of OAGN may have a limiting influence on the attainment of its vision to promote good governance.

The scoring under this domain (SAI 1) is based on a sample review of files of financial audit conducted in FY 2013-14 on accounts of FY 2012-13. The scoring system has followed the methodology given in the SAI PMF Framework.

Dimension	Findings	Score
(i) Financial Audit coverage of the client base	During the period of assessment, the SAI covered the audit of all 4740 entities which included 3744 government offices, 805 boards and other corporations, 92 corporate bodies, 75 DDCs, 22 PAs and 2 IT audits. This included Financial Audit on the Consolidated Fund Account, SOEs, Committees and the controlling entities and Regularity Audit (termed as Financial Audits) of the Government offices.	4
(ii) Submission of Financial Audit reports	<ul style="list-style-type: none"> <li> <b>Financial Audit</b>  For the sample reviewed, all Preliminary Audit Reports (PAR) were sent to the appropriate authorities (entity, DTCO, Department and Ministry) within the established timeframe of 15 days after completion of the audit. However, there is no control to ensure that all the PARs are issued on time. </li> <li> <b>Consolidated Financial Statements</b>  The FCGO is responsible for preparing the annual financial statements of cash releases and expenditure as well as consolidated financial statements incorporating cash, direct payments, loans and grants. The FCGO submits the consolidated financial statements to the OAGN within six months of the end of the Financial Year. The AG issues the audit certificate on the consolidated fund account which is included in the Annual Report. This certificate was issued on 9 April 2014 for FY 2013 and the Annual Report was submitted to the President on 11 April 2014. </li> <li> <b>Audit of Public Enterprises, Committees and other entities</b>  As per Section 6 of the Audit Act 1991, the audit of corporate bodies wholly owned by the GoN shall be audited by the AG. It further lays down that in case the AG is constrained by time and resources, he may appoint accredited auditors as his assistants. In case of corporate bodies substantially owned by the GoN, the AG shall be consulted while appointing an auditor.   There are a total of 196 entities (66 corporate bodies and 130 committees as per Annual Report 2013) and audit of these entities is conducted by the OAGN and the Chartered Accountants (CAs). Out of the above, the State Owned Enterprises Directorate is responsible for the audit of 46 entities (44 corporate bodies and 2 Committees) under AAG, State Owned Enterprises Division. In the Annual Audit Plan (FY 2013), the OAGN conducted audit of 8 entities while audit of the remaining 38 entities was conducted by the CAs. Audit of </li> </ul>	4

	<p>the remaining 150 entities is conducted by the other audit divisions/directorates. Audit is conducted in accordance with Nepal Standards on Auditing, International Standards on Auditing and the audit guidelines of OAGN.</p> <p>The CAs conduct the audit and send the Audit Report to OAGN and the latter issues it to the entity.</p> <p>Along with the PAR, a Management letter (containing audit findings and recommendations on weaknesses of internal control system in operation of financial transactions) and the Auditor's Report is issued to the entity within 15 days of completion of the audit. The significant audit observations are included in the Annual Report of the OAGN.</p> <p>Out of the audit of 46 entities, we selected one Audit Report each for the audit conducted by OAGN and by the CAs.</p> <ul style="list-style-type: none"> <li>▪ Nepal Rastra Bank-Independent Auditor's Report by CA (Komal Chitracar KB Chitracar and Company and CA Gopal P Rajbahak), Audit of Statement of Financial Position as of 15 July 2013, related Statement of Comprehensive Income, Statement of cash flows and Statement of changes in equity.</li> <li>▪ Hydroelectricity Investment and Development Corporation Ltd. - audit conducted by OAGN.</li> </ul> <p>These reports were issued in time.</p>	
(iii) Publication and dissemination of Financial Audit reports	<ul style="list-style-type: none"> <li>• The Interim Constitution 2007 mandates the AG to report on its work annually, to be tabled in the Legislature Parliament. The unamended Audit Act 1991 (section 8 (1) stated that the AG may submit at any time a report if deems necessary, but it has been amended. Thus, OAGN submits only one Annual Report to the President, usually in the month of April.</li> <li>• Until 2007-08, the Annual Report was in five volumes (Government offices, Performance Audits, Corporate bodies, District Development Committees and Financial Statements of Government offices) totalling 1800-2500 pages. Further, the Annual Report was submitted approximately 18 months after the end of the financial year. However, these five volumes were consolidated in one volume for the annual report on 2008-09 public account. There had been delays in the submission of Annual Reports to the President, but in the last three years OAGN has made significant improvement by submitting the report within 9 months from the end of the fiscal year. The Annual Report for FY 2012 and FY 2013 was submitted to the</li> </ul>	4

	<p>President on 12 April 2013 and 11 April 2014 respectively. The OAGN has published a summary of the Annual Report (FY 2013) in English, which is a commendable effort towards wider dissemination of its activities.</p> <ul style="list-style-type: none"> <li>• The Annual Report of the AG is put in the public domain immediately after it is submitted to the President. A press conference is held in the office of the President on the same day followed by a more elaborate press conference in the OAGN on the next day and the significant findings are reported extensively in the national and regional print and visual media (English and vernacular). The Annual report is uploaded on the web site of OAGN on the day it is submitted to the President. We saw copies of the press coverage of the significant issues raised in the Annual Report.</li> </ul>	
(iv) SAI follow-up on implementation of Financial Audit observations and recommendations	<ul style="list-style-type: none"> <li>• There is no exclusive follow up division/ directorate in the SAI, neither is there is any institutional mechanism to systematically track follow up action on the audit recommendations and observations as well as those made by the PAC. Follow up starts only when the entity furnishes reply to OAGN.</li> <li>• The OAGN does not submit, exclusively, its follow up report to the Legislature.</li> <li>• OAGN does not attempt to estimate and report on the financial benefits to the audit client of implementing the recommendations, although the AG's Annual Report does include an estimate of the cash loss to the public purse found during the audit.</li> </ul>	2

## **SAI-2: Compliance Audit Results. Score – same as SAI 1**

The mandate, audit planning and execution, follow up system and the Annual Report are the same as described under SAI 1. As explained earlier, though OAGN conducts regularity and compliance audit of the entities, these types of audit are termed as Financial Audit. Thus, the scoring on the four dimensions remains the same.

## **SAI-3: Performance Audit Results. Score 2**

### **Mandate and related issues**

1. Article 123 (1) of the Interim Constitution of Nepal states that the accounts of the Supreme Court, the Legislature-Parliament, the Constituent Assembly, the Commission

for the Investigation of Abuse of Authority, the Office of the Auditor-General, the Public Service Commission, the Election Commission, the National Human Rights Commission, the Office of the Attorney General and other offices of the Constitutional Bodies, the Nepal Army, the Armed Police or Nepal Police, and all other government offices and courts shall be audited by the Auditor-General in such manner as may be determined by law, with due consideration given to the regularity, economy, efficiency, effectiveness and the propriety thereof. Section 4 of the Audit Act 1991 provides for the matters to be examined by the AG with due regard to the regularity, economy, efficiency, effectiveness and propriety. The legal mandate to conduct Performance Audit was first provided in the Constitution in 1980 and a separate Performance Audit Division was created in OAGN in 1988. From 1988 to 2010, separate PA reports were prepared. However, from FY 2011 onwards, the PA reviews were incorporated in a summary form in the Annual Audit Report.

2. The PA Guidelines were prepared earlier in 1995 and 2000 (assisted by KPMG) and the new PA guidelines have been prepared in line with the ISSAIs in August 2012 with the technical assistance of SAI Norway. In the past three years 23, 27 and 22 PAs have been conducted. Out of the 22 PAs conducted for FY 2013, three PAs are being conducted as pilot audits in compliance with the new guidelines while the other 19 are in the nature of desk reviews.

### **Planning and Execution**

3. The Performance Audit Directorate is responsible for the conduct of PAs headed by an AAG and manned by 20 staff (around 5% of the men in position of OAGN). This directorate selects the topics for PAs based on the scale rating method prescribed in the PA Guidelines (with emphasis on impact, materiality, and risk to good audit management, visibility and significance). The list is then approved by the Central Coordination Unit (CCU) and the selected topics are taken up for examination from 15<sup>th</sup> August to 15<sup>th</sup> February. It was informed that a total of 9 teams (each team comprising an average of 3 officials) were responsible for the conduct of 22 PAs during FY 2013. The PAs start in August when the audit teams prepare the Survey Review Report which takes around 2 months (August to October). The requirement of a Survey Review report does not figure in the new PA Guidelines. It is apparently taken up in compliance with the requirements of the Quality Assurance Handbook. The actual field audit starts in the first week of December and continues till mid February and the preliminary PA Report issued in the first week of April, leaving a very short margin for incorporation of the reply of the entity and the Ministry before the findings feature in the Annual Report.
4. We selected three PAs for scrutiny (two PAs as pilot audits- Assessment of Service Delivery, Min. of Health and Population; Performance of Programme- Kathmandu Valley Road Construction and Improvement Project and another PA-Assessment of implementation of People's Housing Programme and Work Performance for comparison).

Dimension	Findings	Score
(i) Coverage, selection and objective of Performance Audit reports	<p>Criterion a is met partially while b, d, e and g are met.</p> <ul style="list-style-type: none"> <li>At least 5% of the SAI's audit staff is devoted to Performance Audit.</li> <li>There is no long term strategic planning for the coverage of areas under PAs.</li> <li>The process for selection of Performance Audit topics does not include consultation with external stakeholders.</li> <li>The Performance Audits selected for study covered important areas of public policy in sectors vital for the country. Both the PAs aimed at examination and identification of the gaps and weaknesses in policy implementation in their respective areas and recommended specific measures for their improvement. The objectives of both the audits were stated in clear and specific terms relevant to the subjects covered.</li> </ul>	3
(ii) Submission, Publication and dissemination of Performance Audit Reports	<p>Criteria a and b are met.</p> <ul style="list-style-type: none"> <li>The full PA Reports are not accessible to the general public. Only the summary is included in the Annual Report.</li> <li>The PAs are reported in a summary form (not the full version of the PA) in the Annual Report under the chapters relating to the relevant Ministry. There is no separate section in the Annual Report which contains PA reports exclusively. The highlights of these PAs do not feature in the Overview of the Annual Report. This does not facilitate exclusive coverage of the PA Reports.</li> <li>The OAGN has been publishing all the PAs annually in the form of a compendium intended for internal circulation only. This is not submitted to the President or the Parliament Legislature and neither is it put up in the public domain.</li> <li>No time frame is given in the Constitution or the Audit Act for submission of the PA reports. The same audit parties conduct the financial audit of the entities as well and issue the PARs. The preliminary PA report is issued to the entity for replies without stating any time limit for furnishing replies. The preliminary PA report of the Health Ministry was issued to the entity and the Ministry on 3 April 2014 for replies and the summary of significant findings were reported in the Annual Report which was submitted to the President on 11</li> </ul>	2



	<p>April 2014. Thus, the findings were included without the reply of the Ministry. The reply of the Ministry is awaited till the completion of the SAI PMF assessment.</p> <ul style="list-style-type: none"> <li>• There is no separate coverage of the PA reports in the media. It gets included in the media briefing held for the Annual Report. There is no system to encourage public and academic interest in the SAI's most important performance conclusions.</li> </ul>	
(iii) SAI follow-up on implementation of Performance Audit observations and recommendations	<p>None of the criteria are met.</p> <ul style="list-style-type: none"> <li>• Follow up on the implementation of the observations and the recommendation of the PAs is left to the Ministry/ Department concerned and the SAI does not have any institutional mechanism to monitor follow up on the part of the entities. Neither is any consolidated report presented to the Legislature.</li> <li>• Reports of both the PAs were found to include observations and recommendations relevant to their audit objectives and were based on the findings and conclusions included in the audit report. The findings were discussed with the executive in the exit conference and their comments solicited in respect of the audits.</li> <li>• The audit observations and recommendations were written precisely in clear terms and were focused on the objectives of the audit. The reports made important recommendations that followed from their findings and conclusions in their respective areas. However, the recommendations are generic in nature and state the obvious. Most of these required the authorities to comply with the extant regulations and guidelines.</li> <li>• The two reports did not include any estimate of the potential financial benefits of implementing the recommendations, or seek to highlight the estimated losses observable given the weaknesses in the current system.</li> <li>• It does not use information from follow up to analyse the value added by the performance audit itself.</li> </ul>	0



## SAI-5: SAI Annual Report and other Reports. Score 2

### Mandate and related issues

1. Article 124 (1) of the Interim Constitution 2007 mentions that the AG shall submit to the President an Annual Report on the works it has performed and the President shall make arrangements to submit such reports to the Legislature Parliament through the PM. Further Article 124 (2) states that the annual report shall contain, *inter alia*, the offices wherein the AG has carried out audits, the situation of irregularities found by audit, efforts made to settle the irregularities; details of cases seemed as corrupt in nature and required to be further investigated and forwarded in writing to the CIAA and the reforms to be carried out in future regarding the audit. The Annual Report (AR) of the OAGN (FY 2013) is organised around these five requirements. There is ample scope to widen the contents and presentation beyond the present format of the AR as Article 124(2) mentions the word *inter alia*, meaning "among other things."
2. Further, a reading of this Article (the AR shall contain the offices wherein the AG has carried out audits in that year) implies that the AG may choose to audit entities based on its risk assessment and available manpower and not burden its mandate to cover all the entities.
3. The unamended Audit Act 1991(section 8) provided that the AG may submit at any time, a report if deems necessary, to take immediate action against any loss or damage already happening or impending upon. But it has subsequently been amended and now the AG is empowered to submit only one AR. This is an opportune moment to garner support and reinstate this earlier provision so that the AG can submit more than one AR, especially the PA Reports as and when these are prepared.
4. The Annual Report has audit findings on all Government entities including SOEs, except the Village Development Committees, Municipalities and Public Schools. The OAGN has been publishing an Annual Report in a single volume since 2008-09 accounts. Prior to that the Annual Report was in five volumes (Government offices, PAs, DDCs, Corporate bodies and Financial Statement of Government offices) totalling around 1800-2500 pages. These were consolidated in one volume for the Annual Report on 2008-09 accounts. Further the AR was submitted to the Legislature approximately 18 months after the close of the financial year. The OAGN has made significant progress in timeliness of submission of the Annual Report to the Legislature during the last three years. The SAI has been submitting the Annual Report within nine months of the close of the fiscal year.
5. The SAI may consider submitting more than one Report to the legislature during the two Parliament sessions. This would require canvassing support within the CA for statutory powers. In this arrangement, replies of the entities and the Ministries can be evaluated and incorporated in the Annual Report and the resources of the SAI can be gainfully employed throughout the fiscal year. In some cases, the audit observations are included in the Annual Report without incorporating the views of the executive authorities due to time constraint. This could potentially affect the trust and confidence of the audited

entities and ministries. The audit cycle runs from mid August to mid February and the staff is mostly at Headquarters. frommid February to mid August. Thus, planning for more than one Annual Report would also facilitate fruitful utilisation of staff throughout the year. This would also enable timely reporting on the results of the concurrent audits and the PA Reports which are being conducted by OAGN. The OAGN may also implement the Constitutional provision of reporting the cases involving corruption to the CIAA in writing for further investigation. This would further strengthen accountability and enhance effective oversight.

