



Financial Accountability Audit Directives



**Office of the Auditor General
Anamnagar, Kathmandu, Nepal
2023**

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Foreword

It is my immense pleasure to release the Financial Accountability Audit Directives of the Office of the Auditor General of Nepal. This directives will be applicable in undertaking respective financial, compliance, performance audits of the entities as per the Audit Act, 2075.

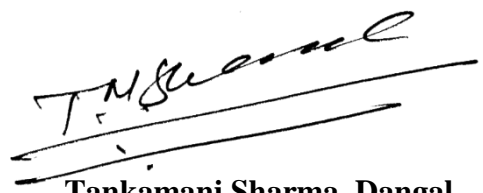
This directives provides a clear picture of methods and approaches to audit that the audit staff is required to comply with in imparting their duties. It has been built around the prevailing Audit Act, Nepal Government Auditing Standards (NGASs), and office policies that require conducting a high-quality audit. Since NGASs are based on INTOSAI framework for Professional Pronouncement (IFPP), this directives seeks to incorporate the Nepal audit practices at par with the international best practices.

This directives provides guidance and direction in all phases of the audit from pre-panning to follow-up including review of internal control system, legal control for financial accountability, local level special with necessary annexures which encourages professional judgment where it requires. The directives does not override the legal requirements and conditions of NGASs. Likely, it shall not limit the professionalism of the officials entrusted with the responsibility of conducting audits.

Our knowledge, skill, and experience with auditing practices continue to evolve, and so will this directives. This directives is expected to be updated for the continuous improvement of audit practices to meet legal provisions, audit standards, and practices to address emerging risks.

My special thanks to all staffs who prepared the directives and provided their valuable feedback and comments to make this directives implementable which, I do hope, will be of use to conduct audits efficiently and effectively.

April 26, 2023



Tankamani Sharma, Dangal
Auditor General

List of Abbreviations

Abbreviation	Full form
AAP	Annual Audit Plan
AG	Auditor General
BG	Bank Guarantee
CA	Compliance Audit
CGAS	Computerized Government Accounting System
COA	Charts of Accounts
DPR	Detailed Project Report
DTCO	District Treasury Controller Office
ELP	Entity Level Audit Plan
FA	Financial Audit
FCGO	Financial Comptroller General Office
FPFAA	Financial Procedure and Financial Accountability Act, 2076
FPFAR	Financial Procedure and Financial Accountability Regulation, 2077
GoN	Government of Nepal
IA	Internal Audit
INTOSAI	International Organization of Supreme Audit Institutions
ISSAI	International Standards of Supreme Audit Institutions
MoF	Ministry of Finance
NGASs	Nepal Government audit standards
NPSAS	Nepal Public Sector Accounting Standards
OAGN	Office of Auditor General Nepal
OLP	Office Level Audit Plan
PA	Performance Audit
PAC	Public Accounts Committee
PARF	Public Audit Restructuring Framework
PPA	Public Procurement Act, 2063
PPR	Public Procurement Regulation, 2064
PTCO	Province Treasury Controller Office
QA	Quality Assurance
RBA	Risk Based Approach
RBAP	Risk Based Audit Framework
SBDs	Standard Bidding Documents
SOP	Standard Operating Procedures
SuTRA	Sub National Treasury Regulatory Application
VAT	Value Added Tax

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Part - I

Introduction

A. Concept

Auditor needs to issue audit opinion on financial statements providing reasonable assurance¹ that financial statements are prepared in accordance with the application reporting framework and the legal requirements.

To issue audit opinion, auditor needs to assess the audit risks within the entity at the planning stage, execution stage and as well as in reporting stage. As the response to the audit risk identified during the planning stage and during execution, auditor need to apply audit procedure to deal with those risks. In public sector one significant set of risk are the risks relating to the governance.

1. Background

Document flow

For the financial audits, following documents are to be considered:

- a. Nepal Government audit standards (NGASs)
- b. Public Audit Restructuring Framework (PARF)
- c. Risk Based Audit Framework (RBAF)
- d. Financial Audit Guide (FAG)
- e. Audit Directives including INTOSAI GUID

This audit directives is the implementation guide focused on review of financial accountability. Auditor needs to accommodate the specific issues relating to each of the entity and their underlying offices covered under audit.

Audit Guides

According to RBAF, auditors plan their audit procedures to identify the audit risks and ways to respond to those risks. For the identification of audit risk and responses, specific Sectoral Audit Directives have been developed as audit tools as follows:

- a. Tools to evaluate the financial statements of entity or financial information of underlying offices as – Financial statement and financial information audit guide;
- b. Tools to evaluate the control system of auditee as – Financial accountability audit guide;
- c. Tools to evaluate the compliance of procurement law as –Procurement audit guide;

¹ Para. 1.1.1.1 of Financial Audit Guide

- d. Tools to evaluate the assessment of revenue as –Revenue audit guide;
- e. Tools to evaluate the entity-specific audit risk as –Entity- specific audit guide;
- f. Tools to evaluate the office-specific audit risk as – Office-specific audit checklist.

How to use Audit Directives

This Directives provides the checklist in the response of risk area. Following is the work-flow for the identification of risk-area and checklists:

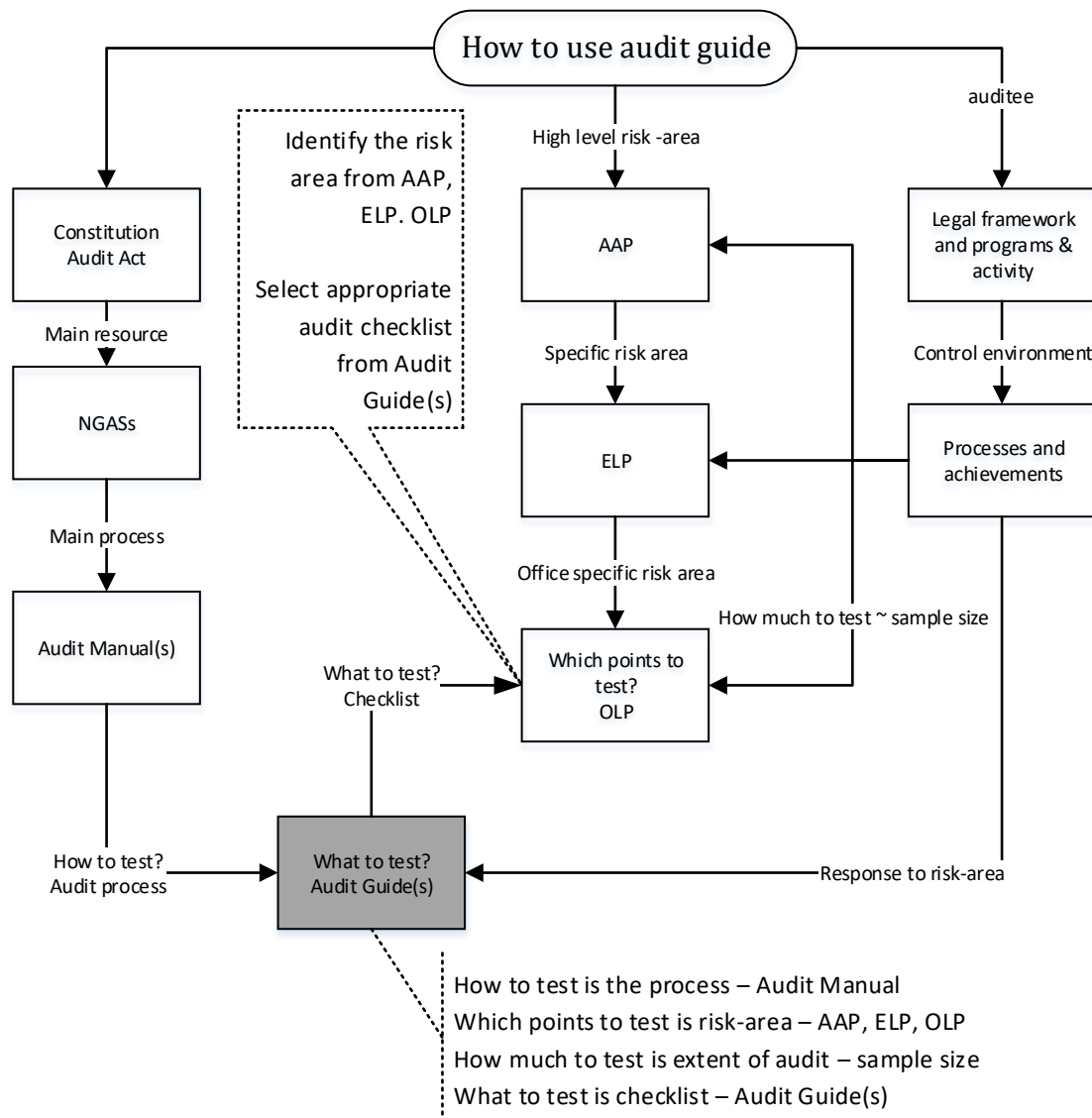
Step 01 – Auditor General approves the Annual Audit Plan (AAP) covering high-level identifiable risk areas relating to an entity under audit

Step 02 – Directorate includes the risk-areas identified in the AAP and adds additional risk-area as required in Entity Audit Plan (ELP).

Step 03 – Office level auditor includes the risk-areas applicable to the auditee from ELP and adds additional risk-area relating to that particular auditee in its Office Level Audit Plan (OLP)

Step 04 - Office level auditor selects (or develops, if requires) the appropriate and sufficient audit checklist in the response to the risk-areas from the respective audit guide.

Step 05 – Field auditor will test the risk-area in line with the audit checklist as approved in the OLP.