### **Content and format of the Annual Report**

6. The AR (FY 2013) is organised in four chapters (background, classification of irregularities and ministry wise audit findings including financial audit, regularity audit and summary of PAs, efforts made to settle the irregularities and reforms to be carried out in relation to audit) and contains 414 pages including Annexure. In the current AR, the Audit Report of the AG on the Consolidated Fund of GoN is addressed to the Secretary of the Ministry of Finance and given in the beginning of the AR and signed by the AG. It is a positive development from the previous year when this audit report was included as an Annexure in the AR, addressed to the FCGO and signed by the DAG.
7. It is published in quarto size and there is adequate scope to improve its aesthetics and presentation. There may be more graphics, charts and graphs and coloured photographs which would make it attractive to the reader. Developing an appropriate materiality level would discriminate the contents to include only significant audit observations which require attention of the senior management in the GoN. Currently a lot of insignificant audit observations with varying amounts are included in Chapter 2 of the AR. A separate chapter may be devoted for the audit comments on Appropriation Accounts as this is the first requirement in Section 4 of the Audit Act. There is no mention of the extent of the detail in which audit has been conducted, though Section 3 of the Act stipulates that the AG may conduct final audit of the financial and other activities either in detail or on a random basis.
8. This year the OAGN has published a summary of the AR in Nepali and English which is a positive development. This summary highlights irregular cases pointed out by audit as per thematic arrangement (budget discipline, compliance with law, utilisation of resources, contract management, procurement, programme implementation etc) while the AR provides audit findings Ministry wise. This does not facilitate a lay reader to comprehend the irregularities within a ministry. He has to refer to the AR. This defeats the purpose of publishing a summary for the general public. The thematic audit issues are already included at the beginning of Chapter 2 of the AR.
9. The SAI may also consider printing the summary of PA Reports in one chapter of the AR as per the best practices of INTOSAI.
10. The Annual Report receives very wide attention, both in print and audio visual media. The officers of OAGN hold a press briefing in the office on the day following the submission of

the AR to the President. A short media briefing also takes place in the premises of the President office on the day it is submitted. The media coverage is both in vernacular and English language. The AR is also uploaded on the website of OAGN on the day it is submitted to the President. The SAI also produces an annual progress report on its own performance which is intended for internal circulation. The accounts of the OAGN are audited by the OAGN itself as per the Interim Constitution.

<b>Dimension</b>	<b>Findings</b>	<b>Score</b>
(i) Content and submission of SAI Annual Report	<p>Criteria b and d are met while criteria a, c, e and f are not met.</p> <ul style="list-style-type: none"> <li>There is no legal time frame for the submission of the Annual Report. The Annual Report has been submitted within 9 months of the close of the fiscal year.</li> <li>The OAGN does not conduct audit of VDCs, Municipalities and Public Schools. The AG's Annual Report to Parliament is a summary of OAGN findings, recommendations and opinions covering the financial audit of the consolidated fund (public accounts), financial audit of the Government entities, corporate bodies, boards and other institutions, DDCs, PAs, Concurrent audit and IT Audit.</li> <li>The OAGN reports on its budget and expenditure in Chapter 1 of the Annual Report.</li> <li>The accounts of the OAGN are audited by the OAGN itself and submitted to the AG.</li> </ul>	<b>2</b>
(ii) Publication and dissemination of SAI Annual Report	<p>Criteria a, b, c, d and f are met.</p> <ul style="list-style-type: none"> <li>The AR is publicly available through the OAGN website and paper copies are circulated to Parliament and other stakeholders after it is submitted to the President. A summary of the AR has been prepared this year in Nepali and English.</li> <li>The report (FY 2013) was submitted to the President on 11<sup>th</sup> April 2014, printed on 27 April 2014 but is yet to be laid formally in the Parliament. The submission to the President was followed by a press release and a press conference. It was prepared in Nepali, the official working language, with the main summaries written in a clear and understandable manner.</li> <li>OAGN does not produce and disseminate short written or pictorial materials designed to communicate the value and benefits of the SAI to key stakeholders.</li> </ul>	<b>3</b>

(iii) Measuring and Reporting on the SAls Performance	<p>Only criterion g is met.</p> <p>The OAGN does not currently prepare and publish a report on its own performance against its strategy and operational plan and does not report publicly using performance indicators to measure achievement of its internal objectives or value and benefits to citizens. It does not currently obtain and use feedback from external stakeholders as part of measuring its own performance.</p>	<b>1</b>
(iv) Reporting on SAI Value Added Services and other mandatory Functions	<ul style="list-style-type: none"> <li>• The OAG is focussed in developing its core competencies in Financial and Performance Audits. It is also conducting pilot Financial and Performance audits as per the updated guidelines. It has also undertaken some value added services like environment audit and IT audits. It has also initiated concurrent audits during the fiscal year 2013.</li> <li>• The OAG has conducted an environment audit on the Environment Impact Assessment of the REDD Forestry Programme during FY 2013. However, the summary of the environment audit was not included in the Annual Report. During discussion it emerged that the audit findings were not significant enough to merit inclusion in the Annual Report.</li> <li>• Two Information Technology Audits (GIDC Management System and Transport Registration Record and Performance) were conducted in FY 2013. Summary of both the IT audits featured in the Annual Report. The financial audit of the entities was also conducted by IT Audit Team.</li> <li>• The OAG also intends to carry out gender audit as per its Annual Audit Plan 2013.</li> <li>• Some entities in the Valley have been selected for concurrent audit and the concurrent audit of Appropriation and Revenue Officers commenced in April 2013 for FY 2013.</li> </ul>	<b>2</b>

## 3.2 Domain B: Independence and Legal Framework

### SAI-6: Independence of the SAI. Score 2

#### Mandate and related issues

1. It is desirable that the independence and mandate of the OAGN should be as comprehensive as laid down in the Lima and Mexico Declaration. The Interim Constitution, 2007 and other related Acts have made provisions for the independence of the AG in the following ways:
  - Appointed on the recommendation of the Constitutional Council.
  - Fixed tenure of six years and dismissal on the same ground applied to the Judge of the Supreme Court.
  - Terms and condition of service is determined by a separate law.
  - All time access to document and information.
  - Mandated to carry out financial/regularity and performance audit.
  - Non votable recurrent budget.
  - Full discretion to select audit issues, planning and reporting.
2. So far as the **independence** of the AG is concerned, some of the provisions are in line with the Mexico Declaration on Independence proclaimed by INTOSAI. However, the legal provisions relating to financial and personnel independence are inadequate in reality. The NPC fixes an annual ceiling for all the offices and this is communicated to the OAGN. The latter prepares its budget proposals under recurrent (non votable), capital and programme heads (votable) and the proposals are discussed with the MoF and NPC (for both heads). During the budget discussion, the MoF effects further cuts, even under recurrent heads (non votable). Thus, prior to submission of the budget of OAGN to the Parliament, the proposals can be cut short by the MoF after consultation, but without necessarily obtaining the consent. There is no discussion on the ceiling decided by the NPC. An analysis of the budget proposals of the OAGN, the amount approved by the MoF and actual expenditure of the OAGN for the last three years has shown that the OAGN does not get what it needs and it has not spent what it finally gets.

Budget Head		FY13	FY12	FY11
Recurrent	Proposed Budget	37,57,95,000.00	27,97,82,000.00	20,76,29,000.00
	Approved Budget	33,99,89,600.00	22,36,60,000.00	20,22,83,000.00
	Expenses	23,90,74,135.39	19,50,93,432.78	19,81,32,501.65
Program	Proposed Budget	2,66,15,000.00	1,60,53,000.00	1,35,00,000.00
	Approved Budget	77,00,000.00	97,68,000.00	1,25,25,000.00
	Expenses	48,68,854.00	56,34,194.00	69,77,985.00
Capital	Proposed Budget	24,40,31,000.00	19,54,15,000.00	98,00,000.00
	Approved Budget	3,90,21,000.00	5,79,51,000.00	77,00,000.00
	Expenses	2,07,60,001.00	3,82,88,480.50	76,96,337.00

(Source: figures provided by OAGN)

There have been budget cuts under both recurrent (non votable) and capital heads (votable) during these years. The cut under recurrent head (non voted) has ranged from 2.5% (FY 11) to 12% (FY13) while the cuts under Capital head have been significant (84% in FY 2013, 70% in FY 2012 and 21% in FY 2011). Moreover, there has been significant cuts in Programme budget as well. Thus, there is limited leeway for planning capacity development of the staff due to uncertain or a whittled down budget. Moreover, the OAGN has to approach MoF even for re appropriation of funds within the overall budget already approved by Parliament.

3. The AG does not have the independence and authority to create number of staff positions which is required to fulfil its mandate. Thus, while the sanctioned posts remain stagnant for many years, the burden of the audit universe keeps increasing.
4. The existing legal provision empowers the AG to audit the public sector entities. However, the audit of entities using public funds such as municipalities, Village Development Committees (VDC) and public schools do not fall under the audit purview of OAGN.
5. The existing legislation empowers AG to frame Audit Rules in consultation with the Government of Nepal for the implementation of the Act; however, this has not yet been exercised by the AG.
6. The above constraints in independence and mandate were highlighted in the Strategic Plan 2010-12 and "Strengthening independence and clarity in audit mandate" was identified as Goal 2 based on the belief that the new Constitution would incorporate the legal requirements necessary for securing the functional independence of OAGN. However, these activities remained unrealized due to non promulgation of the Constitution. Thus, the current Strategic Plan 2013-15 wishes to address the issues of authority to formulate rules and regulations, financial and administrative independence, clarity in scope, nature and types of audit. "To strengthen independence" has been identified as Goal 1 during the currency of this Strategic Plan and the expected output under this goal at the end of the period is given below:

- Solicitation of broad mandate to review all receipts and payment as well as the provision of selecting entities for audit of State Owned Enterprises.
- Formulation of Audit regulation as per OAGN's requirement.
- Selection of audit entities based on broad risk profile.
- Legal provision for incentive schemes.
- Formation of Audit Advisory Committee.
- Availability of budget as per requirements and authority to administer staff.

7. OAGN covers the audit of expenditure and receipts as per the Budget Statement (Red Book) and the funds channeled through FCGO. But the expenditure as per the Statement of Technical and Other Assistance (Blue Book) does not fall within the scope of audit by the OAGN. Similarly, extra budgetary expenditure, expenditure from grants received in

DDF directly from the donors and the expenditure of directly funded projects are also not within the scope of the OAGN audit. The existing legal provision empowers the AG to audit the public sector entities. However, the audit of entities using public funds such as municipalities, Village Development Committees (VDC), public schools do not fall under the audit purview of OAGN.

8. The existing legislation empowers the AG to frame Audit Rules in consultation with the Government of Nepal for the implementation of the Act; however, this has not yet been exercised by the AG.

Dimension	Findings	Score
(i) Appropriate and effective constitutional and legal framework	<p>Criteria a, b, c and d are fully met while e is not relevant.</p> <ul style="list-style-type: none"> <li>The establishment and the role of the AG is clearly laid in the Interim Constitution and the Audit Act. The Interim Constitution 2007 (Articles 122 to 124) lays the manner of appointment of the AG, his term of office, retirement age, manner of removal, eligibility for appointment, remuneration and other conditions of service, functions, duties and powers of the AG. The Audit Act contains provisions for methods of audit, matters for audit, audit of corporate bodies wholly and substantially owned by GoN, powers to frame rules and action to be taken against irregularities.</li> <li>The Financial Procedure Act (1998) and the Financial Procedure Rules (2007) contain provision for the settlement of irregularities pointed out by audit and there is a statutory time limit prescribed for furnishing replies to the audit observations (35 days after issue of the PAR).</li> </ul>	4
(ii) Financial independence / autonomy	<p>Criteria a and d are met.</p> <ul style="list-style-type: none"> <li>Article 92 of the Interim Constitution states that the expenditure on the remuneration and facilities payable to the AG as well as the administrative expenses are <i>charged</i> on the Consolidated Fund. However, there is limited independence in reality. There are budget cuts under both recurrent and charged heads of expenditure and the SAI is dependent on the MoF for its financial requirements.</li> </ul>	1
(iii) Organizational Independence / Autonomy	<p>Criteria a, b, c and f are met.</p> <ul style="list-style-type: none"> <li>Lack of organisational (financial and administrative) independence has been identified as a weakness in the SWOT analysis under OAGN SWOT analysis.</li> <li>The Audit Act provides that the AG may take the services of any expert in audit and if required engage under contract an expert with reasonable remuneration (Section 3C). It further states that the GoN may, in consultation with the AG, frame Rules for the implementation of the Act (Section 11). However, no Rules have been framed so far.</li> <li>There is no functional independence in appointment of staff and the AG needs to seek approval of GoN for</li> </ul>	2



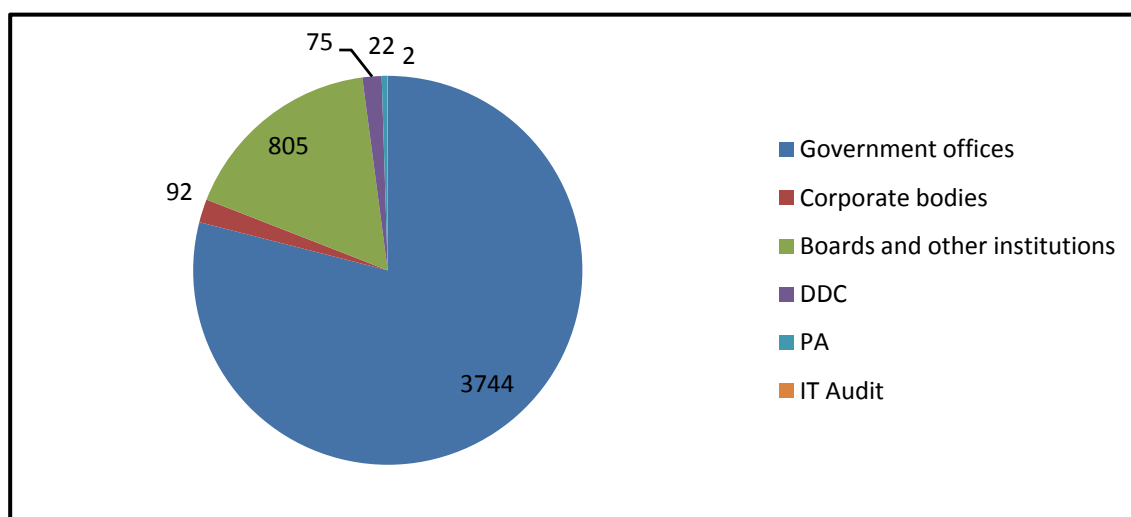
	<p>creating number of posts. The second amendment in the Civil Service Act 1992, integrated the audit service in the Civil Service and staff of the OAGN is administered by the Civil Service Regulations. The Public Service Commission recruits staff and their conditions of service are the same. The Strategic Plan 2010-12 highlighted the need to amend the Civil Service Act and have a separate Audit Service Regulation to administer the appointment, transfer and other conditions of service for the audit staff. Lack of power and authority to adjust number of staff and their pay structure has been identified as a threat in the SWOT analysis carried out in the Strategic Plan of 2013-15.</p>	
(iv) Independence of the Head of the SAI and its Officials	<p>Criteria a, b, d and e are met.</p> <p>The independence of the AG is adequately provided in the Constitution and the Audit Act in terms of appointment (on the recommendation of the Constitutional Council), term of office, removal, eligibility, functions, duties and powers. The remuneration, conditions of service and facilities to the AG are governed by the Remuneration, Conditions of Service and Facilities of the Authorities of the Constitutional Bodies Act 1997. Further, Article 92 of the Interim Constitution provides that the remuneration and other facilities of the AG are charged to the Consolidated Fund. There was no permanently appointed AG between 2007 and April 2013 during the years of political instability, apparently on account of lack of consensus within the Constitutional Council. During this interregnum, the post of AG was held by the senior most Deputy Auditor General.</p> <ul style="list-style-type: none"> <li>• The independence of the AG is secured by the Constitution and the Audit Act. He is given a term of 6 years and can be removed on the same grounds and in the same manner as has been set forth for the removal of the Judge of the Supreme Court.</li> <li>• Specific qualification has been provided for the eligibility and his remuneration and other conditions of service shall not be altered to his disadvantage as long as he holds office.</li> <li>• He shall be consulted in the matter of appointment of the auditors for the audit of any corporate body of which the GoN holds more than 51% share or assets.</li> <li>• He has been given a wide mandate to conduct financial and performance audits of all Government offices including Constitutional bodies.</li> </ul> <p>There was no AG from 2007 to April 2013. However, during discussion with the OAGN officials it emerged that Section 19 of The Prevention of Corruption Act (PC) 2002 has been a fetter on its independence. The section holds an auditor accountable for mala fide intention and provides for strict punishment under the Act. This provision</p>	3



	under the PC Act has been identified as a threat under independence and legal framework in the Strategic Plan 2013-15.	
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### SAI-7: Mandate of the SAI- Score 3

1. OAGN has a wide mandate in the choice of audit issues, audit planning, audit methods and in their conduct of audit under the Interim Constitution. It has specific mandate for financial and performance audits of all Government entities including the SOEs except the VDC, Municipalities and the Public schools. The AG has access to documents at all times and has the mandate to submit an Annual Report to the President and the Parliament. However, the SAI does not have independent procedures for follow up audits to ensure that audited entities properly address their observations and recommendations and that corrective action is taken. Follow up is dependent on the reply of the entities and it is open for the audited entities to furnish replies to the OAGN throughout the year, despite the legal stipulation of 35 days. The AG also has the powers to issue directives to Government offices and corporate bodies to make proper arrangements on matters of accounts and to maintain them regularly.
2. The Interim Constitution and the Audit Act has been interpreted by the SAI to mean that audit of all government offices is *mandatory* every year. This heavy burden on the external auditor has been identified as one of the primary reasons for an ineffective oversight system in Nepal by the study on *Operational Risk Assessment of Public Financial Management Reform in Nepal; A Review of Challenges and Opportunities (Centre for Aid & Public Expenditure)*. Every year OAGN conducts audit of 4300 to 4500 entities. The total audit portfolio based on the annual audits conducted in 2013-14 (4740 entities) is shown in the pie chart below.