Updates

Depending upon the changes in the contexts set out in this directives, this directives should be reviewed preferably once every year.

2. Objective of this audit directives

The objectives of this audit directives are:

- to support the auditor by way of grouping similar audit issues applicable to those auditees;
- to collate issues to be reviewed by using a single guide;
- to audit the governance related issues by use of a single document;
- to consolidate similar information for its reporting;

3. Coverage

This directives is one of the audit directives relating to financial audit. It can be used for audit of general government offices, public corporation and government business enterprises, projects having special purpose financial statements, and other entities those under audit of OAGN.

If the circumstance requires, it can be used for concurrent audit as well.

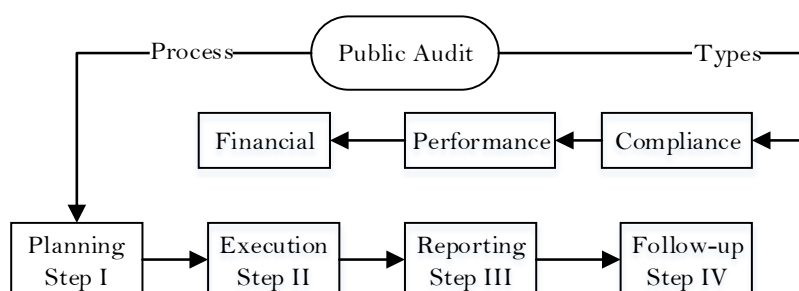
For the compliance audit or for performance audit, auditor may take refer this audit guide to develop compliance or performance related audit checklists.

B. Audit of Offices

In all types of public audit, auditor needs to follow a defined set of procedures. Some of the basis procedure for each type either financial audit, compliance audit or performance audit will be the same. Main audit function depends upon the subject matter.

For the audit opinion in form of true and fair on the financial statements prepare and presented under financial reporting framework, entity is the basis for audit. The offices under the entity are audit units to address the materiality at the entity level. For this purpose, for example, ministries, constitutional bodies, local authorities or autonomous bodies as defined as economic entity for the purpose of Nepal Public Sector Accounting Standard (NPSAS) and Financial Procedure and Financial Accountability Act, 2076 are entity and their underlying offices are office for the audit purpose.

Internal control system or other control environment are one of the major areas of auditing process. Auditors needs to ensure the compliance of control system and effective use throughout the audit period. To ensure the compliance, the process of audit will be as follows:



Financial accountability is common issue to all types of audits of an office. More ever, it is one of the major issues for financial audit. The checklist in this audit guide, therefore, are applicable to all financial audits, if they are applicable.

4. Planning ²

For identification of potential risk area within the public audit, auditor needs to analyse, based on the auditor's research and experience, each type control system relating the auditee. Considering the public financial management control system, the auditor needs to collect appropriate audit evidences to express an audit opinion at the entity level. For this planning is the first step of audit.

² To be applied with Para 4.3 of Financial Audit Guide and Para 3.3 of Compliance Audit Guide Para

Audit plan includes three inputs – risk area, appropriate checklist to the response of risk and appropriate sample size. Testing the control system is minimum requirement in the audit, therefore, financial accountability risk area will be similar in all office.

Planning Steps

Step I-01: Identification of Risk area

- i) Risk area from AAP
- ii) Additional risk-area from ELP
- iii) Additional risk-area from OLP

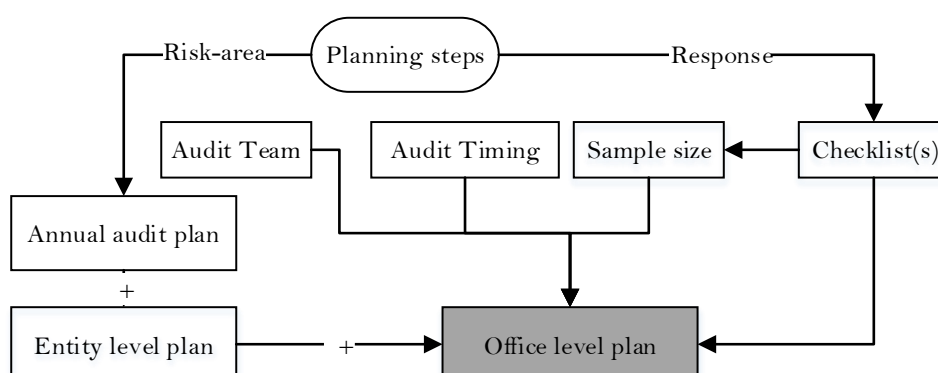
Step I-02: Response on risk-area

- i) Appropriate audit checklist
- ii) Appropriate extent of audit (sampling size)

Step I-03: Team-planning

Step I-04: Audit timing

Audit risk and response



During the planning of audit, auditor need to select the appropriate audit checklist given in this audit guide. The selection may be at the Checklist Group level or Checklist Heading level or Checklist Area level.

Checklist classes in an audit guide

Checklist Group	Financial Accountability
Checklist Heading	Internal control system (see Chapter C on page 9)
Checklist Area	Review of control structure (see Sub-chapter 8 on page 11)
Checklist Items	Checklist items for testing (see individual items in Sub-chapter 8 on page 11)

Examples

Financial accountability Risk-area examples

1. Establishment of appropriate internal control system
 2. Process related control system – Standard Operating Procedures (SOPs)
 3. Budget control
 4. Store management
 5. Safeguarding public assets
 6. Internal audit
 7. Action against misuse and embezzlement
 8. Use of internal control related AG Forms
-

Financial accountability guide is a subset of audit manual. The planning process for testing of financial accountability will be as follows:

- For the financial audit, tools given in this Audit guide are usable while working on AP 2 of Financial Audit Manual³.
- For the performance audit, tools given in this Audit guide are usable based on subject matter of the Performance Audit Manual.
- For the performance audit, tools given in this Audit guide are usable based on subject matter of the CA (while working on PA 2 of Compliance Audit Manual⁴).

5. Execution⁵

During the audit execution, auditor need to follow appropriate procedure for reviewing and obtain appropriate audit evidences. In case, any issue, which has not been considered during the planning stage get identified which is required to be audited, auditor needs to update the original audit plan to gather the additional information.

³ Para. 4.3.2 of Financial Audit Guide

⁴ Para 3.3.2 of Compliance Audit Guide

⁵ To be applied with Para 5.3 of Financial Audit Guide and Para 4.3 of Compliance Audit Guide Para

6. Reporting⁶

Auditor need to report appropriately the observations having any with the audit conclusion (opinion). In the case the issue is material or material and pervasive, such issue has to be immediately brought into the attention of the senior management or those charge with governance, auditor need to communicate the matter to the appropriate level including to the supervisor of the audit.

7. Follow up⁷

Similar to the follow up of the other issues reported, auditor need to follow up audit in the issues relating to financial accountability.

NAMS – In the NAMS, audit criteria relating to the control are grouped under Checklist type 'Review of Financial Accountability'. Auditor requires to select appropriate checklist during office audit planning (OLP). During the execution, team leader allocates individual checklist area to the audit field team members. In the preliminary audit report, all the audit issues under Review of Financial Accountability will be in the same group.

⁶ To be applied with Para 6.3 of Financial Audit Guide and Para 5.3 of Compliance Audit Guide Para

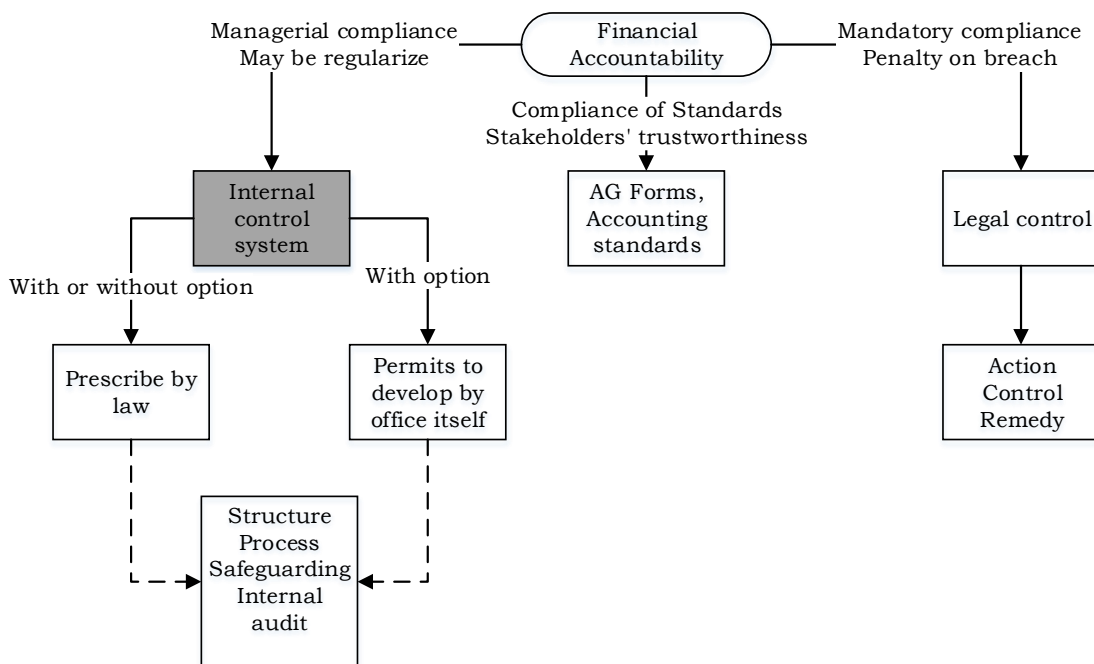
⁷ To be applied with Para 7.3 of Financial Audit Guide and Para 6.3 of Compliance Audit Guide Para

Part II

Review of Internal control

C. Internal control system

Each organisation follows set processes and procedures for transaction, recording, safeguard of assets, use of assets, reporting etc. To achieve the objective of the organisation in the transparent manner, these policies and procedure ensures the governance within the organisation. They are collectively known as internal control.