3. However, the unfettered mandate of external oversight is limited, in reality, by mobilisation of foreign aid outside the purview of national budget, increasing trend of not

making available the accounts of foreign assistance by public entities for auditing and different funds operating outside the budget. This is expressed in the AR 2013.

Dimension	Findings	Score
(i) Sufficiently Broad Mandate	<p>Criteria a to j is met.</p> <ul style="list-style-type: none"> <li>The AG has a sufficiently broad mandate to conduct financial and performance audit of all Government entities, though it conducts compliance audit and terms it as financial audit. Since the audit of VDCs and Municipalities is not within the mandate of the AG, a significant amount of resources transferred to these bodies remain outside the ambit of external oversight. There have been discussions about the entrustment of the audit of local bodies to the AG.</li> </ul>	4
(ii) Access to Information	<p>Criteria a, b and d are met, while criteria c is not applicable.</p> <ul style="list-style-type: none"> <li>Article 123 (3) of the Interim Constitution states that the AG shall, at all times, have access to documents concerning the accounts for the purpose of carrying out the functions and it shall be the duty of the head of the concerned office to provide all such documents or information which may be demanded by the AG or his employees. The staff of OAGN concurred that they have access to all the documents during field audit. There is a constraint only when the accounts have not been finalised by the entities.</li> <li>Section 3 (2b) of the Audit Act also requires the contractors of Government contracts to produce relevant documents or other evidences relating to the contract that are in their possession.</li> <li>Section 12(2) of the FP Act 1999 devolves the responsibility to maintain records and accounts of revenue and submit statements, get the accounts audited and maintain the records thereof, on the Chief of Office.</li> </ul>	4
(iii) Right and Obligation to Report	<p>Criteria a, b, d, e, g and h are met. Criteria c and f are not met.</p> <ul style="list-style-type: none"> <li>Article 124 of the Interim Constitution empowers the AG to submit an Annual Report to the President who submits it to the Parliament through the PM. Further Section 8 of the Audit Act states that the AG shall submit its AR to the President.</li> <li>The Audit Act 1991 originally contained a provision (Section 8 (1)) that the AG <i>may submit at any time a report</i> if deemed necessary to take immediate action against any loss or damage already happening or impending upon. However, the provision to submit a report at any time was amended through The Act Amending Some Nepal Laws, 2006. The OAGN needs to garner support for reinstating the earlier provision to allow itself sufficient mandate to submit more than one AR.</li> <li>The AG has the right to publish its AR, to decide the content of the report (“...including his comments and opinions thereon.....”; “on the works it has performed....”), free to</li> </ul>	3

	<p>decide on the timing of its report (generally submitted to the President in mid April) and during the past three years there has been no interference in the SAI's decision on the contents of its AR. Similarly, there has been no interference in the past three years in the SAI's effort to publish its AR. However, the Annual Reports could not be submitted during the last three years in the Parliament due to non existence of Parliament.</p> <ul style="list-style-type: none"> <li>• Section 19 of the PC Act 2002 is viewed as an impediment to the immunity of the officers of the OAGN.</li> </ul>	
(iv) Existence of Effective Follow-up Mechanisms	<p>None of the criterion is met.</p> <ul style="list-style-type: none"> <li>• There is no institutional mechanism within the OAGN to conduct follow up on its observations and recommendations. Follow up only takes place when the entity sends its reply to OAGN and the FP Act and Rules allow sufficient flexibility to the entities to report their replies to audit throughout the year. Although there is a legal stipulation to send replies within 35 days of the issue of the PAR, the process of sending replies extends throughout the year.</li> <li>• The AR publishes the monetary value of the irregularities, the percentage of unsettled irregularities and the major defaulting ministries. The irregularities prior to 2003-04 have been transferred to the Central Recovery Office. The unsettled irregularities are reviewed at the time of the current audit and in case no further replies are furnished, the significant observations figure in the AR. The focus of the process of follow up is disposal of the irregular items and not on the corrective action to be taken by the entities to minimise the recurrence of such irregularities in future.</li> </ul>	0

### 3.3 Domain C: Strategy for Organizational Development

#### SAI-8: Strategy for Organizational Development. Score 2

1. The first Strategic Plan was formulated in 2010 on the eve of the Golden Jubilee year of the formation of the SAI with the primary object of achieving timely and quality audit services. This was followed by another Strategic Plan 2013-15 (covering three year period from January 2013 to December 2015). The earlier Strategic Plan was implemented partially due to resource constraints. Out of 99 activities targeted to be implemented, 12 were fully implemented (12%), 56 are ongoing and 31 (31%) could not be implemented. The directorates have not prepared separate annual operational plans to monitor implementation of the current Strategic Plan 2013-15. Though a Steering Committee has been formed to monitor implementation of the SP under a DAG, monthly

meetings were not held regularly and none of the directorates/ divisions submitted progress reports to the Steering Committee, as laid down in the SP.

Dimension	Findings	Score
(i) Content of the Strategic Plan	<p>Criteria a, b, c, d, e and g are met.</p> <ul style="list-style-type: none"> <li>The current Strategic Plan highlights the present situation with respect to independence and legal framework, human resource, audit methodology and standards, internal governance, corporate support, stakeholder relation and appraisal of the previous Strategic Plan (2010-12). It also contains a SWOT analysis on 6 domains (independence and legal framework, human resource, audit methodology and standards, internal governance, corporate support and stakeholder relation). It has identified five strategic issues which are linked to the mission of OAGN. Linked to these five strategic issues are the five goals to be achieved over the planned period.</li> <li>The plan also incorporates an implementation matrix under the five goals to be achieved which includes the performance indicators, time of implementation, budget, responsibility and the critical success factor which would have a bearing on the successful implementation of the plan.</li> <li>SAI has not prepared any division/ directorate wise operational plan to implement the Strategic Plan.</li> </ul>	3
(ii) Strategic Planning Process	<p>Criteria a, b, c, d, e, f and g are met and criterion h is not relevant now.</p> <ul style="list-style-type: none"> <li>The Strategic Plan 2013-15 was prepared by a high level team, formed by the AG, under the coordination of the DAG comprising seven members. A two day seminar was organised with the involvement of different levels of staff to get feedback on the draft. Feedback and suggestions were invited from senior executives of GoN and the latter constituted a working committee under the Chairmanship of Secretary, Financial Infrastructure of the office of the PM and Council of Ministers to finalise the plan.</li> <li>The process of implementation and its monitoring and evaluation has been formalised through a Steering Committee which is required to meet on a monthly basis and submit a bi annual report to the AG.</li> <li>The Strategic Plan is hosted on the OAGN website.</li> <li>The present Strategic Plan was in place by the time the previous planning period ended.</li> </ul>	4
(iii) Content of the Annual Plan	<p>None of the criteria is met. The OAGN does not have any division/ directorate wise annual operational plan to implement the Strategic Plan.</p>	0
(iv) Annual Planning Process	<p>None of the criteria is met.</p> <p>The OAGN does not prepare any annual plan to implement the Strategic Plan.</p>	0

### 3.4 Domain D: Audit Standards and Methodology

#### SAI 9: Overall Audit Planning and Quality Management. Score 2

1. Though the OAGN has been preparing the annual audit plans in the past, there has been no risk assessment of the entities to be selected for audit and consequently the SAI has been conducting audit of all the Government entities, despite the stagnant staff position for the last twenty years. The Annual Audit Plan of FY 2013 has been a positive development. In contrast to the previous audit plans, the current plan has been prepared by categorising the entities to be audited on the basis of risk which flows from the Risk Based Audit Guide. In this risk assessment, weightage has been given to materiality, sensitivity, complexity of transaction and the control environment. Entities with total weightage of more than 41 points are assigned level 1 (100% units to be covered for detailed audit), entities with weightage of 21 to 40 points are assigned level 2 (50% coverage for detailed audit) while entities with points of 20 or less are assigned level 3 status (33.3% coverage for detailed audit). Moreover, 50% of the entities for level 2 and 2/3<sup>rd</sup> entities under level 3 would be covered under summary audit procedure (desk audit) to be conducted in a half day, excluding travel time. Thus, despite the risk weightage assigned in the current audit plan, the OAGN covered all the Government entities including the short audit procedure in FY 2013.
2. The current annual audit plan does not match the units to be audited with the available manpower and the budgetary provision of the OAGN. It also does not earmark the staff separately for conduct of Financial audit, Performance audit, Environment audit, IT Audit, audit of SOEs, concurrent audit and project audit etc. The plan also does not identify the major risks and constraints to implementation. Besides, the annual audit plan provides for onsite audit only from mid August to mid February and apart from some audits of projects which continue from mid December to mid March, there is no field audit from mid February to mid August (6 months). Almost the entire strength of the OAGN is available at Headquarters in Kathmandu for six months (between mid February to mid August). Thus, there does not seem to be optimum utilisation of the scarce manpower available in the OAGN. The limited manpower is deployed in the field only for six months for auditing more than 4,000 entities. This burden to carry out the mandatory compliance audits of all entities (as interpreted by the OAGN) would severely affect the quality of audit performed by the OAGN and in fulfilling its vision and mission. It is also constrained by the limitation of submitting the Annual Report to the President by mid April. The OAGN may consider submission of more than one AR to the President to enable the field audit to continue for the remaining six months and to include the findings of the latter spell of field audit in this AR. This would also facilitate incorporation of the replies of the entities before inclusion of the observations in the Annual Report.
3. The annual audit plan does not contain any provision for regular monitoring of its implementation which would facilitate tracking of the delivery of audits. Out of 4,324

entities to be covered during the audit of 2012-13 FY (as per the annual audit plan, Annexure 3), the actual coverage has been 4,740 entities as per the AR 2013 (3,744 Government offices, 92 corporate bodies, 805 boards and other institutions, 75 DDCs, 22 PAs and 2 IT Audits). Despite severe manpower scarcity, audit of 416 additional entities was conducted which was not envisaged in the Annual Audit Plan. Scrutiny of the Financial Audit files of the directorates revealed that there was significant deviation in the audit programme of some of the audit teams and no formal approval for this deviation was available on file. For example, though the financial audit of the Petroleum Exploration Project was to be conducted within one day (24.11.2013), audit was carried on for 21 days (continued till 15.12.2013). Such changes affect the audit of other planned entities and the sanctity of the annual audit plan. There is a strong case for reducing the number of entities subject to audit by the OAGN. This can be effectively achieved by importing financial data of the entities contained in the TSA and conducting a risk analysis to select units. Thus, there is a need for the OAGN to link with the TSA and provide access to this accounting data to authorised officers in each directorate. We did not see any evidence of sampling in the files reviewed by us and no assurance could be derived that the auditors had carried out the mandated job in the field. This is compounded by the lack of a duty sheet in the audit files which specifically mentions the duties of each audit team member. We believe that the selection of months for detailed audit and the related vouchers can be extracted from the TSA data and provided to the audit teams before they depart for field audit. This would ensure assurance, at least, on the checks conducted by the audit member on the transactions selected for audit at the Headquarter.

4. The committee appointed to formulate the annual audit plan seeks information from the directorates and divisions to prepare the annual plan. This is collated and submitted to the Central Co-ordination Unit (CCU) which also includes the AG, for approval. This is completed by mid July. Subsequently, the approved plan is circulated to all the directorates and divisions to enable them to prepare their ministry wise and entity wise audit plans. The annual programme is also sent to all the Chief Accounting Officers of GoN. The directorates prepare Ministry specific audit plan and the entity level audit plan in line with the annual audit plan. The overall audit plan of the Ministry is approved by the DAG and entity level plan is approved by the AAG. The Annual Audit Plan of the Ministry of Finance and the Ministry of Education was scrutinised by us. The Ministry wise overall audit plans contain detailed information about the entity, its operations and financial management, the programmes, objectives, enabling provisions, etc. It also contains important information on risk parameters, the amount of days to be allocated, the number of entities to be covered under detailed and short audit procedure etc. However, it does not match the entities to be covered under audit with the available manpower in the division. As the PAs are conducted by a separate earmarked Division, the Ministry wise overall audit plans do not provide for resources to be used in PAs. There is lack of synergy between the PA division and the other divisions as far as the planning and allocation of resources for PAs are concerned. Since the divisions/ directorates are repository of all relevant information concerned with the Ministry including its risk profile, there is a strong case for the concerned divisions/directorates to conduct the PAs

rather than concentrating it with one single division. The audit plan of OAGN does not include the cost estimates required to carry out the audits during the year.

Dimension	Findings	Score
(i) Audit Planning Process	<p>Criteria a and b are met.</p> <ul style="list-style-type: none"> <li>The SAI has written procedures for development and approval of the audit plan and the process for developing the annual audit plan for the SAI identifies the SAI's audit responsibilities from its mandate and follows a risk based methodology. However, despite the risk assessment, audit of all entities is conducted from mid August to mid February.</li> <li>We could not get any evidence of monitoring of the implementation of the Annual Audit Plan and no evidence was produced to enable us to determine whether the achievement of the annual plan was assessed.</li> </ul>	2
(ii) Audit Plan Content	<p>Criteria a and b are met while criterion c is not applicable.</p> <ul style="list-style-type: none"> <li>The audit plan defines the objective on a high level and responsibility for each audit to be carried out. It also includes a schedule for implementation of all audits although there are significant deviations in the schedule actually followed.</li> <li>The Annual Audit Plans and the overall Ministry level audit plans do not specify the necessary human and financial resources to conduct the planned audits</li> <li>It also does not contain an assessment of the risks and constraints to delivery of the plan.</li> </ul>	2
(iii) Quality Control System	<p>Criteria a and c is only met.</p> <ul style="list-style-type: none"> <li>As per the Annual Audit Plan of OAGN (FY 2013), the responsibility for audit quality control shall lie on the supervisor of the audit. This is done by the supervisor according to the Audit Plan, Code of ethics, regulations and standards. The quality control is a perfunctory exercise with the supervisor filling in some formats in a yes/ no template.</li> <li>The existing system of quality control does not take into account the risks to quality which arises from carrying out the work.</li> <li>We did not find any evidence to confirm whether any quality control is exercised on the work of the CAs who are appointed by the AG to conduct audit of corporate bodies wholly owned by GoN.</li> </ul>	1
(iv) Quality Assurance System	<p>Criteria a, b, c and d are met.</p> <ul style="list-style-type: none"> <li>A Quality Assurance Handbook is in place since 2012 which was developed on the basis of IDI-ASOSAI Quality Assurance Handbook on Financial Auditing.</li> <li>A Quality Assurance Committee headed by the DAG has been formed by the AG and a separate QA Directorate has been established in OAGN.</li> <li>There is a system for post quality review of 50 files every</li> </ul>	3