If the auditee's internal control system is good there is less likelihood that there will be an error, misstatement in the financial transactions and financial statements.

In that case, the auditor will reduce the efforts for substantive procedures to be carried out. When the internal controls are not adequate or weak, the auditor will have to perform extended substantive procedures.

Common sources of internal control system

Constitution

Relevant articles

Financial procedure and
financial accountability act,
2076

SOPs, budget control, power and responsibility,
Action against embezzlement, Recovery process

Financial procedure and financial accountability act, 2076	SOPs, internal audit, final audit, response on audit report, preparation of directives, delegation of power
PPA, PPR, SBDs	Procurement plan and process
Good Governance law	Position-wise responsibility and timing for decision
Sector-specific laws	As per law
Appropriation law	Budget process, transfer process
Natural resources and financial commission law	Allocation process and timing

Financial Procedure and Financial Accountability Act, 2076 (FPFAA) has prescribed the principles on governance procedures outlining internal control for the federal government. It requires Provinces and Local Levels to frame own internal control frameworks aligned with the law. It can be expected that governance issues to be similar for federal, provincial and local level.

Auditor must assess the effectiveness of the internal control system in both of its design and its operation. The method of assessment has been covered by way of test of control procedures of financial audit.

Internal control is expected to achieve the following objectives

- The ethical operational environment
- The safeguard of assets
- The efficient and effective operation
- The prevention and detection of fraud and errors
- The timely preparation of reliable financial information
- The compliance of internal and external regulation and requirements

8. Review of control structure

Background

Financial procedural law defines the common internal control system for a public sector. It includes structural controls, process controls, non-compliance measures, accountability controls etc. There are various structures prescribed by Financial Procedure and Financial Accountability Act, 2076. These are designed for good governance and financial accountability. The law has provisions applicable to the province and local level as well.

Relevant Legal provisions

Sec. 25, 31, 32

Audit Objectives:

Review of internal control structure as per financial accountability laws and evaluation of responsiveness of governance environment

Audit Risk:

Offices may not comply the prescribed governance requirements.

Sl.	Issues of governance	Basis of checking
1.	<p>As per provision of financial procedure and financial accountability law, organisation should have some structure of governance commensurate to the size, complexity and nature of business, the auditor assesses the internal control system (Sec. 31), whether,</p> <ul style="list-style-type: none">Office has internal control framework or standard operating procedure (SOPs) approved by controlling entity;Those charge with governance (Secretary) or person appointed by Secretary supervised the implementation of internal control system during the audited yearAuditee has adopted implementation mechanism of monitoring and supervising the effective compliance of internal control framework throughout the reporting period	Relevant internal control or SOP documents
2.	Audit and internal control committee (Sec. 32): Auditor need to verify whether,	

Sl.	Issues of governance	Basis of checking
	<ul style="list-style-type: none"> ▪ The office has internal control committee for overseeing the transactions and audit reports ▪ The committee has prescribed members as per the law ▪ The committee has performed required activities ▪ The office has implemented the report of the committee 	Committee set up minutes, meeting minutes, Relevant documents
3.	<p>Accounting and financial reporting (Sec. 25): Auditor need to verify whether,</p> <ul style="list-style-type: none"> ▪ accounting is as per Charts of accounts prescribed by FCGO ▪ accounting covers all the transaction undertaken by the office ▪ periodic reporting (monthly, trimester and annual) has been prepared as per the law 	Charts of accounts, financial information, ledger
4.	<p>In some circumstances procedural law empowers the Chief of office or the responsible officer with discretionary powers. Auditor needs to review the use of those discretionary powers are properly used or not as, whether,</p> <ul style="list-style-type: none"> ▪ law specifically empowers the chief or responsible officer such discretionary power; ▪ such discretionary power has been used to the benefit of particular person or group rather than to the benefit of institution or general public as intended by the law ▪ there are example of institutional losses using such powers or special decisions ▪ officers use the such discretionary power discriminately for the similar issues 	Relevant decision files
5.	<p>Citizen charter: Office needs to display the “Citizen charter” according to Good Governance law. Audit needs to verify, whether, the office has displayed the citizen charter and has complied the provisions of the citizen charter.</p>	Citizen charter
6.	<p>Grievances box: Organisation needs to install the Grievances box according to Good Governance law. Audit needs to verify, whether,</p> <ul style="list-style-type: none"> ▪ the office has maintained a grievances box ▪ there is system of reviewing the complaints received ▪ the office maintains the record of complaints 	Grievances box, Complaint handling procedure

Sl.	Issues of governance	Basis of checking
7.	<p>Public Account Committee (PAC) provides specific recommendations to the offices: auditor need to verify whether the office,</p> <ul style="list-style-type: none"> ▪ has records of PAC recommendations; ▪ has records are updated periodically; ▪ has addressed the recommendations 	PAC reports, progress reports

9. Control management through related AG forms

Background

Auditor General Forms contains some internal control related AG Forms. Offices requires to maintain those forms to the extent of their applicability on the business process of the relevant office.

Relevant Legal provisions

AG Form 901 -910

AG Form 801 - 805

Audit Objectives:

Review of compliance of adequate control as per AG forms

Audit Risk:

Offices may not comply the prescribed governance requirements.

Sl.	Issues of governance	Basis of checking
1.	<p>IT control: Information technology relating to accounting, recording and reporting the transaction are subject to reliable control system such as application controls, access controls etc. The auditor needs to evaluate, whether,</p> <ul style="list-style-type: none">▪ The IT system controlled by office itself has reliable control inbuilt for security, authority, safekeeping and backup▪ User access management has been enforced as per software manual and documented in AG Form 901 and 902▪ Maintains security protocol and safeguards as defined in software manual and documented in AG Form 903.▪ Auditee has the reliable alternative measures in the case of software failure / vulnerabilities <p>Note: for the software being used in more than one office like CGAS or SuTRA, OAGN shall audit the IT system in accordance with IS Audit Manual and,</p> <p>a. Matters identified during IS audit need to be considered for their impact on the audit</p>	AG forms

Sl.	Issues of governance	Basis of checking
	<p>b. IS audit will be revisited each year before the planning of individual offices? In the case of matters those identified during earlier IS audit are still pending and have continuous impact on auditing, those matters need to be considered</p>	
2.	<p>Internal control prescribed by way of AG Forms: There are AG Forms for internal control on operation of vehicles and machineries, auditor needs to verify whether the office has:</p> <ul style="list-style-type: none"> ▪ Maintained and updates vehicle logbook (AG Form 905) ▪ Maintained and updates repair records (AG Form 906) 	AG forms
3.	<p>Internal control prescribed by way of AG Forms: There are AG Forms for internal control on travels, auditor needs to verify whether the office has:</p> <ul style="list-style-type: none"> ▪ maintained family TADA records for all of its staff (AG Form 907) ▪ maintained TADA records for all of its staff (AG Form 908) ▪ maintained Travel report (AG Form 909) 	AG forms
4.	<p>Internal control prescribed by way of AG Forms: There are AG Forms for internal control on operation of records, auditor needs to verify whether the office has:</p> <ul style="list-style-type: none"> ▪ Maintained and updates Bill control register (AG Form 904) ▪ maintained signature specimen (AG Form 910) 	AG forms
5.	<p>Beruju records - Beruju records AG Forms, whether the office, auditor needs to verify whether the office has:</p> <ul style="list-style-type: none"> ▪ maintains AG Form 801 to 805 applicable to the office <p>AG Form 801 – Beruju lagag AG Form 802 – Beruju office-wise report AG Form 803 – Beruju Central record AG Form 804 – Beruju central report – office-wise AG Form 805 – Follo up general record</p> <ul style="list-style-type: none"> ▪ updates the forms (as applicable) 	AG Forms

10. Internal control components and principles

Background

In the addition to the legal framework for internal control, the entity requires to develop and implement its own internal control system on the basis of operational, reporting or compliance structure. The best practices for the comparison may be the *Internal Control—Integrated Framework* issued by Committee of Sponsoring Organizations of the Treadway Commission (COSO)⁸.

According to Sec. 31 of Financial Operation and Financial Accountability Act, 2076 each entity under federal government, provincial government or local authority requires to develop own internal control system and those charge with governance requires to monitor the compliance status. According to Rule 81 of Financial Operation and Financial Accountability Regulation, 2077, those control system should cover at least:

- a. Control environment
- b. Potential risks
- c. Methods to handle those risks
- d. Communication method
- e. Monitoring agency and method

Principle officer of the entity will make the compliance assessment of those system at least two times in a year.

The compliance assessment will be reviewed by the audit and internal control committee.

According to best practice on the internal control adopted for the entities, there are five major component of internal control system and following are the internal control principles⁹:

Control Environment

1. Demonstrates commitment to integrity and ethical values
2. Exercises oversight responsibility
3. Establishes structure, authority, and responsibility
4. Demonstrates commitment to competence
5. Enforces accountability

⁸ The last framewok issued by Committee of Sponsoring Organizations of the Treadway Commission is 2013 virsion.