	<p>year after the completion of audit. Such files are selected representing all directorates, audit teams, and the nature of audit. In addition, one audit file of each audit team is reviewed in order to implement the (Performance based Incentive Scheme (PBIS)).</p> <ul style="list-style-type: none"> <li>• The results of the QA review of all the 50 files are communicated to the AG in the form of an annual QA Report. However, no such annual report was submitted to the AG last year and the current year QA review report is under preparation. The reporting format for QA review of an audit file is prescribed in the handbook and it contains positive aspects and areas for further improvements. It contains observations on audit planning, execution and reporting. The QA reports contain observations and recommendations for improvement. However, there is no system to link the recommendations in the QA reports and further action to be taken by the HR/Training directorates. Mostly, the QA reports have identified the need to orient and train the staff in various/ specific auditing skills. This input is not reckoned while preparing the Training Needs Assessment of the OAGN.</li> <li>• The present system only lends to a post quality review and it could not be verified whether the results of the QA reviews are communicated to the concerned directorates for further action. Further, there is no system to monitor compliance by the concerned directorates of the issues raised in the QA review.</li> <li>• No pre issuance QA review is undertaken by OAGN to determine whether it is appropriate for the SAI to submit the PAR and AR without risking its reputation.</li> <li>• As part of the Strategic Plan 2013-15 (Objective 2.4 of the implementation matrix), OAGN has identified the need to design and implement appropriate action to address the result of QA review.</li> <li>• As part of an incentive scheme (PBIS) for the employees of OAGN, indicators have been designed for the award of such incentive and quality parameters have been incorporated for such evaluation. However, there does not seem to be any link between the parameters of QA for review of files and those designed for the award of PBIS. There might be a possibility where significant quality issues have been raised in a QA review and the same official gets the benefit under PBIS. The Strategic Plan 2013-15 aspires to establish this linkage.</li> </ul>	
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#### **SAI-10: Quality Assurance of Audit Processes. Score 2**

1. OAGN developed a Quality Assurance Handbook in 2009 and this was revised and updated in line with IDI-ASOSAI Handbook on QA in PA and FA in December 2012. The updated Handbook is in operation since February 2013. It provides for QA review of both financial and performance audits. There is a QA directorate under AAG HR and IR, a QA Committee appointed by the AG consisting of five officers headed by a DAG and a separate QA Committee for Performance Based Incentive Scheme (PBIS). A QA review team consisting of 12 officers has been constituted to review the 50 audit files identified in the QA plan. As per extant policy, 50 files of financial audits (covering all the directorates) and some PA audit files are selected annually for QA review and a consolidated report is submitted to the AG. We were informed that no QA review was conducted in 2013, neither was any annual report submitted to the AG till the end of the peer review period. QA review of some audit files (around 35) have been completed until the review period. We noted that there is a separate committee for QA review of audit files for assessing compliance to the quality indicators given under the PBIS.
2. Thus, there is a possibility that despite adverse findings in the QA review conducted by the QA review Committee, an employee gets the benefit under PBIS. The latter is a truism as every employee is covered under the benefit of PBIS. To achieve consistency between quality assessment and PBIS, the OAGN may consider constituting a single committee for both QA review and PBIS. In addition, the quality indicators under QA Review and PBIS should be brought on a similar plane. The office intends to submit an annual QAR report to the AG after the QA review is over. The findings are expected to be disseminated in a workshop to be held subsequently. We noticed that there is no institutionalised system to ensure that the findings in the QA review report are transmitted to the audit teams which conduct audit of the same entity in the next audit cycle.
3. Out of 35 files for which QA review has been conducted this year (up to date of our assessment, 7 July 2014) under Financial Audit, we selected five files for review. We were informed that QA review of three PA files is being conducted and the process is not completed. Pilot audits conducted as per the PA Guide 2012 were not selected for QA review.

Dimension	Finding	Score
(i) Quality Assurance of Financial Audit	<p>Criteria b, c, d and e are met.</p> <ul style="list-style-type: none"> <li>• QA reviews of FA are to be carried out annually. However, this was not done in 2013 and the process is underway this year.</li> <li>• The QA review team is independent and not related to the audit work of the selected sample.</li> <li>• Though there is a plan to select 50 files, the QA review was not conducted in FY 2013 as per the plan. An annual report was not submitted to the AG.</li> <li>• Those assigned with QA work have sufficient and appropriate experience.</li> <li>• The QA reports are drafted in compliance with the provisions in the QA Handbook, provide positive and</li> </ul>	2

	<p>negative observations, conclusion and recommendations.</p> <ul style="list-style-type: none"> <li>• There is no evidence that the responsible senior management has considered and concluded on the recommendations provided from the QA of FAs.</li> <li>• OAGN has not engaged any external body to conduct independent review of the overall system of quality control.</li> </ul>	
(ii) Quality Assurance of Compliance Audit	Same as dimension (i) above.	2
(iii) Quality Assurance of Performance Audit	No QA review files were produced to us as the QA review is in process. Neither was any QA Review conducted last year.	Not Rated
(iv) Quality Assurance of Outsourced Audit	<p>The audit of SOEs is conducted by the AG with the assistance of the CAs as per the statutory provisions in the Constitution and the Audit Act and the final audit report with the Management Letter is issued by the AG based on the work of the CAs. This arrangement has been assessed under this dimension.</p> <p>Criteria a, b, c and g were met.</p> <ul style="list-style-type: none"> <li>• The terms and conditions attached to the appointment letter of the CAs contain the ethical and confidentiality requirements to be declared by the CAs.</li> <li>• There is no institutionalised system to ask for the working papers from the CAs for those audits which are outsourced.</li> <li>• Though there is a format for adherence to quality standards by the CAs, this was not present in any of the files examined by us.</li> <li>• There is no transparent system for appointment of auditors on the basis of competence and suitability. CA firms are appointed on a subjective basis without assessment of the credentials of the firm, size of the enterprise and the complex nature of the financial statements of the SOEs.</li> <li>• There is a provision for declaration of any conflict of interest by the CA firms at the time of appointment.</li> </ul>	2

## SAI-11: Financial Audit Foundations. Score 2

1. According to ISSAI 200: Fundamental Principles of Financial Auditing (exposure draft), in an audit of financial statements the objectives are to obtain reasonable assurance about whether the financial statements are free from material error, enabling the auditor to express an opinion on whether the financial statements are prepared in accordance with an applicable financial reporting framework, and to report on the auditors findings. Financial audit is conducted under the premise that the financial reporting framework is deemed acceptable to the auditor, and that management of the entity acknowledges and understands its responsibilities for preparing financial statements and for maintaining adequate internal controls. Financial audit in accordance with the ISSAIs is a reasonable assurance engagement designed to result in a positive form of expressing a conclusion, such as... 'in our opinion the financial statements presents fairly or gives a true and fair view...'. Engagements to provide limited assurance, resulting in a negative form of expression of a conclusion, such as... 'nothing has come to our attention that would indicate the subject matter is not in compliance...' are not covered by the ISSAIs on financial audit.
2. OAGN conducts financial audit of the Consolidated Fund of the GoN (prepared by FCGO), SOEs, Committees and Controlling Entities. For the other entities, it essentially conducts compliance and regularity audits, though these audits are termed as Financial Audit. From FY 2013, audit report on the consolidated financial statements has been issued to all the controlling entities. Out of 40 such entities, audit reports with qualified opinion were issued to 37 entities. A new Financial Audit manual has been prepared by OAGN and pilot audits were undertaken in two phases. In the first phase, three topics were selected, while 10 topics were selected for the second phase.
3. The first auditing standards "Government Auditing Standards" of OAGN were issued in 1996 in line with the extant INTOSAI Auditing Standards. These standards were revised in 2005 with the adoption of "Government Auditing Standards- Policy Standards". These cover the basic principles, general standards, field standards and reporting standards. The OAGN also prepared the "Government Auditing Standards- Operational Guidelines" in 2005 to streamline the basis of financial audit of public entities. The Financial Audit Manual prepared in 2014 (not yet approved by the AG) is envisaged as a supplementary part of the Operational Guidelines for carrying out financial audit and the chapters of the latest manual are designed to assist in the implementation of auditing procedures envisaged by the operational guidelines.

### Consolidated Fund Accounts

4. The qualified opinion on the consolidated financial statements (appropriation, deposit and revenue) of the controlling entities states that the accounts are in compliance to the FP Act and Rules, subject to the irregularities pointed out in the preceding paragraph. The audit report on the Consolidated Fund is presented at the beginning of the AR. The AG

has given a qualified opinion in this report (opinion subject to irregularities in paragraph 4 of the report) implying that the misstatements, individually or in the aggregate, are material, but not pervasive to the financial statements. However, no materiality level has been fixed by the OAGN, either for the PAR, AR or in case of audit opinion to be provided on the Consolidated Financial Statements. Though the audit report on the Consolidated Fund has comments on transparency and completeness of accounts, we feel that the audit opinion should also have accounted for the irregularities noticed during audit of the entities included in Chapter 2 of the AR. The final opinion should have qualified that the Consolidated Accounts prepared in accordance with the relevant accounting framework give a true and fair view of the operations of the entity subject to the findings mentioned in Chapter 2 of the Annual Report.

5. The qualified opinion was given due to the difference in the figures of revenue, appropriation, savings, foreign grant and loan reported by FCGO, Nepal Rastra Bank (NRB) and those compiled by the OAGN during course of audit. Besides, comments have been included on foreign loans and grant not recorded in the Consolidated fund, creation of funds from unspent balance, expenditure from revenue heads without deposit in the Fund etc. and non compliance with the Cash Based Public Sector Accounting Standards of the GoN. However, while pointing out the differences in the amounts, we observed the following;

- There is no detailed analysis of the difference between the figures of FCGO, NRB and the OAGN and its effect on the financial statements and the fiscal indicators.
- The data on revenue, appropriation, deposit etc. of the entities is collected manually in OAGN from the PARs of various directorates and entered in an excel sheet. There is no quality control on this data. There is a necessity for a robust audit management system where data is uploaded online by the audit teams to a central database. This data can be compared on a monthly basis with the TSA link as well as from the NRB for continuous reconciliation and for checking misclassification on a regular basis.

### **Audit of State Owned Enterprises**

6. As per Section 6 (2) of the Audit Act, the AG is assisted by the accounting professionals and registered auditors for conduct of audit of the wholly owned SOE. The Annual Plan of 2013 envisaged audit of eight (out of a total of 46) corporate entities to be conducted by the Corporate Enterprises Directorate. However, audit of six corporate entities was conducted. The rest 40 corporate entities were audited by the CAs. Section 3 (1) of the Audit Act states that the AG may conduct final audit of the financial and other activities of the offices and bodies. Further section 8 of the Audit Act provides that the AG shall submit his Annual Report to the President on the final audit of government offices and bodies. Final audit presupposes submission of final approved accounts by the entities and bodies. However, the audit is generally conducted on the provisional financial statements of the entity and followed by issue of the PAR/ Management Letter. Though the entity is mandated to submit the final approved accounts, in most cases this is not submitted and the significant observations on the provisional financial statements are included in the AR. This system requires a serious review by the OAGN management. Some general

observations relating to the functioning of the Corporate Enterprise Directorate is given below.

- Out of the audit of 46 SOEs to be conducted by the Corporate Enterprise Directorate in concert with the CAs, audit of three SOEs has not been conducted for the last five years. In four SOEs, PARs were issued but the final audit report and ML was not issued for the last four years. In three SOEs, even the PAR was not issued.
  - Neither is a panel of external auditors maintained in OAGN, nor is there any transparent and objective criterion for selection and allocation of work.
  - There is no system to monitor the work of the external auditors and no documents were produced to demonstrate quality check on their work as mandated in the Audit Act (Section 6 (3 and 4)).
7. Based on our understanding of the process, we examined the following reports and files for the audit of financial statements of SOEs, controlling entity, consolidated fund and three PARs out of 10 pilot Financial Audits.
- SOEs
    1. Nepal Rastra Bank
    2. Nepal Construction Company Ltd
    3. Nepal Vidyut Pradhikar
    4. Nepal Paryatan Board
    5. Nepal Door Sanchar Pradhikaran
    6. Hydropower Development and Investment Company Limited
  - Controlling Entity

Ministry of Labour and Employment
  - PARs of pilot Financial Audits
    1. District Development Committee, Kathmandu
    2. Road Division, Dolakha
    3. Nepal Army, 10 No. Battalion
    4. District Administration Office, Kathmandu.

8. Some general findings on the selected files are given below.

- The audit files do not contain the documents in a sequential manner. The files have not been page numbered and the supporting papers are not consolidated at one place. There is no duty list in the files showing the allocation of work amongst the auditors.
- The pilot audits have a documented provision for a two level review; other files do not have any such provision.
- Individual audit observations are not issued to the entity in the form of preliminary memos and the findings are consolidated in the PAR at one time and issued to the entity.
- No standard format exists to capture the abstract of the audit work in terms of duration of audit, personnel deployed, deviation, daily diary of work by the auditors as per the duty list, compliance with the audit plan, potential observations which are to be brought to the notice of higher authorities etc.

- If any second level review has been conducted, it is a post issue review and not before sending the PAR to the entity.
- The replies to the audit observations are not tracked systematically. Since most of the directorate staff remains in field till mid February, the replies from the entities are pending in the concerned directorates and they are taken for review only after mid February. After review, the objections are either settled or significant ones carried over to the AR. There is no mechanism to monitor the receipt of replies within 35 days. It was observed that all the PARs are hard bound in the form of sectional Review Register. This register did not contain the review note on the basis of replies. The OAGN may consider consolidating the list of pending objections and sending it quarterly to the controlling entities for expeditious disposal. It would be effective, if a system of Audit Committees within the individual ministries is recommended for settlement of pending audit objections.

Dimension	Findings	Score
(i) Financial Audit Standards and Guidance	<p>❖ Criteria is not met as only 10 out of 18 requirements are met. This dimension requires coverage of at least 15 requirements.</p> <p>SAI Nepal developed an Auditing Standard in the year 1996 which was updated in the form of Auditing Policy Standards in 2005. A Financial Audit Manual has been developed this year and it is yet to be approved.</p> <ul style="list-style-type: none"> <li>• Preconditions for audit of financial statements were met.</li> <li>• There is no evidence of evaluation of audit risk throughout the audit process.</li> <li>• There was no practice to fix the materiality level.</li> <li>• In cases where audit was conducted by the OAGN, the documentation has been inadequate and the audit observations were not referenced to the evidence.</li> <li>• Agreement to the terms of the audit engagement with management or those charged with governance was not in practice.</li> <li>• A process of communication is evidenced in the files relating to entry and exit meetings. However recap/ record notes/ detailed minutes of the meetings was not found on record.</li> <li>• There is an entity level audit plan which includes the scope, audit strategy, timing and direction of the audit. However, implementation of the plan was not available in the records.</li> <li>• Auditors have an understanding of the audited entity and its environment including internal control procedures.</li> <li>• Though there is evidence of risk assessment in the entity level audit plan, it is confined to the plan. The risk assessment does not correspond to the extent of</li> </ul>	0



	<p>audit procedure which is actually conducted. In the case of SOEs, audit is conducted on the draft Financial Statements and most of the audit is entrusted to the external auditors without any risk analysis. This deficiency is also mentioned in the QA Review files.</p> <ul style="list-style-type: none"> <li>• Fraud risks are not identified separately.</li> <li>• Risk due to non-compliance with laws and regulations are not identified separately.</li> <li>• There is no sufficient and appropriate audit evidence in the file to substantiate the opinion of the auditor. The observations were also not referenced to the evidence. In case the audit is conducted by the CAs, the OAGN issues comments without going through the working papers of the external auditors (CAs). There is no evidence of quality review of the reports prepared by the CAs.</li> <li>• The observations are issued in the form of Audit Report and Management letter.</li> <li>❖ Criterion b is not met as only two out of four requirements have been covered.</li> <li>• There is no fixed materiality either for the planning phase or the reporting phase. Moreover, there is no assessment of the risks to material misstatement.</li> <li>• As per the OAGN Auditing Standards 2005, there is sufficient provision for documentation, its form, content and extent.</li> <li>• Though the type of audit procedures to be conducted is identified in the entity level plan, the actual conduct of audit does not correspond to the identified procedures. This is further affected by lack of any materiality threshold and selection of transactions on the basis of statistical sampling.</li> <li>• The extant Standards contain requirements to obtain sufficient and appropriate audit evidence.</li> <li>❖ Criterion c is met as the OAGN provided support to its auditors in the form of guidance material, training and access to experts.</li> </ul>	
(ii) Ethics and independence in Financial Audit	<p>The OAGN has developed a Code of Ethics for the staff in 2013 in line with ISSAI 30. It contains a declaration to be signed by each auditor requiring him to observe integrity, maintain independence, professional secrecy and competence. Para 2.3 of the Code of Ethics covers the work of external auditors also.</p> <p>Detailed discussion on implementation of the Code of Ethics has been mentioned in Domain E.</p>	4
(iii) Quality Control in Financial Audit	<p>Criteria is met.</p> <p>The pilot audits conducted in compliance with the new Financial Audit Manual provide for two level review of audit files. In other files, there is no documentation of</p>	1

	review of the work of the audit teams. There is no institutionalised system for monitoring the progress of audit by appropriate levels of management. The SAI basically conducts QA review and not Quality Control reviews. The former is also a post issue review conducted after the issue of the PAR.	
(iv) Financial Audit Team Management and Skills	<ul style="list-style-type: none"> <li>• There is no link between the HR development policy and the deployment of audit resources. Besides, the policy of mandatory rotation of staff every three years is not conducive to the development of competence and skills of the auditor.</li> <li>• The duration of audit allotted to various teams and the team composition does not follow any uniform criteria. In some cases the entry conference was held after 8 to 10 days of the starting date mentioned in the authorisation letter. In one case there was a gap of 75 days between the issue of the authorisation letter and the exit meeting. This is primarily due to the diversion of the staff for some temporary duty at the directorate or training during the currency of the audit.</li> </ul>	NR No objective basis to assess the score under this dimension.

#### **SAI 12 :Financial Audit Process. Score 2**

(i) Planning Financial Audits	<p>Criteria a, c, d, e, f and g are met.</p> <ul style="list-style-type: none"> <li>• There is a statutory financial reporting framework of the GoN.</li> <li>• There is no determination of materiality for either the planning or reporting phase.</li> <li>• There is a process of communication with the appropriate persons in the entity.</li> <li>• The audit team prepares a detailed entity level audit plan which is approved by the AAG. This contains appropriate formats designed to enhance understanding of the entity and its control environment.</li> <li>• There is no assessment of the risk of material misstatement of the financial statements due to fraud and non compliance with laws and regulations.</li> </ul>	2
(ii) Implementing Financial results	<p>Criteria a, c and f are met.</p> <ul style="list-style-type: none"> <li>• The entity level audit plan outlines the audit procedures to be conducted for the audit areas identified on the basis of risk. However, during execution, there is no correlation with the contents of this plan. The working papers donot contain sufficient details of the actual audit procedures adopted by the team. This lacuna has been identified as an area of improvement in the QA review files. The SAI has not adopted any policy and procedure on calculating minimum planned sample size in response to</li> </ul>	2

	<p>materiality and risk.</p> <ul style="list-style-type: none"> <li>• Since there is no assessment of the risk due to fraud, there is no exercise to collect evidence on this aspect.</li> <li>• The auditor does not use the work of internal auditor and external experts, except in case of short procedure audit where the internal audit report of the DTCO is examined.</li> <li>• The Audit Report of the AG on the Consolidated Fund and his opinion on the financial statements does not take into account the irregularities noticed during the audit of entities during the year. The opinion is qualified solely on issues of non reconciliation of the account balances between the figures of FCGO, Nepal Reshtra Bank and figures of AG.</li> <li>• There have been deviations in the audit plan while no explanantion was available on file to justify the deviation and we could not ascertain whether deviations were approved by the competent authority (AAG).</li> <li>• The teams conducting audit in the field have a travel order authorised by the AAG. We did not observe any system in existence in the directorates to ensure that audit is conducted as per schedule.</li> </ul>	
(iii) Audit Evidence, Concluding and Reporting in Financial Audits	<p>Criteria b, c, d, f, g, h and i are met while criteria j and k is not relevent for this dimension.</p> <ul style="list-style-type: none"> <li>• Section 4.6.6 of the Government Auditing Standards (Policy Standards) 2005 states that the audit working papers should contain sufficient documentation to enable an experienced auditor to ascertain from them the evidence that supports the auditors significant findings and conclusions. However, the sufficiency of evidence was not seen in the sample files. This issue has been a recurring theme in the QA Review reports of the audit files.</li> <li>• SAI documentation policy has been met.</li> <li>• The auditor communicates with identified persons in the entity.</li> <li>• The SAI findings are finalised after incorporating the replies of the entity in cases where these are received within time. In other cases the findings are discussed in the exit meeting and the resultant discussion in such meeting is incorporated in the PAR.</li> <li>• Uncorrected misstatements were stated to be evaluated but the process was not documented in the files.</li> <li>• The auditor gives the opinion and this is in line with the guidance in ISSAI 200.</li> <li>• The audit report is in written form, easy to understand, clear and concise.</li> </ul>	2

## **SAI-13: Compliance Audit Foundations. Score 2**

### **Mandate**

1. The Interim Constitution (Article 123 (1)) states that the AG shall conduct audit with due considerations to regularity, economy, efficiency, effectiveness and propriety thereof. The Audit Act also reiterates the same provision in Section 4. Thus there is a broad mandate to conduct regularity (compliance) and performance audits. The OAGN performs compliance audit of all entities, except VDC, Municipalities and Public Schools and terms these audits as financial audits. The key characteristic of these audits is the assessment of whether a subject matter is in compliance, in all material aspects, with the authorities (FP Act and Rules, Public Procurement Act, Civil Service Act, VAT Act, Budget and programme guidelines, MoU with donor agencies etc.) which govern the audited entity. Thus, these effectively fall under Compliance Audit as per ISSAI 400. No materiality threshold has been determined by the OAGN. Apart from the 22 PAs, 2 IT Audits and the audit of SOEs and the Consolidated Fund, all audits conducted by the OAGN approximate to the general principles of compliance auditing provided in ISSAI 400.
2. These audits encompass the assessment both of compliance with formal criteria of regularity and/or with the general principles of sound public sector financial management. While regularity is the prime focus of most of the audits, examination of issues from the propriety angle, though available in the Audit Act (Section 5) is hardly done. The latter is pertinent in Nepal where expectations concerning sound financial management and the conduct of public sector officials also exist.
3. The audit is conducted on site as per the entity level plan formulated by the audit team. This flows from the overall Ministry wise plan and the Annual Audit Plan for the OAGN. The audit cycle runs from mid August to mid February. The composition of the audit teams is not fixed and there is frequent deviation in the approved audit schedule. The PAR is issued after 15 days of conclusion of audit and replies are to be received within 35 days of receipt of the PAR. We found no evidence of any second/ third level quality checks on the PARs before they are issued to the entities, except for the audits conducted in the Kathmandu valley. The significant observations which remain unsettled are carried over to the Annual Report which is submitted to the President. In most cases audit observations have been included in the AR without the replies of the department. The OAGN also conducts Revenue Audit of the revenue generating entities under Compliance Audit.

### **Standards and Guidelines**

4. The OAGN has developed auditing standards and guidelines to carry out its audit in an effective manner. Most of these standards and guidelines were developed years back. These are listed below.
  1. Government Auditing Policy Standards (2005)
  2. Government Auditing Operational Guidelines (2005)

3. Procurement Audit Guidelines (2005)
  4. Revenue Audit Guidelines (2005)
  5. Project Accounts Audit Guidelines (2005)
  6. Administrative Expenditure Audit Guidelines (2006)
  7. DDC Expenditure Audit Guideline ( 2010)
  8. Risk Based Audit Guidelines (2012)
  9. Performance Audit Guide (2012)
  10. Quality Assurance Review Handbook (2012)
  11. Code of Ethics for Staff of OAGN (2013)
5. We reviewed the following audit files (FY 2013) for the assessment under this indicator.
1. Lumbini Development Trust/fund
  2. Petroleum Exploration Project
  3. Nepal Airlines Corporation
  4. Hydropower Investment and Development Company Limited
  5. Labour & Employment Ministry
  6. Integrated Water Resource Management Project
  7. Drinking water and sanitation divisional office
  8. Bharatpur Hospital, Chitwan
  9. Road Division Bridge Project
  10. District Health Office, Siraha
  11. Commercial Agriculture and Trade Programme
  12. Customs Check Inspection Office, Subidhanagar
  13. Electricity Development Department, Anamnagar
  14. District Development Office, Gorkha
  15. District Police Office, Makwanpur
  16. Kathmandu Valley Roads Expansion Project
  17. Public Housing Programme and Performance evaluation
  18. Evaluation of Institutional Management and Investment Status of Institutional Coordination branch MOF
  19. Programme Implementation and follow up system of Youth & Small Entrepreneur Self Employment Fund Secretariat
  20. Tatopani Customs Office
  21. Inland Revenue Office, Lalitpur
  22. Inland Revenue Office, Bharatpur Chitwan

Dimension	Findings	Score
(i) Compliance Audit Standards and Guidance	<p>Criteria a is not met as 12 requirements (out of 15 in this dimension) are not covered.</p> <ul style="list-style-type: none"> <li>The OAGN developed and adopted Government Auditing Standards in 1996 which was updated in 2005. The AR states that apart from the above standard, the OAGN has conducted audit as per the founding principles promulgated by the INTOSAI. The SAI has not developed its own standards consistent with ISSAI 400, neither has it adopted the Compliance Audit Guidelines (ISSAI 4100 or 4200) as its authoritative standards.</li> </ul>	0

	<ul style="list-style-type: none"> <li>Based on the review of above files, we observed that propriety requirements, intended users and level of assurance is not available in the audit files.</li> <li>There is no evidence of evaluation of audit risk throughout the audit process.</li> <li>No materiality level is fixed.</li> <li>There is documentation in the audit files but the evidence is not referenced to the audit observations.</li> <li>A process of communication is evidenced in the files relating to the entry and exit meetings and requisition of information.</li> <li>Auditors have identified the subject matter and suitable criteria.</li> <li>Auditors have determined the audit scope.</li> <li>There is evidence that auditors have understood the entity. This is included in the entity level audit plan.</li> <li>Auditors have understood the control environment and the relevant internal controls.</li> <li>There is evidence of risk assessment in the entity level audit plan but it is not linked to determining the nature, timing and extent of audit procedures. In most cases, risk assessment remains a planning exercise only and it does not correspond to extent of audit procedures which are actually conducted. Consequently, there is significant deviation in the number of days planned for audit and the actual schedule.</li> <li>Auditors do not consider the risk of fraud.</li> <li>Auditors prepare a detailed entity level audit plan but the documents in the audit files do not give an assurance that the plan has been implemented in practice.</li> <li>Auditors gather sufficient and appropriate audit evidence to cover the scope of audit.</li> <li>There is no evidence in the file to suggest that sufficient and appropriate audit evidence is related to the audit conclusions.</li> <li>Preliminary Audit Report is issued within 15 days of conclusion of audit.</li> </ul> <p>Criteria b is not met.</p> <ul style="list-style-type: none"> <li>There is no determination of materiality at any level.</li> <li>There is documentation and it is retained. However, there is no document retention policy in the SAI.</li> <li>There is no evidence of sample selection in response to materiality and risk.</li> </ul> <p>(c) The SAI provides support to its auditors in the form of guidance material, training and access to experts.</p>	
(ii) Ethics and Independence	<p>All the criteria are met.</p> <ul style="list-style-type: none"> <li>The OAGN has developed a Code of Ethics for</li> </ul>	4

in Compliance Audit	<p>Government Auditors in 2013 in line with INTOSAI and ISSAI guidelines. There is a declaration format in this handbook which is attached in every PAR file. The declaration is to be signed by each audit member and also by the audit supervisor. There is also a provision for identifying the challenges to ethical requirements during audit and the measures taken to address such challenge. We observed that in some cases the signature of the supervisor was not in place and there was no mention of challenges in most of the files reviewed by us.</p> <ul style="list-style-type: none"> <li>• There is a prescribed declaration form in the Code of Ethics handbook which must be complied by all auditors. It contains declaration of the audit staff in relation to ethics and independence, especially integrity, professional secrecy and competence</li> </ul>	
(iii) Quality Control in Compliance Audit	<p>a) There is a provision for two level reviews of files for quality control through a checklist (Director and AAG). It is basically a post review after the issue of PAR.</p> <p>b) We could not ascertain whether the auditor had implemented quality control procedures during the audit aimed at ensuring that the audit complies with applicable standards.</p> <p>c) No situation seen.</p> <p>d) No such differences were reported during discussion with SAI officials.</p> <p>e) The quality control report is not issued. It is simply attached in the audit file. There is no system to monitor the compliance of such report in the subsequent audits.</p> <p>f) Same as e) above.</p>	2
(iv) Compliance Audit Team Management and skills	<ul style="list-style-type: none"> <li>• Review of files did not provide any evidence whether the audit team had the requisite domain knowledge of the entity or the type of audit. There is no correlation between the training imparted to the audit staff and their corresponding deployment in the same field. This aspect has been highlighted in some of the QA review of the audit files. Moreover, the policy of rotating the staff every three years between various directorates appears to be an impediment for development of domain specific expertise and skills. This may possibly be one of the significant reasons why the SAI conducts less number of audits of SOEs.</li> <li>• The composition and strength of the team also varies. There is no matching of the risk assessment of the entities and the available manpower in the audit plans prepared at the three levels. Thus, the same entity might have different composition and strength of staff for audit in different years.</li> </ul>	NR No objective basis to assess and score this dimension.



#### SAI-14: Compliance Audit Process. Score 2

Dimension	Findings	Score
(i) Planning Compliance Audits	<p>Criteriaa, b, d, e, f, g, h and j are met.</p> <ul style="list-style-type: none"> <li>The entity level audit plan includes the relevant authorities covering regularity but does not cover concerns on propriety requirements, intended users and the level of assurance to be provided. This flows from non determination of materiality levels for the planning and reporting stages.</li> <li>The auditors perform a risk assessment to identify risks to non compliance.</li> <li>Auditors do not consider materiality either by value, nature or context.</li> <li>Auditors establish good communication throughout the audit process in the form of audit engagement letter, entry and exit meetings.</li> <li>Auditors identify the criteria based on applicable authorities.</li> <li>Auditors determine the audit scope.</li> <li>The entity level audit plan details the elements necessary to understand the entity in the light of the authorities governing it.</li> <li>The plan does not consider the risk to fraud by including fraud risk factors in their risk assessments.</li> <li>Though auditors plan the audit by developing an audit plan there is a very tenuous link with the plan during conduct of audit. None of the audit files contained an audit task plan which included clear responsibilities of the members of the audit team.</li> </ul>	2
(ii) Implementing Compliance Audits	<p>Only criteriond is met.</p> <ul style="list-style-type: none"> <li>Though the auditor has determined the nature, timing and extent of audit procedures to be performed in the entity level plan, in practice there is a very feeble correlation between the audit objectives, areas to be examined and the appropriate audit technique to be applied. There is no approach to calculating the sample size based on statistical sampling methods in response to materiality, risk assessment and the assurance level. This has been a recurrent deficiency pointed out in the QA Review of the audit files.</li> <li>There is no policy of the SAI for handling indications of fraud.</li> <li>External experts have been deployed only in PAs.</li> <li>The audit evidence and audit conclusion is not linked.</li> <li>All planned audit procedures were not performed and</li> </ul>	1

	<p>there is no explanation in the audit file as to whether this was approved by the supervisor.</p> <p>The OAGN does not use a computerized audit management system which would allow for ongoing supervision of audit work from remote locations.</p>	
(iii) Evaluating Audit Evidence, Concluding and Reporting in Compliance Audits	<p>Criteria b, c, d, e, f, g, h and i are met.</p> <ul style="list-style-type: none"> <li>• The extent of documentation does not enable an experienced auditor having no previous connection to the audit to gather sufficient details about the audit. This aspect has been mentioned in the QA Review reports of audit files.</li> <li>• There is no laid down policy on document retention, though the Auditing Standards provides guidance on documentation. The CAs who conduct audit of SOEs on behalf of the AG have been instructed to retain the documents for five years.</li> <li>• The auditors maintain good communication during the audit process.</li> <li>• The audit findings are subject to discussions and responses from the entity in the form of exit meetings and written replies.</li> <li>• Auditors prepare the PAR on the basis of completeness and objectivity.</li> <li>• The compliance audit report (PAR) includes the elements in criterion g.</li> <li>• The report is easy to understand, objective and concise.</li> <li>• No opinion is provided during compliance audit of the entities. This year the OAGN has issued opinion in the form of an audit report to the controlling entities.</li> <li>• The PARs do not state the standards under which audit has been conducted.</li> </ul> <p>For some of the audits, there was evidence of two levels of review of the audit report above the level of the report author but this is a post issue phenomenon.</p>	3

### SAI-15: Performance Audit Foundations. Score 3

1. The PA guide was prepared earlier in 1995 and 2000 (assisted by KPMG). The present PA Guide has been prepared in line with the ISSAIs in August 2012 with the technical assistance of SAI Norway. In the past three years 23, 27 and 20 PAs (22 PA reports) have been conducted. Out of the 22 PAs conducted for FY 2013, three PAs are being conducted as pilot audits in compliance with the new guidelines. Out of the pilots, one is still under process. Out of 22 reports, 18 were incorporated in the Annual Report. We selected four PAs for scrutiny (2 PAs as pilot audits- Assessment of Service Delivery, Ministry of Health and Population; Performance of Programme- Kathmandu Valley Road Construction and Improvement Project and another two PAs on -Assessment of implementation of People's

Housing Programme and Work Performance for comparison; and Evaluation of Performance of National Land Use Project, Nepal).