⁹ *Internal Control—Integrated Framework, 2013*, Committee of Sponsoring Organizations of the Treadway Commission

RISK ASSESSMENT

6. Specifies suitable objectives
7. Identifies and analyses risk
8. Assesses fraud risk
9. Identifies and analyses significant change

CONTROL ACTIVITIES

10. Selects and develops control activities
11. Selects and develops general controls over technology
12. Deploys through policies and procedures

INFORMATION & COMMUNICATION

13. Uses relevant information
14. Communicates internally
15. Communicates externally

MONITORING

16. Conducts ongoing and/or separate evaluations
17. Evaluates and communicates deficiencies

Audit Objectives:

Review of adequacy of the provisions of internal control system

Audit Risk:

Adequate provisions may not be developed. Appropriate compliance may not be achieved comparing to the internal control system, which were developed by the entity.

Sl.	Issues of governance	Basis of checking
1.	Control Environment – In internal control system, whether following principles relating to control environment were adequate and sufficient on the basis of nature, size, and complexity of the entity: <ul style="list-style-type: none">▪ Demonstrates commitment to integrity and ethical values:	

Sl.	Issues of governance	Basis of checking
	<ul style="list-style-type: none"> ○ Each of the processes are under internal checking system ○ Ethical declaration in the case of potential or real conflict of interest ○ Each person demonstrates the independency ○ Well defined standards of operation and Job-description ▪ Exercises oversight responsibility <ul style="list-style-type: none"> ○ Monitoring agency will not interfere the operational activities ○ Each oversight person demonstrates the independency ○ Monitoring agency comprise relevant expertise ▪ Establishes structure, authority, and responsibility <ul style="list-style-type: none"> ○ Covers all the structures of the entity ○ Clear on reporting lines ○ Clarity on authorities and responsibility ▪ Demonstrates commitment to competence <ul style="list-style-type: none"> ○ Staffing sufficiency comparing the nature of works of entity ○ evaluates competence and addresses shortcomings ▪ Enforces accountability <ul style="list-style-type: none"> ○ through structures, authorities, and responsibilities ○ through performance measure and rewards ○ through disciplinary actions 	Internal control related framework
2.	<p>Risk Assessment – In internal control system, whether following principles relating to risk-assessment were adequate and sufficient on the basis of nature, size, and complexity of the entity:</p> <ul style="list-style-type: none"> ▪ Specifies suitable objectives <ul style="list-style-type: none"> ○ Relating to financial statement - accounts, disclosures, and assertions ○ Specify financial reporting objectives ○ Assessing the materiality considering the range of entity activities ▪ Identifies and analyses risk <ul style="list-style-type: none"> ○ using risk identification process 	Internal control related framework

Sl.	Issues of governance	Basis of checking
	<ul style="list-style-type: none"> ○ assessing risks to significant financial statement accounts ○ evaluating risk responses ▪ Assesses fraud risk <ul style="list-style-type: none"> ○ Conducts fraud risk assessments ○ Evaluates fraud risk in the internal audit plan ▪ Identifies and analyses significant change <ul style="list-style-type: none"> ○ assessing change in the external environment ○ risk assessments relating to significant change 	
3.	<p>Control Activities – In internal control system, whether following principles relating to control activities were adequate and sufficient on the basis of nature, size, and complexity of the entity:</p> <ul style="list-style-type: none"> ▪ Selects and develops control activities <ul style="list-style-type: none"> ○ Control activities relates with risk assessment ○ Entity specific factors are considered ○ Segregation of duties along with internal checking is sufficient ▪ Selects and develops general controls over technology <ul style="list-style-type: none"> ○ Correlation between the dependency between the used-technology and Technology control over it ○ Establishes appropriate security management process ▪ Deploys through policies and procedures <ul style="list-style-type: none"> ○ Establishes Responsibility and Accountability for Executing Policies and Procedures ○ Takes Corrective Action in a timely manner ○ Reassesses Policies and Procedures 	Internal control related framework
4.	<p>Information & Communication – In internal control system, whether following principles relating to information and communication were adequate and sufficient on the basis of nature, size, and complexity of the entity:</p> <ul style="list-style-type: none"> ▪ Uses relevant information <ul style="list-style-type: none"> ○ Identifies Information Requirements 	Internal control related framework and reports

Sl.	Issues of governance	Basis of checking
	<ul style="list-style-type: none"> ○ Collects relevant information and process them ▪ Communicates internally <ul style="list-style-type: none"> ○ There is communication guideline covering process and forms of communication ○ There is cross-functional and multi-directional communication process ▪ Communicates externally <ul style="list-style-type: none"> ○ There is system of communication Information to relevant external parties ○ Analyse the stakeholders' need ○ There is system of communication to whistle-blower 	
5.	<p>Monitoring – In internal control system, whether following principles relating to monitoring were adequate and sufficient on the basis of nature, size, and complexity of the entity:</p> <ul style="list-style-type: none"> ▪ Conducts ongoing and/or separate evaluations <ul style="list-style-type: none"> ○ Establishment of monitoring benchmarks ○ Use of technology for monitoring ○ Independent evaluations ○ Internal audits ▪ Evaluates and communicates deficiencies <ul style="list-style-type: none"> ○ assessing and reporting deficiencies ○ monitoring corrective action(s) 	Internal control related framework and reports

11. Internal controls related to on processes

Background:

Organisation needs to design and operate its functions in such a way that its procedures and processes are subject to the internal controls to ensure quality. The processes may be related with the organisational functions or related with the service delivery by the organisation.

For the controls relating to specified transactions auditor needs to analyse applying specific checklist applicable to that set of transactions. This section covers that common checklist relating internal controls for general processes.

Audit Objectives:

Review of predefined process and their compliances

Audit Risk:

Office may not be in compliance with control procedures

Sl.	Issues to be reviewed and reported	Basis of checking
1.	<p>SOP or procedures: Auditor needs to evaluate, apart from process relating to transaction, predefined process for service delivery (normally in form of SOP or at least in as stated in the citizen charter), whether,</p> <ul style="list-style-type: none">covers all, at least substantial major sectors of the office's activitiesall the concern staff are made aware of such proceduresMonitoring and supervision is inbuilt in each step of the processes	Standard operating procedures
2.	<p>Job allocation: Auditor needs to evaluate, whether,</p> <ul style="list-style-type: none">There is predefined job allocation among staffSuch allocation is in writingPower and responsibility match with the allocated jobAppropriate supervision has been done for allocated job	Job description Allocation of works

Sl.	Issues to be reviewed and reported	Basis of checking
3.	<p>Regularization of procedures: In the predefined process, SOP, procedures, or similar processes, Auditor needs to evaluate, whether:</p> <ul style="list-style-type: none"> the office has defined process for service delivery (normally in form of SOP or the citizen charter) there are records relating to the activities if carried out without appropriate authority has been regularised within prescribed timeframe 	Standard operating procedures
4.	<p>Timeframe on regularisation: Whether the expenditure incurred without authority has been regularised within prescribed time-frame,</p> <ul style="list-style-type: none"> Not submitted for regularisation Submitted for regularisation within prescribed time but authorised after the prescribe time Submitted for regularisation but not authorised 	Files for regularization
5.	<p>Public entity requires to ensure the governance procedure for selecting any program. Adequate supporting should be maintained as primary document for any programme. Similarly, there should be adequate justification for omission of approved program. Auditor needs to review, whether the auditee has,</p> <ul style="list-style-type: none"> Approved programmes are adequately supported with cost-benefit analysis Removal of approved program are adequately supported and removes with authority 	Relevant supporting documents
6.	<p>Re-performance: Auditors may initiate a new, to see which controls are used by the auditee and the effectiveness of those controls. In the sample on re-performance cases, the auditor needs to ensure, whether,</p> <ul style="list-style-type: none"> The sample comply with the defined controls related with the process Deviations, if any, has regularized within the timeframe as prescribed in their own system 	Physical testing

Sl.	Issues to be reviewed and reported	Basis of checking
7.	Observation and inspection: to test the control procedure, auditor may observe a business process in action, and in particular the control elements of the process. In the sample on observation cases, the auditor needs to ensure, whether, the sample case of observation comply with the defined controls relating to the observation.	Physical inspection

12. Control on safeguarding of assets

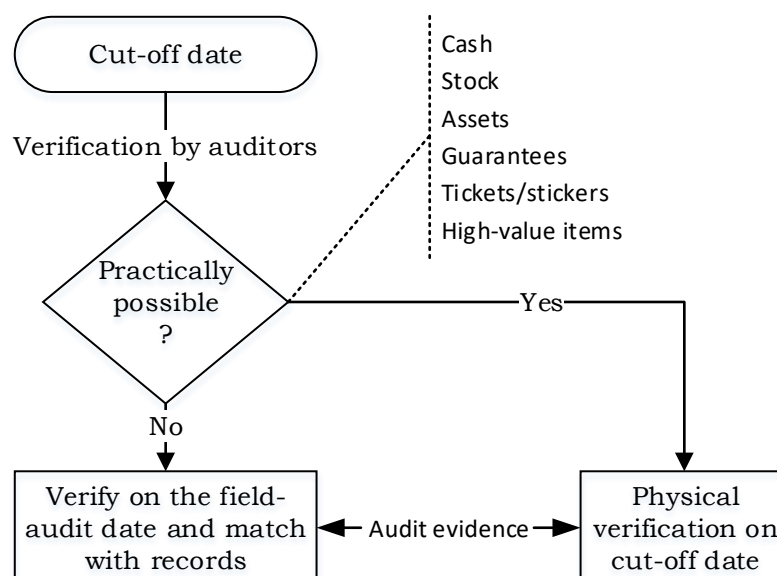
Background:

Financial statements or financial information those have been prepared under cash basis of accounting, contains the cash related issues only. The financial statements additionally may disclose the status of assets (and liabilities) under the provisions of encouraged disclosure. In those cases, public auditor needs to ensure the control environment regarding assets and liabilities in terms of safeguarding and proper use of assets and appropriate presentation. And disclosures.