Dimension	Findings	Score
(i) Performance Audit Standards and Guidance	Criteria a, b and c (meeting all sub criteria) is met, <ul style="list-style-type: none"> <li>The PA Guide was developed in 2012 in line with ISSAI 300 covering the general principles, planning, execution and reporting on PAs. Technical assistance was provided by SAI Norway. It was decided to conduct three pilot audits to test the contents of the Guide.</li> </ul>	3
(ii) Ethics and Independence in Performance Audits	A Code of Ethics for the staff of OAGN has been developed in 2013 in line with INTOSAI and ISSAI guidelines containing ethical requirements relating to integrity, independence, professional secrecy and competence. The auditors (OAGN and contractors) have to fill in the declaration form prescribed in the Code, testifying their compliance to the Code.	4
(iii) Quality Control in PA	Criteria a is met partially while b and e are met fully. <ul style="list-style-type: none"> <li>Section 70 of the PA Guide has provision for QA Review of the PA Reports. There is no laid down procedure for ensuring quality control on all the phases of the audit on a continuous basis (planning, execution, reporting and follow up phase). Though the audit plan is approved by the AAG, we could not find any documentary evidence in the audit files to assure that review of the work of the team has been done effectively by the next level and the progress monitored regularly. This is necessary to ensure that all the phases of the audit process are carried out in compliance with the Auditing Standards of OAGN, Code of Ethics and the PA Guide.</li> <li>Neither a progress report was submitted by the PA Directorate nor any review done by the CCU.</li> <li>No quality control report is issued. No pre issuance review is conducted before the audit report is issued. It was informed that audit files of three PAs have been selected for QA review, but the review has not been concluded. None of the selected files (for QA review) related to the pilot audits.</li> </ul>	2
(iv) PA Team Management and Skills	Criteria a and b are met while no objective basis is available to evaluate criteria c and d. <ul style="list-style-type: none"> <li>The staff chosen for the pilot audits had received appropriate training and had good knowledge of PA. The other staff (around 50%) in PA Directorate has received no PA training.</li> </ul>	2

## **SAI-16: Performance Audit Process. Score 2**

1. PA Guide (Section 20.2.1) states that the OAG should prepare a well structured long term strategic plan for future performance audits. However, no Strategic Plan was prepared by the PA Directorate. The PA teams also conduct financial audit of the entities and issue a PAR. This is possibly due to the lukewarm response of the entities to performance appraisals. Given the severe resource constraints, it does not afford enough time to the PA teams to develop findings on system related issues and linking the findings to the overall objectives of a programme. Two or more parties, deputed separately in different districts, are deputed to conduct a PA.
2. The Central Coordination Unit (CCU) under the AG is mandated to play an important role in the formulation of the Strategic plan and selection of PA topics (PA Guide; Section 20.2.2). It reviews the topics suggested by the directorates, request for additional topics, decides the weightage to be applied to each topic depending upon the risk, resource requirement and strategic focus, prepares the selection matrix criteria and approves the final topics. The PA of these topics is conducted by the PA division. However, we were informed that the last CCU meeting to discuss the topics of the PA was held in 2009 and the CCU is meeting this year to discuss the PA topics for FY 2014. We observed that the request of the PA division to other directorates for supply of information to facilitate risk based selection of topics is not met with the same degree of enthusiasm.
3. The PAs start in mid August when the audit teams prepare the Survey Review Report after a preliminary field visit. The latter document provides the background of the entity, the control structures, enabling legislation and regulations, IT systems, past year irregularity and the audit areas to be examined. This is approved by the AAG around October. This is followed by the preparation of the audit plan which contains the audit objectives, risk assessment, the likelihood and impact matrix, the audit design matrix and the audit programme. Field audit commences in the first week of December and completed in mid February. During this visit, the PA teams conduct Financial audit, issue the PAR and questionnaires for the PA. The party is then engaged in the financial audit of some other entities till reply to the questionnaire is received. After receipt of information in the questionnaire, the draft PA report is issued to the entity by the Director and an exit meeting is conducted. Subsequently, the final report is issued under the authority of the AAG/ Director. The summary of the significant findings are forwarded to the Ministry under the authority of the DAG and these significant findings are included in the AR in a summary form, often without the reply of the Ministry. In case of the two pilot audits (Kathmandu Valley Road Construction and Improvement Project and Assessment of Service Delivery, Ministry of Health and Population) examined by us, while the Ministry was informed of the significant findings on 19 May 2014 and 7 April 2014 respectively, the findings were incorporated in the AR which was submitted to the President on 11 April 2014. This could entail a trust deficit on the part of the executive. All the PAs are

consolidated in the form of a compilation of PAs and printed but not submitted to the President. Though three PAs (none of the pilots) have been selected for QA Review, we could not examine the QA reports as these were still under process. We observed that the findings mostly flow from the results of financial audit of the entities and the reply to the questionnaire.

Dimension	Findings	Score
(i) Planning Performance Audits	<p>Criteria a, b, c, d and f are met.</p> <ul style="list-style-type: none"> <li>There is no Strategic Plan for identification of topics for future. The Annual Audit Plan of OAGN included a list of 22 PAs to be conducted, including three pilot audits. The files of PAs contain detailed planning including a Survey Review Report which involved a preliminary field visit. The Survey Review Report usually consumed more than 2 months. This is followed by a planning exercise for conduct of the PA including an audit design matrix, consuming approximately another 2 months. Both the pilot audits had devoted the same amount of resources for the Survey Review Report and audit planning. There is no provision for a Survey Review Report in the new PA Guidelines of August 2012. The planning phase of the PA on Kathmandu Valley road project was assisted by consultants from Cowater International.</li> <li>There is no evidence of sampling in the audit files to ensure that audit risk has been reduced to an accepted low level.</li> <li>The plans have a system based approach including the significant auditable issues within the mandate related to economy, efficiency and effectiveness.</li> <li>The audit design matrix follows a hierarchical approach where the audit objectives are further classified into sub objectives, question and sub questions, criteria, source of evidence and audit methodology.</li> <li>The audit plan does not include a budget, staffing requirements (competence, knowledge of the staff and need for experts) and consideration of the risks to audit.</li> <li>The audit plan is approved by the AAG.</li> <li>The planning files did not contain any provision for regular and systematic monitoring of the progress of work and any midterm appraisal by senior management of the OAGN. Since the key risks to delivery were not identified at the planning stage, appropriate mitigation measures could not be designed. It may be difficult during progress monitoring to identify the main reasons for the audits not being delivered according to plan.</li> </ul>	2
(ii) Implementing Performance Audits	<p>Criteria a, b, c and d are met though all the sub criteria within criteria c and d are not met fully.</p> <ul style="list-style-type: none"> <li>The entity is informed of the audit objectives, scope, criteria and methodology in the form of pre entrance</li> </ul>	2

	<p>and entry meetings. In one file there was a presentation made to the entity in the entry conference. In another file (Public Housing programme) there is no evidence of any entry meeting.</p> <ul style="list-style-type: none"> <li>• The audit teams generally establish good communication with the entity. In the PA on Kathmandu Road Valley Improvement Project, a survey was also conducted with the road users. This is a positive development. An exit meeting is also conducted after issue of the draft PA report.</li> <li>• The teams do not devote exclusive attention on the conduct of PA. The audit time is distributed to conducting financial audit of the entities selected for PA and other entities as well. The audit files do not contain any document to prove that data from different sources (documentary, testimonial, physical and analytical) was collected.</li> <li>• There has been no cross referencing of the audit evidence to the audit conclusions. Due to non receipt of replies, the findings do not incorporate the management view.</li> <li>• There is sufficient documentation in the audit files but there is no cross referencing as mentioned above.</li> <li>• There is no sound management practice to ensure timely execution of the audit in line with the work plan, regular monitoring of progress and dissemination of the lessons learnt by the auditor after the audit concludes.</li> </ul>	
(iii) Reporting in Performance Audits	<p>The PA Guide (section 50.3) has provision for issue of three types of PA Reports:</p> <ol style="list-style-type: none"> <li>1. Preliminary Report to the entity, line ministry and department</li> <li>2. Final Report after incorporating the response from the management.</li> <li>3. Annual Report containing the important findings submitted to the President and tabled in the Parliament, to be deliberated by the PAC.</li> </ol> <p>The audit conclusions and recommendations are consolidated in the form of a draft report which is discussed in the exit meeting. Subsequently, the PAR and the Final Report is issued to the entity and the line Ministry. There is no time frame specified in the Guide for receipt of replies from the Management on the Final Report. This may be addressed in right earnest to prevent inclusion of findings in the AR without the response of the Management. In one of the pilot PAs, the important findings of the PA have been reported in the AR even before the final report was issued to the Ministry.</p> <p>The AR contains a summary of the significant audit findings</p>	3

	<p>under a PA which features in Chapter 2 under the respective Ministry. Only a selected number of PA summaries are included (in FY 2013 AR, 18 out of 22 PA report summaries were included).</p> <p>We believe that these findings should be featured in the form of a separate chapter devoted exclusively to PA Reports in the AR and the highlights to be featured in the introductory chapter.</p> <p>The Final report contains recommendations. However, these are general and academic in nature and mostly in the knowledge of the entity.</p> <p>Criteria a, b, c, d, e, f and g are met.</p> <p>There is a system to elicit reply of the entity and line ministry. However, no time limit is specified for furnishing reply on the Final Report. The entities are given opportunity to reply to the draft report, during the exit meeting and to the PARs within 35 days.</p> <ul style="list-style-type: none"> <li>• The OAGN issues the report on the economy and efficiency with which resources are acquired and used and the effectiveness with which objectives are met. However, there is no reference to the relevant audit standards.</li> <li>• The report is complete and includes all the information needed to address the audit objectives and audit questions.</li> <li>• The audit findings are based on the comparison of observed conditions against the criteria. However, we could not find evidence on the cross referencing of the evidence to the audit conclusions and whether the findings answer the audit questions framed during the planning phase.</li> <li>• The Report includes conclusions, recommendations and some positive findings. However, the recommendations are generic in nature and do not address the causes of the weakness. It is doubtful whether these recommendations are likely to convince the reader that they can improve performance. Neither is any commitment elicited from the management on the acceptance of the recommendations nor the time frame within which the recommendations may be implemented. This is important if the OAGN intends to measure its own effectiveness.</li> <li>• The Report is structured as per the format in the PA Guide.</li> </ul>	
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### 3.5 Domain E: Management and Support Structures

#### SAI-18: Ethics, Management and Internal Control. Score 1

1. A code of ethics is a comprehensive statement of the values and principles which guide and inform the daily work of auditors to ensure that their conduct is beyond reproach at all times and in all circumstances. A code of Ethics for staff of OAGN (Code) was developed in 2013 which is in conformity to the key concepts in ISSAI 30.

Dimension	Findings	Score
(i) Code of Ethics and Integrity	<p>Criteria a, c, d and f are met.</p> <ul style="list-style-type: none"> <li>• The SAI has a code of Ethics (2013) setting out the principles of integrity, independence, objectivity, neutrality, confidentiality and competence.</li> <li>• The current Code is a revision of the earlier version of 1999.</li> <li>• The OAGN staff is conversant with this Code and every audit team member signs a declaration to that effect. The reviewed files had this declaration. The basic principles are reiterated in the in- house training programmes.</li> <li>• The Code is available on the OAGN website. Moreover, there is also a provision for recording complaints against the work of auditors by the public through the website.</li> <li>• Compliance of the Code is not monitored annually. Though there is a system for annual performance appraisal of the staff, there is no provision to capture compliance with this Code.</li> <li>• There is a system for taking corrective action for non compliance and a Committee has been formed (November 2013) to monitor and follow up on the compliance. This Committee reports to the DAG (Management) for further action on cases found wanting in compliance. The report is finally submitted to the AG and the latter has appellate powers. During the assessment period, one case was processed for non compliance with the Code. The QA Review Reports also contain instances of non compliance with the Code evidenced during the review of audit files.</li> <li>• No Integrity policy in compliance with IntoSAINT or a similar tool is in place.</li> <li>• The SAI has not assessed its vulnerability and resilience to integrity violations through the use of tools such as IntoSAINT or similar tools in the past five years.</li> </ul>	2
(ii) Management of staff	<p>Criteria a, b, d and e are met.</p> <ul style="list-style-type: none"> <li>• OAGN has an approved organisational structure but only up to the AAG level. The chart available on the web site shows the departments which are under the control of</li> </ul>	2

	<p>respective AAGs. A division wise chart of staff under the DAG is also prepared internally. Though it is called as responsibility and job description of employees, it has no details on the respective responsibilities of the staff under the DAG.</p> <ul style="list-style-type: none"> <li>• Reporting lines are earmarked and the staff is clear on their tasks and reporting lines.</li> <li>• Job description (revised in 2012) covering the duties and responsibilities of staff has been prepared in the OAGN only up to the level of Audit Superintendent. It does not include the job description of the Audit Inspector. This description is in the format prescribed by the Civil Service Regulations and it is placed in the personal file of the staff. The Strategic Plan 2013-15 has identified the need to define the responsibilities of each functional unit. We were informed that a study team is working on organisational restructuring.</li> <li>• The OAGN has a policy to rotate the staff between various Directorates after every three years. We checked records of some employees and noticed that this policy was not uniformly followed.</li> <li>• The SAI has a functioning time recording facility installed at three locations in the office at Babar Mahal, linked to an e-attendance system. The daily record is stored in a server. The e-attendance system has been a positive development and it provides an on line facility to process leave and regulate the attendance of staff. However, no link to this data is available to the section which prepares the pay bill of the employees.</li> <li>• There is no staff cost recording system.</li> <li>• There is no system to allocate staff to specific audit assignments. The audit staff in the directorates conduct the audit as per the approved entity level audit plan and there is no consistency in the strength of the teams from one audit to another. Neither is any link between the competence and type of audit allocated, nor correlation of training and corresponding deployment of audit staff in the relevant area. For example, only 11 out of the 20 staff in the PA division have been trained in PA while staff who have received training in PA are posted in different directorates.</li> <li>• The HR Development Plan does not give appropriate emphasis to quality. This may be due to the fact that the HR policies and procedures which ensure quality amongst the staff (such as recruitment qualifications, promotion, compensation and requirement of additional manpower, training cost etc.) are beyond the control of OAGN. A quality control system in the form of supervision and review of files is available. However, the quality control in</li> </ul>	
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	<p>the form of review of files is a post issue exercise. The SAI has a system for QA in the form of a QA handbook and QA team which reviews 50 files annually. Adherence to the Ethical Standards is ensured through a declaration in every file by each member of the audit team. Compliance to the Code of Ethics is mandatory for CAs also who conduct audit of SOEs on behalf of the AG.</p> <ul style="list-style-type: none"> <li>• The SAI has not engaged another SAI or other suitable body to carry out an independent review of the overall system of quality control, in the form of a QA review of the SAI's non audit work. In 2005, a peer review was conducted by SAI Malaysia on Public Audit Reform and Capacity Building of the OAGN: Peer Review of four pilot projects.</li> </ul>	
(iii) Financial Management	<p>Criteria a, b, c, e, f, i and j are met.</p> <p>The budgetary and expenditure framework of OAGN follows the procedures laid in the FP Act and Rules.</p> <ul style="list-style-type: none"> <li>• Responsibility for major financial management activities is assigned to the Financial Administration Directorate under an AAG.</li> <li>• The delegation of authority to commit/ incur and approve expenditure on behalf of OAGN is in line with the provisions laid in FP Act. In the SAI, the power to incur expenditure is delegated till the Director level. However, we noted that the delegation for incurring expenditure of specified amounts attached to every level of hierarchy is not provided.</li> <li>• No separate manual has been prepared by the SAI. The directorate has a copy of the FP Act and Rules.</li> <li>• There is no system to ensure that the budgeting and accounting staff have the appropriate skill set, experience and resources. The policy of staff rotation may not be conducive to developing skill sets and adequate experience.</li> <li>• The OAGN follows the budget time table and the procedures given in FP Rules and the directions of the MoF and NPC.</li> <li>• A monthly report on budget execution is sent to the management and TSA. However, we could not see any monthly review of the budget execution and steps taken to address expenditure variance.</li> <li>• There is no MIS which includes financial and performance information.</li> <li>• The SAI has not been able to manage the expenditure efficiently during the last two years. It has not been able to spend what it gets from the MoF and there has been savings during the last two financial years under recurrent and total budget. The savings under recurrent (non votable) head has been 30% of the approved budget in FY</li> </ul>	2