Relevant Legal provisions

Rule 40, 94

Auditors are required to ensure the existence of assets. For this one of the audit activity is verification of assets. There may be periodic physical verification undertaken by the management. Auditor may take samples from assets record and verify if they existed and are maintained safely. For the movable assets and high value items, auditor requires to obtain audit evidences from onside verification. Section 54 of PFMA requires such verification by the auditors.



Audit Objectives:

Review of general compliances on safeguarding measures on assets

Audit Risk:

High value items and other assets, cash or cash equivalent, movable items or the guarantees may be misused and mismanaged.

Sl.	Issues	Basis of checking
1.	Existence: For goods owned by the auditee, auditor needs to ensure, whether the physical existence of assets (sample-based) matches with the records, <ul style="list-style-type: none"> Trading goods Consumables Property plant and equipment 	Sample/full verification
2.	Transfer of land or building: Transferring land or building owned by an office can be transferred to another public office on the basis of decision from Government of Nepal according to recommendation of central secretariat and ministry of finance as per Rule 40 of FAFAR, 2077. Whether the process has complied with above in the case if any land or building transferred to another public office.	Decision file
3.	Responsibility [Rule 94]: Whether following goods and their records are under control of: <ul style="list-style-type: none"> Cash, banking records, cheque books, payment orders, accounting records of dharauti or revenue with account-chief Revenue lagat in the person permitted by office-chief Store records and stores with the Store-chief 	Work allocation sheet
4.	Inspection and verification: For the movable assets, auditor needs to ensure, whether the onsite verification matches with daily record, <ul style="list-style-type: none"> Cash balance or cash equivalents Excise – duty stickers Passport Postal ticket Gold, silver, high-valued stones or jewellery Other inventory items 	Inspection and verification
5.	Inspection and verification: For the securities and guarantees, auditor needs to ensure, whether the verification onsite matches with daily record, <ul style="list-style-type: none"> Bank guarantee (BG, PG, APG, Revenue BG) Share certificates Bond certificates 	Inspection and verification

13. Control on store management

Background:

There should be proper recording and safeguard of public properties and assets owned or controlled by the office. According to Sec. 54 and 55 of FPFAA, those assets must be used for prescribed purpose only. Rule 94 to Rule 102 describes the details regarding the store-management¹⁰ and safeguarding measures as:

Relevant Legal provisions
Rule 94 – 102
AG Form 401 – 418

Rule 94: Responsibility of maintaining records and assets

Rule 95: Recording method for stores

Rule 96: Quantification method for goods not having book-value or transfer-value

Rule 97: Quantification methods and measures for recording assets under foreign grant

Rule 98: Responsibility of safeguard of assets received from closed offices

Rule 99: Physical verification method and criteria

Rule 100: Inventory records

Rule 101: Annual store report

Rule 102: Land and building records

Audit Objectives:

Review of store management system – recording and controls.

Audit Risk:

Weak recording or control system may escalate the fraudulent activities and misuse of public resources

¹⁰ FCGO developed and initiated the use of Public Assets Management System (PAMS) for the offices. PAMS on its full implementation, will be one of the control environments for public assets.

Sl.	Issues	Basis of checking
1.	Whether the store records are maintained and updated (may be on PAMS- see footnote 10 above) for , <ul style="list-style-type: none"> ▪ Inventory records ▪ Property records ▪ Repair records 	Relevant record(s)
2.	Whether the store records are maintained but supporting documents like purchase order, requisition, issue, transfer etc. are not updated and duly maintained	Relevant record(s)
3.	Whether the assets are stored safely, <ul style="list-style-type: none"> ▪ Over-stock due to over-purchases ▪ Wear and tear, unusable and obsolescence of assets due to over-stock ▪ Wear and tear, unusable and obsolescence of assets due to inappropriate physical store 	Relevant record(s)
4.	Auditee is required to conduct periodic physical stock taking, verify whether, <ul style="list-style-type: none"> ▪ has performed stocking at least annually ▪ has reported appropriately classifying usable, to be repaired, to be auctioned, to be written off 	Relevant record(s)
5.	Whether auction procedure has been initiated based on stock-taking report	Relevant record(s)
6.	Whether official vehicle registration and use has been applied, <ul style="list-style-type: none"> ▪ in the prescribed government plate colour or not 	Relevant record(s)
7.	Whether transfer letter has been issued only after finalisation of store clearance certificate	Relevant record(s)
8.	Whether assets from foreign supported projects and from the contractor are received and recorded in the official records.	Relevant record(s)
9.	Whether AG Forms relating to store management (AG Forms 401-418; may be on PAMS- see footnote 10 above) are maintained	Relevant AG forms

	<ul style="list-style-type: none"> ▪ AG Form 401 – Demand requisition ▪ AG Form 402 – Purchase order ▪ AG Form 403 – Store Entry ▪ AG Form 404 – store release ▪ AG Form 405 – Return record ▪ AG Form 406 – Transfer Form ▪ AG Form 407 – Stock ledger ▪ AG Form 408 – Property ledger ▪ AG Form 409 – Bin card ▪ AG Form 410 – Store remission ▪ AG Form 411 – Physical verification ▪ AG Form 412 – Store subsidiary ledger ▪ AG Form 413 – Stock annual report ▪ AG Form 414 – Repair request ▪ AG Form 415 – Repair records ▪ AG Form 416 – Rent records ▪ AG Form 417 – Land and building records ▪ AG Form 418 – Fixed assets evaluation form 	
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14. Advance Control

Background:

Some cases the office may make advance payment to its staff or parties. According to Rule 47 of FAFAR, advance payment procedure will be as follows:

Relevant Legal provisions

Rule 47 – 54

Step 1 – Written request for the advances

Step 2 – Office chief decision for advance payment not exceeding to the requirement

Step 3 – Advance payment with due detail of recipient (name, family members' name, address, email, cell no., telephone no. etc.)

Step 4 – Recipient needs to file its report and other evidences of claim within fifteen-days from date of completion

Step 5 – Office needs to settle the advances within seven-days from date of receipt of evidences and reports.

Step 6 – Office needs to provide the evidences of settlement-notice within seven-days of settlement.

Audit Objectives:

Review of store management system – recording and controls.

Audit Risk:

Weak recording or control system may escalate the fraudulent activities and misuse of public resources

Sl.	Issues	Basis of checking
1.	Advance payment general – Whether the advance payment has: <ul style="list-style-type: none">▪ Provided following the procedures as described in Rule 47, as summarized above▪ settled within the prescribed time limit▪ settled and noticed to the payee as prescribed▪ paid to staff or any person and remains unsettled has reported to the office chief within three days from end of each months as per Rule 53	Relevant record(s)

Sl.	Issues	Basis of checking
	<ul style="list-style-type: none"> ▪ carried forwarded to the next fiscal year as per Rule 52 ▪ extended in writing for settlement as per Rule 54 	
2.	<p>Travel and daily allowance advance [Rule 48] – whether the travel and daily advance allowances paid was</p> <ul style="list-style-type: none"> ▪ within the limit or total cost of travel ▪ travel advance has submitted for settlement within fifteen days ▪ report has submitted within 15 days from end of travel ▪ charged interest at 10% p.a. for delays [Rule 51] 	Relevant record(s)
3.	<p>Advances to goods purchase [Rule 49] – whether the advance for goods purchase paid was</p> <ul style="list-style-type: none"> ▪ Necessary due to direct payment was practically not possible ▪ Advance has paid to employee of the office (excluding accounting staff or office chief) ▪ advance has submitted for settlement within twenty-one days 	Relevant record(s)
4.	<p>Advances to suppliers for procurement [Rule 50] – whether the advance for goods purchase paid was</p> <ul style="list-style-type: none"> ▪ For the procurement of goods, services or construction from the supplier ▪ backed by the bank guarantee ▪ settled within the period as defined in the contract agreement ▪ settled after the prescribed period, whether interest at 10% p.a. has levied ▪ settled within end of fiscal year 	Relevant record(s)

15. Internal audit

Background:

Internal audit is one of the major control procedures in public financial management. Financial procedure and financial accountability Act, 2076 prescribes each and every office and all of the transactions of those offices need to be audited by internal auditors. The act provides the benchmarking for the minimum procedures for the public internal audit. The effect of internal control system will be highly influenced by the quality and status of internal audit and the response and the obligation from the auditee.

Relevant Legal provisions

Sec. 33 – 34, 39

Audit Objectives:

Review of internal audit activities and implementation of internal audit reports

Audit Risk:

Non conduct of internal audit or inadequate internal audit indicates weak control system¹¹

Sl.	Issues of governance	Basis of checking
1.	As per the legal provision of financial accountability laws [Sec. 33 and 34] and best practices, an office needs to be audited by an internal auditor. Based on the size, complexity and nature of business, the auditor assesses, whether, the organization has internal audit function. (for those not covered under FPFAA)	Internal audit report
2.	Whether, internal auditor is independent from the management	Internal audit code of ethics
3.	Whether, the internal auditor has full access to the management, records and documents.	Internal audit standard and legal framework

¹¹ Auditor should care the provision of Rule 88(2) relating to the disposal of the internal audit records after final audit. This provision emphasize the importance of final audit on outstanding internal audit issues.

Sl.	Issues of governance	Basis of checking
4.	Whether, internal audit covers all of the transactions (appropriation, direct expenditure, revenue, dharauti, funds, etc.)	Internal audit standard and legal framework
5.	Whether, internal audit follows internal audit standards, if any, for their audits	Internal audit standard and legal framework
6.	Whether, internal auditor has the mandate in accordance with the standards and legal provisions	Internal audit standard and legal framework
7.	Whether, audit committee or similar structure reviews the internal audit report	Internal audit standard and legal framework
8.	Whether, internal audit report implemented in accordance with the standards and legal provisions	Internal audit standard and legal framework
9.	According to Sec. 39(4), internal audit must be completed before transfer letter is issued. Auditor needs to ensure whether the internal audit has completed before transfer letter is issued.	Internal audit report

Part III

Legal control for financial accountability

D. Financial accountability law specific

Financial procedure and financial accountability act or other similar laws prescribe various types of control measure in the governmental offices. Autonomous bodies prepare their financial accountability rules in line with the similar provisions of financial accountability laws.

16. Review of non-compliance - penalty

Background:

Financial procedure and financial accountability Act, 2076 prescribes penalties for the breach of the provisions of the law including those related with internal control system that have been prescribed within the law itself. Auditor need to evaluate the control environment on the basis of legal requirements. If there have been any cases of penalty, there would be an indication of nonconformity to the internal control requirement.

For this, existence of monitoring system is a necessary indicator. There may be monitoring risk in form of effectiveness or existence itself.

Relevant Legal provisions
Sec. 27 – 28

Audit Objectives:

Review of any possible breach of internal control system and assess the internal control weaknesses including incurrence of penalty.

Audit Risk:

Offices may not comply the prescribed provisions or occurrence of penalty may be indication of internal control weaknesses

Sl.	Issues to be reviewed and reported	Basis of checking
1.	According to financial procedural law, for any breach of internal control and governance principles, there is penalty clause. Auditor needs to review compliance and confirms the penalty as:	Analysis of bank transfer records

Sl.	Issues to be reviewed and reported	Basis of checking
	<p>Bank transfer: Penalty to the bank operating government accounts (Sec. 27), whether the bank transfers the fund to consolidated fund,</p> <ul style="list-style-type: none"> ▪ within same day – no penalty; ▪ within two days – no penalty; ▪ within three days – no penalty; ▪ beyond three days – 10% of transferable amount 	
2.	<p>Bank deposit: Penalty to an individual depositing cash into the bank (Sec. 28), whether the deposit is,</p> <ul style="list-style-type: none"> ▪ within two days – no penalty; ▪ within ten days – 10% penalty; ▪ beyond ten days – 10% penalty followed by departmental action 	Analysis of bank transfer records

17. Review of budgeting procedure

Background:

For the budgetary governance, there are, mainly, four legal provisions namely: Constitution of Nepal, Financial procedure and financial accountability Act, 2076, annual Appropriation Act(s) and Budget Directives. Entities and Offices are required to comply with those legal provisions as defined in those procedures.

Using the legal process as defined in FPFAA/R, there is planning and budgeting system named Line Ministry Budget Information System (LMBIS). For the local level there is planning and budgeting system inbuilt within Sub-National Treasury Regulatory Application (SuTRA).

Relevant Legal provisions
Sec. 12, 17, 18, 21, 23
AG Form 301 – 315
LMBIS, SuTRA

Audit Objectives:

Review of budgetary management

Audit Risk:

Non-compliance of legal provisions

Sl.	Issues to be reviewed and reported	Basis of checking
1.	<p>According to Financial procedure and financial accountability Act, 2076, following processes need to be followed:</p> <p>Preparation: the budget preparation (Sec. 10), whether:</p> <ul style="list-style-type: none">▪ Budget proposal is supported by and be based on the policy, law, treaty, agreement and norms;▪ Budget has been aligned with the institution's objectives;▪ Budget has been aligned with national /provincial / local priority;▪ Budget has been supported by the cost-benefit analysis;	<p>Professional assessment of budget inputs, Budget proposal and approved budget</p>

Sl.	Issues to be reviewed and reported	Basis of checking
	<ul style="list-style-type: none"> For the new programme, budget has been supported by detailed project report (DPR); For the new programme, budget is derived from project bank as maintained under Sec. 17. 	
2.	<p>Program preparation – Whether master-plan, annual plan and programs:</p> <ul style="list-style-type: none"> Prepared on the specified time Are based on appropriate reality Are adequately back-up by resources Is the budget proposed and approved is adequate 	Analysis of plan, program and budget, detail project report
3.	<p>Multi-year budget: Multi-year budget and contingent liability (Sec. 12), whether:</p> <ul style="list-style-type: none"> Approval has been obtained from MOF (or equivalent) for multi-year project or contracts; Record has been maintained in AG Form 310; 	Approval for MOF and AG form
4.	<p>Multi-year contract: In the multi-year contracts, the budget preparation complies with Multi-year Contracts for Project Guidelines, 2076, whether:</p> <ul style="list-style-type: none"> Pre-approval or renewal every three-year from appropriate authority (such as NPC and MOF) The contracts are enlisted in the guidelines Falls within the basis as defined the guidelines Multiyear liabilities have been ascertained 	Approval from MOF, contract document
5.	<p>P1: In the national priority projects, whether,</p> <ul style="list-style-type: none"> fulfils the minimum criteria as defined in National priority Guidelines, 2075 has been taken from the pre-ascertained project bank adequate budget has been allocated for the project 	Project list, budget proposal, approved programs
6.	<p>Authorisation: the budget release (Sec. 18 FPFAA and annual Appropriation act), whether:</p> <ul style="list-style-type: none"> Budget sub-heading having with the office as single user has been obtained when appropriation act is enacted 	Authorisation letter

Sl.	Issues to be reviewed and reported	Basis of checking
	<ul style="list-style-type: none"> For the budget sub-heading, where the combined budget has been allocated, 'Authorization' has been issued/obtained within 7-days from date of approval of appropriation act or advance act; 'Authorization' has been issued/obtained along with target and sources for the budget; 	
7.	<p>Performance agreement: Existence of Performance agreement (Sec. 19), whether:</p> <ul style="list-style-type: none"> the budget has been released with the work-plan that includes procurement plan, monthly cash flow, time-plan and benchmarking for measurement of outcomes; performance-agreement has been done; 	Agreement
8.	<p>Budget surrender: Provision relating to budget surrender (Sec. 21), whether:</p> <ul style="list-style-type: none"> budget has been surrendered within Chaitra 15; budget has been suspended by MOF without being surrendered; MOF effected for the budgeted amount to be surrendered 	Surrender letter
9.	<p>Monitoring and supervision: Existence of monitoring and supervision (Sec. 23), whether, documentary evidences exist:</p> <ul style="list-style-type: none"> quarterly monitoring by the controlling entity; monthly assessment of progress by controlling entity; quarterly / trimester progress report as prescribed; quarterly / trimester report has been sent to MOF for the projects having foreign source; 	Monitoring report
10.	<p>Contingency budget: COA has prescribed 'contingency budget sub-heading' for current expense and capital expenditure both. Auditor needs to review, whether,</p> <ul style="list-style-type: none"> Transfers contingency budget within the pre-approved programs Transfers made within first three months from the beginning of fiscal year 	Budget transfer file, budget receipt file

Sl.	Issues to be reviewed and reported	Basis of checking
	<ul style="list-style-type: none"> Expenditure effected from the appropriate accounting heading after transfer from the contingency heading. 	
11.	Duplication of similar work: Whether there is duplication of similar works with same or different programmes.	Cross verification of the programs
12.	Budget records: Whether following AG Forms 301-315 relating to budget management have been used. AG Form 301 – Budget authorization letter AG Form 302 – Authorization record AG Form 303 – Monthly cash-planning AG Form 304 – Transfer, source reallocation, amendment of program AG Form 305 – Suspension and release letter AG Form 306 - Suspension and release general record AG Form 307 – Transfer, source-reallocation general record AG Form 308 – Reimbursement ledger AG Form 309 – Commitment individual records AG Form 310 – Commitment general record AG Form 311 – Procurement plan AG Form 312 – Procurement plan (service) AG Form 313 – Office-wise Budget record AG Form 314 – Central level budget code-wise control record AG Form 315 – Central level general budget control record	Relevant AG Forms

18. Review of program achievement

Background:

Public institutions deliver services for the public as per their mandate. To deliver the services, there are approved annual target and corresponding budget for performance. Physical progress and financial progress need to match as far possible.

Relevant Legal provisions

Rule 22, 25

Audit Objectives:

Review of achievements and correlation among national plan, budget, procurement plan, expenditure and progress.

Audit Risk:

Achievement and correlation among national plan, budget, procurement plan, expenditure and progress may not match with each other

Sl.	Issues	Basis of checking
1.	Whether the major programs during the year are part regular business of the auditee	Approved program
2.	Whether the benchmarking for measurement of progress for the office has been defined	Approved program and benchmarks
3.	Whether the approved positions of personnel have been fulfilled to achieve the approved target	Study of resources and plan
4.	Whether the infrastructures, software and authorities are adequate to achieve the approved target	Study of resources and plan
5.	Whether installed IT system has been used adequately to reduce the manual workload for staff and to the service-receivers.	Study of resources and plan
6.	Whether the major programs during the year are part of national / provincial / local plan, as applicable	Periodic plan and office plan
7.	Services from the office has been delivered directly to the service-recipients without any intermediary in whatever form	Delivery process
8.	Whether the allocated budget is adequate to the approved annual program	Study of resources and plan
9.	Whether approved program and annual procurement plan are correlated (or reconciled) each other	Study of resources and plan

Sl.	Issues	Basis of checking
10.	<p>Whether the program, progress and expenditure have been,</p> <ul style="list-style-type: none"> ▪ reconciled with each other ▪ interlined with achieved physical progress and expenditure ▪ assessed for satisfactory performance 	Plan and progress report

19. Review of misuse and embezzlement

Background:

According to Sec. 54 and 55 of Financial Procedure and Financial Accountability Act, 2076, there is penalty on misuse of public assets and embezzlements. Those penal actions not only enhance accountability but also give clues to the auditors to identify weaknesses in the control system.