	<p>2013 and 13% in FY 2012. There was a saving of 31.5 % of the approved budget under recurrent, capital and programme budget heads (total) in FY 2013 and 14% in FY 2012. The SAI needs to be more realistic while framing the estimates. The inefficiency in execution and unrealistic estimates may go against the demand for financial independence.</p> <ul style="list-style-type: none"> <li>• The financial statements are prepared as per the statutory requirements in FP Act and FP Regulations. These statements are submitted to the DTCO.</li> <li>• The accounts of the OAGN are audited by itself as per the mandate in the Interim Constitution. The audit is conducted by the directorate of Constitutional Body and the report is submitted to the DAG (Management) for replies. No audit opinion is given in the report.</li> </ul>	
(iv) Internal Control Environment	<p>Criteria h and i are met.</p> <ul style="list-style-type: none"> <li>• Rule 95 of the FP Regulations state that each Ministry, Secretariat and Constitutional Body shall prepare an internal control system to accomplish the functions in an economical, efficient and effective way and implement the same within one year of the commencement of these Rules (i.e. till 2008). However, no internal control system has been prepared by OAGN, though this deficiency was pointed out in the external auditor's report.</li> <li>• Neither is a statement of internal control prepared nor is it signed by the head of the SAI.</li> <li>• There is no annual process for the head of the directorates to provide assurance that they have carried out their risk management responsibilities.</li> <li>• No review of internal control environment has been conducted in the last five years.</li> <li>• There is no notification procedure in place to report suspected violations.</li> <li>• No policies and procedures for IT and Information security is in place.</li> <li>• There is a system to appoint an internal auditor for the OAGN. He is appointed by the AG. We could not verify whether the appointed officer had the necessary skill sets and experience. We saw the internal auditors report for FY 2012-13. It contains observations on administrative issues.</li> <li>• No audit committee is constituted to review the report of the internal auditor. The latter submits his report to the AG.</li> <li>• The system of settlement of irregularities mentioned in the internal audit report is as per the provisions in the FP Act and Rules. These are communicated to the external auditor. However, there is no system for tracking the implementation of recommendations from internal audit.</li> </ul>	0

## SAI-19: Asset Management and Support Services. Score 1

1. SAls require significant assets to function effectively, especially a central headquarter training and archival facilities, vehicles, IT networks, hardware and software. To ensure these assets are managed effectively, the SAI should have long and short term asset management plans based on current and future anticipated needs. It should also review asset utilisation and make estimates for future procurements in their budget demands.
2. The OAGN is housed in an old palace, built for residential purposes. It is constrained by lack of space to accommodate the staff which is not conducive to an efficient working environment. GoN has allotted a plot of land for a new building premise which may take another five years to complete. It is in design stage.
3. The office has a fleet of 24 vehicles including one mini bus. The executive officers (AAG and above) have official vehicles and four buses have been hired for commuting of staff. It was informed that all the audit teams have been issued laptops and flash drives and the team leader is entitled to a reimbursement of NPR 500 per field visit on account of phone/ internet charges. The internet connectivity within the office building is very slow, which is a serious impediment to establishing effective communication with the audit teams.
4. The SAI has 166 desk top computers, 233 laptops, 96 printers, two photo copiers and two scanners as of 30 June 2014. There is no earmarked IT support division and IT skilled staff for support. The IT administration in the office is manned by two employees in the Administrative Directorate who are not adequately trained to hold this position. There is no IT policy and IT security policy. In the absence of a central server to facilitate robust archiving, there is no assurance that the data distributed over stand alone systems remains secure. The Strategic Plan 2013-15 focuses on the inadequacy of an effective corporate support. The goal to enhance Organisational Efficiency (Goal 4, Strategic Plan 2013-15) is sought to be achieved by constructing office building with adequate facilities and to acquire logistics including vehicles and ICT facilities. The OAGN may have to plan for regional offices in the light of concerns to the effect that the CA might decide on a federal set up. In addition, with the OAGN hopeful of getting the mandate to audit the VDCs and Municipalities in future, the long term infrastructure needs have to factor this additional responsibility as it materialises.

Dimension	Findings	Score
(i) Planning and Effective use of Assets and Infrastructure	<p>Criteria c is met.</p> <ul style="list-style-type: none"><li>• There is no long term strategy or plan for its infrastructure needs and a short term plan for its IT needs based on current and future staffing levels. The Strategic Plan 2013-15 has identified activities to be completed by December 2015 under the goal to enhance organisational efficiency.</li><li>• There has been no review of the size, staffing and location of accommodation in the last five years.</li><li>• The adequacy and requirements for IT infrastructure is</li></ul>	1

	<p>assessed on an annual basis as part of the budgetary exercise.</p> <ul style="list-style-type: none"> <li>• There is no mention in the annual progress report of inadequacies relating to assets and infrastructure.</li> <li>• The SAI has not secured access to appropriate archiving facilities which would enable all relevant records to be secured safely and accessed when required.</li> </ul>	
(ii) Administrative Support services	<p>Criteria c is partially met.</p> <p>No responsibility has been fixed for internal IT support and file management. The staff who manage these functions do not have the requisite skills. Responsibility for management of major category of assets and infrastructure is assigned to the General Administration Directorate and there has been no review of the administrative support functions during the last five years.</p>	1

### 3.6 Domain F: Human Resource and Leadership

#### SAI-20: Human Resource Leadership and Function. Score 2

1. There is limited leeway to the AG in deciding the manpower availability for OAGN. The OAGN leadership is defined as the head of the SAI and the team of top managers (DAGs and AAGs). The leadership meets frequently to take high level decisions and disseminates the decisions to all level of the staff. There is a job description for all level of staff which details their responsibilities on the post. This is in compliance with the Civil Service Regulation. However, this does not detail responsibilities based on functions. For example, a Director may lead an audit team and in other cases, he might supervise the working of an audit team led by an AO. There is a laid down delegation of powers at various levels for administrative purposes and settlement of irregularities. A Performance Based Incentive Scheme (PBIS) of the GoN is in operation for the last four years. The OAGN has developed indicators to assess the suitability of its officials for award under this scheme. The maximum incentive amounts to 50% of the annual salary. It is observed that all the staff in OAGN receive this incentive. In FY 2011-12, 405 staff received this incentive. A directorate wise evaluation and scoring is carried out to assess the performance and the entire strength of that directorate receives the amount of incentive, irrespective of individual performance. There is as yet no mechanism through which staff can evaluate the OAGN leadership and mid-level managers.
2. The OAGN also follows a policy of rotation of the staff after every three years. This does not seem to be conducive to developing expertise amongst the staff. The allowances of the staff under OAGN is governed by the Travel Expenditure Rule of the GoN, 2008. Rule 7 states that in case the audit staff remains on tour for more than 30 days in one spell, the DA would be reduced to 50% and the hotel expenses would be reduced to 25% of the

normal entitlements. Moreover, the DA and other rates given in these Rules (Annexure 2 to 6) have not been revised since 2008. This is a very severe constraint on the independence of AG. It effectively means that the audit staff cannot remain in field for more than 30 days in one spell. This would have a bearing on the travel expenses of the office and also affect the quality of work, especially in those cases which warrant longer stays, like the conduct of PAs and composite audits (conduct of audit of all the entities in a district which does not have regular transportation facilities). During discussion it was informed that other Constitutional bodies like the CIAA, EC, PSC have independence in framing their own regulations. Section 11 of the Audit Act states that the GoN, may in consultation with the AG, frame Rules for the implementation of the Act. We believe that the OAGN must mobilise support to reinstate this provision while the new Constitution is being deliberated in the CA.

3. The Strategic Plan 2010-12 identified the need to amend the Civil Service Act and have a separate Audit Service Regulation to administer the appointment, transfer and other conditions of service for the audit staff. This concern has been reiterated in the Strategic Plan 2013-15 which has identified the need to revisit the recruitment policies and procedures for recruiting personnel having suitable qualifications in different fields.

Dimension	Findings	Score
(i) Leadership of human resources	<p>Criteria a, b and c are met while d and e are partially met.</p> <ul style="list-style-type: none"> <li>Periodic meetings have been held by the senior management. Out of 11 such meetings conducted between October 2013 to 2 June 2014, 8 meetings were held between the directors and AAGs, 2 were held between the AAG and DAG and the AG chaired one meeting. These meetings covered plans and policies and the decisions were disseminated to all the directorates.</li> <li>The values of integrity, independence, credibility, professionalism and serving the public interest have been publicised on the website and in its core documents.</li> <li>There is a detailed job description for all level of employees, based on post and not on function.</li> <li>PBS is an incentive to award better performance but it is given to all the staff, irrespective of individual performance. A total of 405 (100%) employees received the monetary incentive last year while 397 (100%) employees are identified for this year. It seems to be anchored on buying peace within the organisation rather than awarding better performance.</li> </ul>	3
(ii) Human Resources Strategy	<p>None of the criteria is in place. Criteria b and c not assessed (beyond the control of the OAGN).</p> <ul style="list-style-type: none"> <li>There is no Human Resource Strategy. A Human Resource Development Plan was developed in assistance with KPMG in 2005 to outline policies and</li> </ul>	0



	<p>procedures to be adopted by OAGN, aimed at creating trained staff with requisite knowledge and skills. It was geared specifically towards strengthening the training department.</p> <ul style="list-style-type: none"> <li>• There is no alignment with the Strategic Plan.</li> <li>• Recruitment, remuneration and promotion are beyond the powers of OAGN. Hence, this indicator not assessed.</li> </ul>	
(iii) Human Resources Function and Recruitment	<p>Not assessed as recruitment function is with the PSC. Though an AAG (in charge of Administration) is empowered to handle staff grievances, in practice, the five staff unions (up to AO level) meet the AG in case of any significant issue.</p>	NR No score
(iv) Remuneration, Promotion and Staff Welfare	<p>Criteria a, b, g and h are met while criteria d, e and f partially met.</p> <ul style="list-style-type: none"> <li>• Performance Appraisal is conducted as per the Civil Service Regulations. This envisages completion of the Performance Evaluation annually for the non gazetted staff and annually, bi annually for the gazetted staff.</li> <li>• The Performance Evaluation Form assesses the performance of the staff against the job description.</li> <li>• Criterion C not assessed (lies outside the powers of OAGN).</li> <li>• The promotion procedure is specified for various levels of staff in the Civil Service Regulations. Promotion is done by the PSC as per fixed guidelines (open competition, competence, internal competitive exam and experience).</li> <li>• There is no written staff welfare policy within the SAI. The welfare measures such as medical facilities, education and housing is as prescribed by the Civil Service Regulations.</li> <li>• No document was produced to evidence any meeting of the staff with the management. However, it emerged during discussion that the staff associations, which have covert political affiliations, meet the AG frequently on various issues.</li> </ul>	3

## SAI-21: Professional Development and Training. Score 0

1. Auditors recruited through the Public Service Commission receive, in service professional training within the organisation. There is neither comprehensive induction training, nor professional training before they assume responsible positions in OAGN. The Human Resource Development (HRD) plan of OAGN which is in place since 2005 has not been

revised thereafter. This plan had identified Continuous Professional Education of at least 18 hours in a year for all level of audit staff.

2. The HRD Plan 2005 prepared by KPMG was designed with specific focus on strengthening the Training Department, to creating a strong and fully equipped training unit capable of providing quality training to its staff and maintaining a good training database. We noted that the training directorate was not adequately equipped in keeping with therecommendations made in the HRD plan eight years ago.
3. OAGN has a separate training directorate manned by two Directors, three AOs/AS and four support staff under AAG (HRD & International Relations and Quality Assurance). The directorate is responsible for organising in house training programmes and for nominating participants in trainings conducted by other institutions located in Nepal and abroad. A variety of training courses are offered each year, covering subjects from technical audit disciplines to use of basic IT packages and course design and development workshops. The new entrants are given a basic orientation programme for five days.
4. We noticed that a comprehensive training need analysis aligned with the level of competence and experience of the staffwas not carried out by OAGN. The Performance Appraisal System also does not identify the training requirements of the staff.We did not find any objective analysis for nomination of staff for various trainings and no system to link training with job allocation.
5. Out of 23 officers who received training on Performance Audit during the last two years, only 8 were accommodated in the PA directorate. Two officers nominated for training on PSE audit to be held in *iCISA*, India in Sept.-Oct. 2014 are not involved in the audit of SOEs in OAGN.
6. Increasing professional capacity for audit has been identified as Goal 3 in the Strategic Plan 2013-15. This is sought to be achieved, inter alia, by providing opportunity to the staff to acquire professional qualification (CA/ACCA/CIA/CPA/MBA/LLM/ME etc) and a budget of 30 million NR was earmarked. We did not notice any progresson this front.
7. There is no tangible incentive to acquire higher or technical qualification. Under Mahalekhariparikshako Vibhagka KaramchariharuNiyamavali, 1993, there was a scheme to allow study leave of three years with full pay and 25 *per cent* additional pay to acquire CA qualification. A sum of 10,000 NR was also provided for study material. We noticed this scheme has since been withdrawn and none of the staff in OAGN received any support since 2007.

Dimension	Finding	Score
(i) Plans and Processes for Professional Development and Training	Criteria a and b are met partially. <ul style="list-style-type: none"> <li>OAGNhas an annual, in house training programme which is basically preparedas part of the annual budgetary exercise to demand money from the NPC. No separate training</li> </ul>	1

	<p>programme is developed which is linked to objectives in the Strategic Plan. There is no facility in the Performance Evaluation System to capture the training needs of staff.</p> <ul style="list-style-type: none"> <li>• None of the staff levels have any development plan based on annual appraisal.</li> <li>• There is no mechanism to monitor and evaluate the results of professional development and training of staff.</li> </ul>	
(ii) Professional Development and Training in Relevant Audit Disciplines	None of the criteria are met. The SAI has no cadre wise plan of professional development.	0

### 3.7 Domain G: Communication and Stakeholder Management

#### SAI-22: Communications Strategy and Internal Communication. Score 1

1. In order to effectively communicate their value and benefits to the society, SAIs should have a communication strategy aligned with the objectives envisaged in their Strategic Plan. There has been no communication strategy of OAGN till now. Recently, Cowater International (Consultant) has prepared a Strategy for Communicative Action by OAGN (May 2014) which provides a strategy for internal and external communication. This document has been issued to various divisions for feedback. A workshop was conducted by the PRAN project of World Bank and OAGN in October 2013 to deliberate on this issue.
2. The Strategic Plan (2013-15) identified low impact of audit and ineffective communication of audit results as one of the five strategic issues for OAGN. Accordingly, Goal 5 of this Strategic Plan aims at improving audit impact and creating a communication system. A spokesperson for OAGN, who reports to the AG, has been nominated for external communication, as per the requirements of the Good Governance Act 2008. The office organises an annual press conference on the day the AR is submitted to the President and the spokesperson participates in the press meets organised by the GoN every month to attend questions related to audit. Another Officer serves as the Information Officer who deals with RTI related issues. There is no permanent communication section working through the year. The OAGN has a Service Charter containing description of the services to be provided, the responsible officer and the time limit within which the services have to be delivered. In this Charter, five elements of external communication with various stakeholders have been identified. These are supply of information under the RTI Act, addressing the grievances of stakeholders by the nodal officer (as provided in the Good Governance Act 2008), information on the work performed by the office (as provided in

the Good Governance Act 2008), payment of supplier bills and distribution of AR (after supplying to the Parliament and central level offices).