Relevant Legal provisions

Sec. 54 – 55

Audit Objectives:

Review of identified or possible embezzlements issues during the financial year

Audit Risk:

Embezzlement may not be identified or be reported

Sl.	Issues	Basis of checking
1.	Whether public services and resources such as electricity, vehicle, etc. have been misused during the year.	Personal use records, embezzlement report
2.	Whether inventory (store items) and other assets have been misused / embezzled during the year.	Personal use records, embezzlement report
3.	Whether there has been cash embezzlement during the year.	Personal use records, embezzlement report
4.	Whether there has been unused-bill embezzlement during the year.	Bill control registered and unused foils of bills
5.	Whether there is property (land or building) misuse or fraud during the year.	Personal use records, embezzlement report
6.	Whether there is any identified loss due to delay decision or action during the year.	Decision files, study report
7.	Whether there is any identified loss due to negligence during the year.	Decision files, study report
8.	Whether there is any identified issue relating to either, <ul style="list-style-type: none">▪ Fraudulent invoice/tax-invoice or other documents▪ Counterfeit or overwritten invoice/tax-invoice or receipt▪ Corrected words and amounts in invoice/tax-invoice	Decision files, study report, invoices

20. Deposits (*Dharauti*) management

Background

According to Rule 62 of the FPFAR, an office may collect deposits under following grounds:

- a. Collection of revenue in advance
- b. To make payment of revenue in advance in lieu of assessment
- c. In the cases, where other Nepal law requires to collect security deposit (e.g., procurement law)

Relevant Legal provisions

Rule 62

Audit Objectives:

Review of dharauti records

Audit Risk:

There may be non-recording or misreporting dharauti

Sl.	Issues	Basis of checking
1.	Deposits (Dharauti) record: According to Rule 64, each office requires to maintain own dharauti ledger, bank nagadi kitab, dharauti general ledger; whereas, DTCO single treasury dharauti accounts behaves as equivalent to the bank. Auditor needs to ensure, whether the office has: <ul style="list-style-type: none">▪ maintained the dharauti records including the designated dharauti ledger▪ records are updated on the date of transaction of dharauti▪ reconciled with the bank account▪ maintained the updated supporting documents regarding dharauti payable to the parties	Dharauti records and supporting
2.	When there is refund of dharauti (including security deposit) auditor need to verify whether: <ul style="list-style-type: none">▪ Refund has claimed within one year from end of completion of the purpose for dharauti▪ Payment has been made without fulfilling refund condition	

Sl.	Issues	Basis of checking
	<ul style="list-style-type: none"> ▪ excess amount has been refunded than required ▪ the payment has been made as per ledger amount ▪ refund has been made to the person other than the underlying payee ▪ supported by tax clearance certificate, if required 	Dharauti records and supporting
3.	<p>When there is revenue transfer of dharauti as per Rule 67, auditor need to verify whether:</p> <ul style="list-style-type: none"> ▪ Transfer has made as per the agreement, if any or within thirty days from end pf the purpose of dharauti in the absence of any agreement ▪ Fifteen-days' notice has published to inform the respective person in the case of judicial dharauti ▪ Un-named dharauti, as defined in Rule 68, has transferred to revenue 	Dharauti records and supporting
4.	When there is mortgage register as per Rule 67 for the mortgage arrangement in the place of dharauti	Dharauti / mortgage records and supporting
5.	Whether dharauti relating to retention money has been lodged for reimbursement withdrawals in the case of foreign funded projects	Withdrawal application
6.	Whether office has reconciled the dharauti ledger each month and prepare financial records as prescribed or not	Financial records and financial information

21. Review of Auction

Background:

According to Sec. 45 of Financial Procedure and Financial Accountability Act, 2076, there are conditions for mandatory initiation of auction of goods by a public office. Rule 106 – 108 prescribes the procedure for auction. Auditor needs to review the fulfilment of auction procedure.

Relevant Legal provisions
Sec. 45
Rule 106 – 108

Audit Objectives:

Review of compliance of mandatory initiation of auction of goods

Audit Risk:

Auditee may not initiate the auction procedure as legally required

Sl.	Issues	Basis of checking
1.	Physical verification: Whether annual physical verification report classifies: <ul style="list-style-type: none">▪ Wear and tear / obsolete / unusable goods which could not be reused even after repair▪ Repairable but spares are unavailable or repair costs more than 25% of market price of goods or low productivity due to obsolesced technology▪ Office in charge has made additional investigation on goods classified as not usable	Verification report
2.	Initiation of auction: Based on physical verification report, office requires to initiate the auction procedure. Whether, office has initiated auction procedure only after obtaining physical verification report: <ul style="list-style-type: none">▪ Initiated for all classified goods▪ Initiated only for few goods out of classified goods for auction▪ Office in charge has made additional investigation on classified goods	Verification report, auction file

Sl.	Issues	Basis of checking
	<ul style="list-style-type: none"> Complies with the procedures as per Rule 106 basic conditions and Rule 107 for quantification 	
3.	<p>Competitiveness: Office needs to auction goods on competitive manner to obtain highest price. Whether,</p> <ul style="list-style-type: none"> Auction notice has published publicly as described in Rule 108 Eligibility to participate in the auction is not targeted to any particular person or group of persons Highest auction price has been accepted Sufficient time has been allocated to clear the goods to the successful bidder Documentation relating to auction is updated 	Action file
4.	<p>VAT on auction: Public entity requires to collect VAT on auction of goods according to Section 15 (3) of Value Added Tax Act, 2052. Whether,</p> <ul style="list-style-type: none"> VAT has been recovered for the VAT attracting goods under auction; Office has deposited the recovered VAT into the designated account Reasons have been described thereto 	Auction file, revenue voucher
5.	<p>Remission (<i>minaha</i>): According to the provision of Section 46, there are certain cases, where remission is allowed on goods owned by a public office. The remission on goods, if any is allowed only after ascertaining whether,</p> <ul style="list-style-type: none"> Due to natural disaster, accident, or the condition beyond the control; Due to wear and tear, evaporation, or similar technical nature; Due to failure on auction process; Due to outdated technology or technical obsolescence; Due to non-usability on the ground of safety, security reasons or others as indicated 	Decision file

22. Use of AG Forms

Audit Objectives:

Review of use of mandatory AG Forms for governance and transparency

Audit Risk:

Not using the OAGN forms amounts to non-compliance and indicates weak internal control system

Sl.	Issues	Basis of checking
1.	Whether auditee maintains all the applicable AG Forms	AG forms
2.	Whether all maintained AG Forms are certified and approved as required.	AG forms
3.	In case only some of the AG Forms are in use, whether they are, <ul style="list-style-type: none">▪ adequate for recording transactions on the basis of nature, size and complexity of transaction▪ adequate for safeguard of assets and to prevent misuse on the basis of nature, size and complexity of assets owned▪ adequate for transparency and good governance▪ adequate for compliance with the legal requirements and good governance on the basis of nature, size and complexity of office	AG forms

E. Matters to be addressed in Opinion

23. Overall review for entity

Background:

According to Section 8 of Audit Act, 2075, "Matters to be audited", The Auditor General, with due regard to the regularity, economy, efficiency, effectiveness and propriety (purpose), shall be as follows:

Audit Objectives:

Review of the financial statements, whether the entity has complied with the following mandate.

According to the provision of Sec. 4 and 5 of Audit Act, 2075 Auditor General may limit the scope of audit. The scope is determined through audit plan. Therefore, following issues requires to test, if that was planned in the entity audit plan.

Sl.	Issues to be reviewed and reported	Basis of checking
1.	The amount appropriated in the concerned heading and sub-headings by the Appropriation Act for respective services and tasks have been expended for the specified purposes of designated services or tasks within the approved limit;	Review of audit evidences collected during the audit of entity and underlying offices
2.	The accounts have been maintained in the prescribed forms and reported within the prescribed period of time;	
3.	The constitutional body, ministry, department or central unit having similar hierarchy having underlying offices and province ministry having province offices, has been prepared the consolidated financial information of appropriation, revenue, security deposit or other transactions; whether the financial information presents fairly;	
4.	The accounts of federal consolidated fund, provincial consolidated fund, local level consolidated fund, emergency fund, province emergency fund and other public fund presents fairly;	
5.	The respective public entity releases the budget on time;	
6.	Financial statements truly and fairly presents the financial transactions undertaken during the period covered;	
7.	The revenue recognised or expenditure made with adequate evidences;	

Sl.	Issues to be reviewed and reported	Basis of checking
8.	The financial progress matches with physical progress;	
9.	The expenditure has been made within the authority;	
10.	The liabilities / obligations have been settled in prescribed time;	
11.	The resources available including cash, inventory and assets are appropriately utilised;	
12.	The record of public assets maintained as prescribed in law;	
13.	The public assets are maintained and secured adequately;	
14.	The provision of recording for public loan and investments, interest paid or payable or received or receivables or dividends are adequate; such accounts are maintained fairly;	
15.	Adequate legal provisions have been formulated to control the misuse during expenditure; regulating and control mechanism is adequate for that; the provisions have been enforced throughout the period;	
16.	Effective internal control system has been established or not and has been followed;	
17.	Internal audit activities are satisfactory and the internal audit reports are implemented;	
18.	Assessment, recovery, deposit and accounting for the amounts relating to revenue and public fund are as per law; adequate effort for control of revenue leakage are made;	
19.	The law relating to security deposit are adequate and implemented throughout the period;	
20.	The law relating to accounts of income and expenditure, inventories, cash and financial transactions of industrial and commercial services are adequate and implemented throughout the period;	
21.	Organogram, management and work-division of office are adequate and fair and implemented throughout the period and managed properly;	
22.	Whether there are avoidable duplication of work between personnel or between entities; the necessary work has been abandoned; the effective management has been applied to complete works within prescribed time-period;	
23.	Benchmark for output of organisation or the program has been defined; the progress have been made within the	

Sl.	Issues to be reviewed and reported	Basis of checking
	stipulated time-frame; the quality and quantity of work is as per the standards;	
24.	Objective and policy of the office is clear; the planning, budget and programs are aligned with the prescribed objectives and policy; the programs are implemented accordingly;	
25.	Programmes are implemented within the approved cost estimation, the expenditure are made after adequate analysis of cost and benefit of expenses; the return from cost incurred has been achieved as targeted;	
26.	Recording system for target, achievement, expenditure is adequate and reliable;	
27.	Monitoring, as prescribe by the law are performed and the monitoring report implemented;	
28.	The effort has made for digitized financial transactions, records and reports;	
29.	The royalty, grants, revenue-allocation among federal government, provincial government and local level have been as per the prevailing laws and are effective in terms of their usage;	
30.	The reimbursements have been received timely;	
31.	The audit observation database (<i>beruju laget</i>) and settlement are updated; efforts are made for settlement of audit observations (<i>beruju</i>);	

Part III

Only for Local level Audit

F. Compliance of federal governance laws

Local levels need to comply with the certain governance laws and principles under the federal laws. Auditor needs to review their compliances as well as to review their impact on the financial statements. According to Sec. 2 of the act, definition of 'office' includes the offices under local level as well.

24. Compliance of federal financial accountability law

According to financial procedure and financial accountability law, local levels need to comply the following provisions for their annual reporting. Auditor needs to review those compliances such as:

Sl.	Issues of governance	Basis of checking
1.	<p>According to Sec. 4, local level needs to submit the consolidated statements of financial information in the prescribed AG Form to PTCO and DTCO, covering all the offices under the local level:</p> <ul style="list-style-type: none"> ▪ Whether submitted as prescribed ▪ Whether covers all offices under the local level ▪ Whether includes all sources (own, federal or provincial or other grants, revenue – allocation, loan and the expenditures therefrom ▪ Whether submitted in prescribed AG Forms 	AG Form 275
2.	<p>According to Sec. 31, local level needs to develop and implement internal control appropriate the size, complexity and nature of the business.</p> <ul style="list-style-type: none"> ▪ Whether separate internal control framework has been developed ▪ Whether internal control addressed all of the significant operations and activities of the local level ▪ Whether internal control system implemented throughout the audit year 	Internal control system
3.	<p>According to Sec. 34, local level transaction needs to be audited by internal auditors, whether:</p> <ul style="list-style-type: none"> ▪ local level has internal audit function ▪ internal audit covers all of the transactions and activities ▪ internal audit follows internal audit standards, if any, for their audits 	Internal audit report

Sl.	Issues of governance	Basis of checking
	<ul style="list-style-type: none"> ▪ internal auditor has the mandate in accordance with the standards and Sec. 33 ▪ internal audit report implemented in accordance with Sec. 34 ▪ local authority has Audit Committee as defined in Sec. 34 	

Glossary

For the purpose of this audit guide, meaning of following terms are as follows:

Adequate Control

Present if management has planned and organised (designed) in a manner that provides reasonable assurance that the organisation's risks have been managed effectively and that the organisation's goals and objectives will be achieved efficiently and economically.

Conflict of Interest

Any relationship that is, or appears to be, not in the best interest of the organisation. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively.

Consolidated Financial Statements

Consolidated financial statement is the combined financial statements, prepared and presented of the controlling entity including financial information of all of its subordinate offices and components under its control in accordance with the applicable financial reporting framework.

Consolidated Fund

Consolidated Fund is the fund conceived by the Constitution of Nepal that the governments of all level needs to maintain and report under the prevalent laws.

Control

Any action taken by management, the senior management and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Control Environment

The attitude and actions of the senior management and management regarding the importance of control within the organisation. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- Integrity and ethical values.
- Management's philosophy and operating style.
- Organisational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

Control Processes

The policies, procedures (both manual and automated), and activities that are part of a control framework, designed and operated to ensure that risks are contained within the level that an organization is willing to accept.

Disclosure

Disclosures accounting policies, explanations or other information relevant to the financial statement amounts to be disclosed explicitly in the financial statements in accordance with the financial reporting framework.

Entity

Entity means the body that prepares financial statements in accordance with the applicable financial reporting framework, whether general or specific.

Financial accountability

As per the financial procedure and financial accountability act, the term Financial Accountability is defined as Collective accountability and compliance of the improvement for financial resources, financial discipline, transparency, accountability and responsibility but it is not mentioned in guide.

Financial Statements

Financial Statements refer to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework¹²

Financial Information

Financial Information refer to accounting and related data of the entity and/or offices which may or may not have been presented in a reporting form.

Financial Reporting Framework

Financial reporting framework is defined as a set of criteria used to determine measurement, recognition, presentation, and disclosure of all material items appearing in the financial statements.

General Government

The general government sector consists of resident institutional units that fulfil the functions of government as their primary activity such as all government units of federal, provincial and local governments and their extra budgetary units

Information Technology Controls

Controls that support business management and governance as well as provide general and technical controls over information technology infrastructures such as applications, information, infrastructure and people.

Information Technology Governance

Consists of the leadership, organisational structures and processes that ensure that the enterprise's information technology supports the organisation's strategies and objectives.

Nepal Public Sector Accounting Standards (NPSAS)

Nepal Public Sector Accounting Standards (NPSAS) is the public sector financial reporting framework adopted by the Government of Nepal (GoN).

¹² ISSAI 2200.13(f)

Office

Office means the underlying hierarchy or the constituent components of the entity that include subordinate offices (or branches where applicable) or similar bodies whose financial information are included in the financial statements.

Public Sector

Public sector includes General Government and Public Corporations

Risk

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

Risk Management

A process to identify, assess, manage and control potential events or situations to provide reasonable assurance regarding the achievement of the organisation's objectives.



महालेखापरीक्षकको कार्यालय Office of the Auditor General

बबरमहल, काठमाडौं, नेपाल
Babar Mahal, Kathmandu, Nepal

नीति योजना तथा जनशक्ति विकास महानिर्देशनालय



पत्र संख्या २०७७/७८ च नं ०३

मिति २०७७/४/१६



विषय नेपाल सरकारी लेखापरीक्षण मानकको कार्यान्वयन सम्बन्धमा

नेपाल
२०१६

श्री सबै विभागहरु

श्री सबै महानिर्देशनालयहरु

श्री सबै निर्देशनालयहरु

महालेखापरीक्षकको कार्यालय ।

उपरोक्त सम्बन्धमा लेखापरीक्षण ऐन, २०७५ को दफा २९ ले दिएको अधिकार प्रयोग गरी महालेखापरीक्षकले गर्ने लेखापरीक्षणलाई वस्तुपरक, विश्वसनीय र भरपर्दो बनाई लेखापरीक्षणको गुणस्तर अभिवृद्धि गर्न साविकमा स्वीकृत भएका सरकारी लेखापरीक्षण मानदण्ड एवं सरकारी लेखापरीक्षण नीति मानदण्ड खारेज गरी सर्वोच्च लेखापरीक्षण संस्थाहरुको अन्तर्राष्ट्रिय संगठनले जारी गरेका अन्तर्राष्ट्रिय लेखापरीक्षण मान (INTOSAI Framework for Professional Pronouncements, IFPP) मा आधारित "नेपाल सरकारी लेखापरीक्षण मान" (Nepal Government Auditing Standards, NGAS) २०७७/४/१६ मा स्वीकृत गरिएको छ । अतः कार्यालयबाट यस वर्षदेखि लेखापरीक्षण गर्दा तपसिलका नेपाल सरकारी लेखापरीक्षण मानको कार्यान्वयन गर्नु हुन अनुरोध छ ।

तपसिल

NGAS नम्बर	नेपाल सरकारी लेखापरीक्षणमानको नाम
INTOSAI-P 1	The Lima Declaration
INTOSAI-P 10	Mexico Declaration on SAI Independence
INTOSAI-P 12	The Value and Benefits of Supreme Audit Institutions- making a difference in a life of citizens
INTOSAI-P 20	Principles of Transparency and Accountability
ISSAI 100	Fundamental Principles of Public-Sector Auditing
ISSAI 130	Code of Ethics
ISSAI 140	Quality Control for SAIs
ISSAI 200-299	Financial Audit Principles
ISSAI 300-399	Performance Audit Principles
ISSAI 400-499	Compliance Audit Principles
ISSAI 2000-2899	Financial Audit Standards
ISSAI 3000-3899	Performance Audit Standards
ISSAI 4000-4899	Compliance Audit Standards

जानकारीको लागि

माननीय महालेखापरीक्षकज्यू ।

भवदीय

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"जनहितका लागि जवाफदेहिता, पारदर्शिता र निष्ठा प्रवर्धनमा विश्वसनीय लेखापरीक्षण संस्था"