Dimension	Findings	Score
(i) Communications strategy	OAGN has not established a communication strategy.	0
(ii) Good practices regarding internal communication	<p>Criteria a, b and d are met.</p> <ul style="list-style-type: none"> <li>The staff is aware of the mandate, vision, core values of the OAGN.</li> <li>OAGN publishes an audit magazine bi annually, has a policy for allocating official e mail ids to staff up to Director level. There is no intranet in the office.</li> <li>Though frequent meetings are held between different level of staff, no documentary record is available.</li> </ul>	2

### **SAI-23: Communication with the Legislature, Judiciary and the Executive. Score 2**

1. Parliament is the most important client of OAGN. The latter provides timely service to the Legislature primarily in the form of Annual Report and PAC briefings. There was no Parliament in Nepal during the last two years. Thus, there was no PAC during the period and AR of AG could not be submitted to the Parliament. The PAC met last in May 2012. Non existence of the PAC and absence of a permanently appointed AG (till April 2013) affected the accountability link in the public financial management structure of Nepal during these years. A new PAC has been convened in May 2014. AR of FY 2011, 12 and 2013 are yet to be discussed by the PAC and ARs of earlier years (before 2011) are yet to be discussed fully. The tenure of the PAC is coterminous with the term of the Parliament and more than nine sub committees have been appointed in the past. The scope of examination of the PAC is much more than discussing the AR of the AG. The Strategic Plan 2013-15 identifies interaction with the PAC as one of the key activities to strengthen relationship with the stakeholders. The QA and Parliamentary Affairs Directorate looks after PAC matters. We were informed that OAGN does not interact with the Parliamentarians outside the PAC, possibly to remain impartial.
2. Apart from the Judiciary, there are two other bodies to investigate cases of corruption. The CIAA is a constitutional body empowered to investigate and curb corruption and improper conduct in Nepal. It is led by a Chief Commissioner – a post that was vacant for more than six years. The National Vigilance Centre (NVC) is focussed on establishing good governance and controlling corruption through preventive measures. There is yet no formal system for any official interaction with these investigative and prosecuting agencies.

There have been interactions with the executive in which there was high level participation.

Dimension	Findings	Score
(i) Good practices regarding communication with the Legislature	<p>Criteria b, d and f are met.</p> <ul style="list-style-type: none"> <li>The Annual audit planning process does not consider Parliamentary questions as an input.</li> <li>Though the AR contains observations and recommendations, it is doubtful as to whether the recommendations are aimed at improving the public management system, given the general nature of recommendations. We did not come across any instance where any amendment was suggested.</li> <li>There is no formal system to seek feedback from the Legislature on OAGN's performance.</li> </ul>	2
(ii) Good practices regarding communication with the Judiciary, prosecuting and investigative agencies	<p>Only criterion b is met.</p> <ul style="list-style-type: none"> <li>There is no statutory provision enabling the OAGN to require information on files in process from the judiciary and investigating agencies on issues of public finance within its mandate. Though, there is a provision under Article 124 (2) of the Interim Constitution that the AR of the AG shall also contain details of cases seemed as corrupt in nature and required to be further investigated and should be forwarded to the CIAA in writing, the AR does not contain any such cases. There is no formal mechanism to communicate with either CIAA or the NVC. We believe that there is sufficient scope for interaction with the judiciary and investigating/prosecuting bodies under Section 12 of the Audit Act which clearly states that necessary legal action shall be taken in respect of irregularities observed during audit of income and expenditure and other financial matters of GoN, according to prevailing laws.</li> <li>There is no system to seek feedback on its performance from these agencies. There was no initiative to proactively enhance the skills of these agencies.</li> <li>There has been no effort to carry out awareness raising activities with these agencies.</li> </ul>	0
(iii) Good practices regarding communication with the Executive	<p>All criteria are met.</p> <ul style="list-style-type: none"> <li>The OAGN is not involved, in any manner, in the management of the organisations they audit.</li> <li>The executive is informed of the audit objectives, scope and methodology in the entry meetings and the audit plan is also communicated to the controlling entities and MoF. The annual plan and the operational plan of audit are also posted on the website of OAGN.</li> <li>Interaction with the audited entities is held on various occasions. A high level interaction was conducted with the Chief Accounting Officers of GoN (Secretaries of the Ministries) in which the AG along with senior officers of OAGN participated. Another high level meeting with the finance heads of the corporate entities was conducted during the year.</li> </ul>	4

	<ul style="list-style-type: none"> <li>A stakeholder survey was conducted (February 2014) in which feedback from 200 executive staff was collected in five districts to evaluate the effectiveness of audit covering issues related to quality of audit, reliability, expertise, impartiality and honesty.</li> </ul>	
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## SAI-24: Communication with the Media, Citizens and Civil Society. Score 2

1. In order to disseminate the value and benefits of SAIs, regular communication with the media is of primary significance. Specifically, the SAIs need the media to publicise the results of audit. OAGN has appointed an official spokesperson who conducts a press conference on the day the Annual Report is submitted to the President. The Strategic Plan 2013-15 has identified low impact of audit and ineffective communication of audit results as one of the strategic issues. This goal is sought to be achieved, inter alia, through an approved communication policy, periodic survey, by updating the web page on a regular basis, publishing highlights of audit findings separately along with an OAGN brochure for public circulation and by providing incentives to individuals and organisations for research work on audit impact. The aspirations are laudable. The coverage of AR (FY 2013) has been wide as compared to earlier years. Given the severe infrastructure constraints in the form of regular power outage and limited internet connectivity in Nepal, OAGN may consider devoting more attention on radio coverage in its communication strategy. A survey was conducted in the eastern part of the country to evaluate the effectiveness of audit among the staff of government entities in February 2014. The target audience was asked to assess issues such as quality of audit, trustworthiness, expertise of auditors, impartiality and integrity in a standard format designed by OAGN. The SAI may consider expanding the target audience to include stakeholders outside the government during subsequent surveys.

Dimension	Findings	Score
(i) Good practices regarding communication with the media	<p>Criteria a, b, c and f are met.</p> <ul style="list-style-type: none"> <li>During the period under review, OAGN held a press conference on the same day when its Annual Report was submitted to the President (11 April 2014). An approved press brief containing significant audit findings was circulated to the media by the official spokesperson. The coverage in media has been wide (visual, print and radio) as compared to last year. The Annual Report is also published on the website on the same day.</li> <li>A summary of the AR was printed and distributed during this press conference. The office is also developing an English version of the summary which is a positive development to disseminate the contents of the AR to a wider audience.</li> <li>No content analysis was conducted to determine how it is depicted by the media.</li> <li>OAGN is yet to finalise a media communication plan. A Communication Strategy has been prepared by the</li> </ul>	3

	<p>consultant which is under discussion within OAGN.</p> <ul style="list-style-type: none"> <li>• OAGN has appointed an official spokesperson (AAG).</li> </ul>	
(ii) Good practices regarding communication with citizens and the civil society	<p>Criteria a, g and h are met.</p> <ul style="list-style-type: none"> <li>• There is an attempt by the OAGN to facilitate access to information on public audit to the citizens through regular interactions with the Civil Society Organisations. Two such interactions were held in January and April 2014. Besides, the OAGN also interacts through its Audit Journal and the Audit Advisory Committee formed in January 2014.</li> <li>• There is no formal mechanism aimed at stimulating the participation of the citizens in the audit process. Neither has OAGN made use of any social media platforms to extend its reach.</li> <li>• There is no evidence of any participation in the public debates and neither is any mechanism to solicit feedback from the readers of its AR and the summary.</li> <li>• The OAGN has published summary of the AR in Nepali and English for the first time. These documents are free of charge.</li> </ul>	2

#### 4. SAI CAPACITY AND ORGANIZATIONAL DEVELOPMENT PROCESS

OAGN is conscious of the need for capacity development. It has developed its own Strategic Plan for 2013-15 identifying the strengths and weaknesses and charting the future course of action. It requires monitoring the implementation of the milestones embedded in the Strategic Plan.

OAGN has benefited from the support received from the MDTF (2.3 Million US Dollars) during the last four years as part of a project to strengthen the OAGN.

Presently, required staff are recruited by Public Service Commission and regulated by Civil Service Act. However, OAGN has to revisit the recruitment policies and procedures for recruiting personnel having suitable qualifications. The SAI has identified the need for a policy for strengthening and enhancing competence, knowledge, skill and ability of its staff. This is sought to be achieved through national and international training programs. Since the professional capacity development is a continuous process it has been included in the strategic plan period of 2013-2015 also. Some of the activities outlined in this goal shall be covered by the strengthening of office of the Auditor General project (SOAGP). In view of above, OAG has formulated **"To Increase Professional Capacity for Audit"** as goal 3 in its Strategic Plan. To realize this goal following objectives have been set:

- To make legal and administrative arrangement for multidisciplinary staff
- To seek approval and budget to continue incentive scheme to motivate staff
- To arrange adequate training and skill development opportunity to staff



- To organise knowledge and experience sharing activities
- To strengthen training facilities and
- To design training course/material and provide training supported by practical session.

The SAI has allocated time, budget, responsibility and the critical success factors to achieve the above objectives which can be effectively managed through continuous internal monitoring and support from other SAIs and donors.

## Annexure-1: The SAI Performance Indicator Set

### Overview of Indicators Including Dimensions

Indicator	Indicator Name	(i)	(ii)	(iii)	(iv)	Overall Score
<b>Domain A</b>	<b>SAI Performance</b>					
SAI-1	Financial Audit Results	4	4	4	2	3
SAI-2	Compliance Audit Results	4	4	4	2	3
SAI-3	Performance Audit Results	3	2	0		2
SAI-5	Annual Report and Other Reports	2	3	1	2	2
<b>Domain B</b>	<b>SAI Independence and Legal Framework</b>					
SAI-6	Independence of the SAI	4	1	2	3	2
SAI-7	Mandate of the SAI	4	4	3	0	3
<b>Domain C</b>	<b>Strategy for Organizational Development</b>					
SAI-8	Strategy for Organizational Development	3	4	0	0	2
<b>Domain D</b>	<b>Audit Standards and Methodology</b>					
SAI-9	Overall audit Planning and Quality Management	2	2	1	3	2
SAI-10	Quality Assurance of Audit Process	2	2	NS	2	2
SAI-11	Financial Audit Foundations	0	4	1	NS	2
SAI-12	Financial Audit Process	2	1	2		2
SAI-13	Compliance Audit Foundations	0	4	1	NS	2
SAI-14	Compliance Audit Process	2	1	3		2
SAI-15	Performance Audit Foundations	3	4	2	2	3
SAI-16	Performance Audit Process	2	2	3		2
<b>Domain E</b>	<b>Management and Support Structures</b>					
SAI-18	Ethics Management and Internal Control	2	2	2	0	1
SAI-19	Asset Management and Support Services	1	1			1
<b>Domain F</b>	<b>Human Resources and Leadership</b>					
SAI-20	Human Resource Leadership and Function	3	0	NS	3	2
SAI-21	Professional Development and Training	1	0			0
<b>Domain G</b>	<b>Communication and Stakeholder Management</b>					
SAI-22	Communications Strategy and Internal Communication	0	2			1
SAI-23	Communication with the Legislature, Judiciary and Executive	2	0	4		2
SAI-24	Communication with the Media, the Citizens and the Civil Society Organisations	3	2			2

## **Annexure-2: Sources of Information & Evidence to Support Indicator Scoring**

### **General Sources of Information**

- Operational Risk Assessment of Public Financial Management Reform in Nepal; A Review of Challenges and Opportunities (Centre for Aid & Public Expenditure)
- Capacity Building Needs Assessment 2007
- Budget Speech of Finance Minister 2013-14 Budget
- Asian Development Outlook 2014 (ADB)
- Peer Review Report 2007/SAI Malaysia
- Government of Nepal Consolidated Financial Statements 2011-12
- World Bank Nepal Overview
- Economist (EIU)
- ADB Basic Statistics 2014
- Freedom House 2013
- Economic Survey Government of Nepal 2012-13

### **Evidence to Support Indicator Scoring**

- Interim Constitution 2007
- Audit Act 1991
- Performance Audit Guide 2012
- Financial Audit Manual
- Summary of AR 2013 (Nepali)
- Annual Progress Report 2012-13 (Nepali)
- Nepalese Journal of Government Auditing 2014
- Quality Assurance Review Handbook 2012
- Strategic Plan 2010-2012
- Strategic Plan 2013-2015
- Annual Report 2013
- Strategy for Communicative Action by OAGN (Cowater; May, 2014)
- Government Auditing Standards (Policy Standards, October 2005)
- Annual Audit Plan 2013
- Annual Report of the Auditor General 2014 Summary
- Service Charter of OAGN
- Quality Control for SAIs-ISSAI 40
- e-attendance system
- Controlling Entity Audit Opinion (Ministry of Labour and Employment)
- QA Review Report on Financial Audit
- Audit Files of Pilot Financial Audit
- PAR of Selected Audit Files (Performance Audit & Financial Audit)
- Code of Ethics Handbook 2013
- Declaration form under Code of Ethics Handbook 2013
- Internal Control Evaluation Sheet

- Remuneration, Conditions of Service and Facilities of the Authorities of the Constitutional Bodies Act, 1997
- Travel Expenditure Rules 2008
- The Financial Procedures Act
- The Financial Procedures Regulations
- Prevention of Corruption Act
- Procurement Audit Guidelines
- Government Auditing Standards Revenue Audit 2005
- HRD Plan Vol. I, Vol.II
- Guidelines for the Audit of Public Sector Enterprises
- Government Auditing Standards- Operational Guidelines 2005
- Risk Based Audit Guidelines 2012
- Annual Audit Plan (Ministry of Finance & Ministry of Education)
- Administrative Expenditure Audit Guidelines 2006
- DDC Expenditure Audit Guidelines 2010

## Abbreviations

AAG	Assistant Auditor General
AG	Auditor General
AR	Annual Report
CA	Constituent Assembly
CAO	Chief Accounting Officer
CCU	Central Coordination Unit
CIAA	Commission for the Investigation of Abuse of Authority
DA	Daily Allowance
DAG	Deputy Auditor General
DDC	District Development Committee
DTCO	District Treasury Comptroller Office
EC	Election Commission
FAD	Fiscal Affairs Department
FCGO	Financial Comptroller General Office
FP Act	Financial Procedures Act
FPR	Financial Procedures Regulations
GDP	Gross Domestic Product
GoN	Government of Nepal
INTOSAI	International Organisation of Supreme Audit Institutions
ISSAI	International Standards of Supreme Audit Institutions
MDTF	Multi Donor Trust Fund
MoF	Ministry of Finance
MoFALD	Ministry of Federal Affairs and Local Development
MTEF	Medium Term Expenditure Framework
NPC	National Planning Commission
NPSAS	Nepal Public Sector Accounting Standards
NRB	Nepal Rastra Bank
NVC	National Vigilance Centre
OAGN	Office of the Auditor General Nepal
PAC	Public Accounts Committee
PAR	Preliminary Audit Report
PEFA	Public Expenditure and Financial Accountability
PPA	Public Procurement Act
PPMO	Public Procurement Monitoring Office
PSC	Public Service Commission
QA	Quality Assurance
SAI	Supreme Audit Institution
SOE	State Owned Enterprises
TSA	Treasury Single Account
VDC	Village Development Committee