



Disaster Management Audit Directives



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

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Foreword

It is my immense pleasure to release the Disaster Management 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.

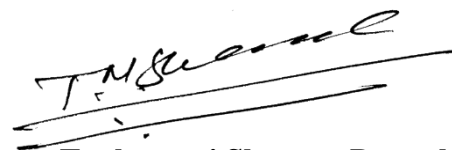
This directives provides a clear picture of methods and approaches to audit that the audit staff is required to comply with in imparting their duties. It has been built around the prevailing Audit Act, Nepal Government Auditing Standards (NGASs), and office policies that require conducting a high-quality 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 audit cycle for auditing disaster management 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.

May 15, 2023



Tankamani Sharma, Dangal
Auditor General

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Acronyms and Abbreviations

AI	Artificial Intelligence
DRR	Disaster Risk Reduction
ERP	Enterprise Resource Planning
GIS	Geographic Information System
GLOFs	Glacial Lake Outburst Floods
IAEG-SDGs	Inter-Agency and Expert Group on SDG indicators
IATI	International Aid Transparency Initiative
ICAI	Institute of Chartered Accountants of India
ICAN	Institute of Chartered Accountants of Nepal
ICT	Information and Communication Technology
IFAC	International Federation of Accountants
IFAF	Integrated Financial Accountability Framework
IFPP	INTOSAI Framework of Professional Pronouncements
ILS	Institutional and Legislative Systems
INTOSAI	International Organization of Supreme Audit Institutions
NGOs	Non-Governmental Organizations
OAGN	Office of the Auditor General of Nepal
OECD	Organisation for Economic Co-operation and Development
PAOs	Professional Accountancy Organizations
SAIs	Supreme Audit Institutions
SDGs	Sustainable Development Goals
UNDRR	United Nations Office for Disaster Risk Reduction
UNFCCC	United Nations Framework Convention on Climate Change
WG AADA	Working Group on Accountability for and the Audit of Disaster- related Aid

Glossary¹ of important terms relating to disaster management

Glossary of important terminology is given. Most of the definitions are adopted from the UNDRR (United Nations Office for Disaster Risk Reduction), developed by the United Nations General Assembly on 2 February 2017 (i.e., adopted by the international community and generally accepted).

I. DISASTER:

A serious disruption of the functioning of a community or a society at any scale due to hazardous events interacting with conditions of exposure, vulnerability, and capacity, leading to one or more of the following: human, material, economic and environmental losses, and impacts. The effect of the disaster can be immediate and localized but is often widespread and could last for a long period of time. The effect may test or exceed the capacity of a community or society to cope using its own resources, and therefore may require assistance from external sources, which could include neighbouring jurisdictions, or those at the national or international levels. The following terms are also used:

- ▶ Small-scale disaster: a type of disaster only affecting local communities which require assistance beyond the affected community.
- ▶ Large-scale disaster: a type of disaster affecting a society which requires national or international assistance
- ▶ Frequent and infrequent disasters: depend on the probability of occurrence and the return period
- ▶ of a given hazard and its impacts. The impact of frequent disasters could be cumulative, or become chronic for a community or a society
- ▶ A slow-onset disaster is defined as one that emerges gradually over time. Slow-onset disasters could be associated with, e.g., drought, desertification, sea-level rise, epidemic disease,
- ▶ A sudden-onset disaster is one triggered by a hazardous event that emerges quickly or unexpectedly. Sudden-onset disasters could be associated with, e.g., earthquake, volcanic eruption, flash flood, chemical explosion, critical infrastructure failure, transport accident,

II. DISASTER MANAGEMENT:

The organization, planning and application of measures preparing for, responding to, and recovering from disasters.

III. DISASTER PREPAREDNESS PLANNING:

Disaster preparedness planning can be defined as the process of systematically preparing for future contingencies, including major incidents and disasters. The plan is usually a document shared between participants and stakeholders that specifies tasks and responsibilities adopted in the multiagency response to the emergency. It is a blueprint for managing events and should be responsive to management needs. It should specify the lines of action, collaboration, command, and communication during a disaster or major event. In other words, it is the framework for emergency response. In addition, the plans are needed to maintain continuity while managing the crisis, and to guide recovery and reconstruction effectively, therefore disaster preparedness planning is often referred to as contingency planning. In addition to planning, another important aspect of preparedness is assessing capabilities to better identify gaps and measures to address these gaps.

IV. DISASTER-RELATED AID:

Disaster-related aid covers aid provided to fund disaster preparedness measures or activities as well as aid provided to help people who are victims of a natural disaster or conflict to meet their basic needs and rights. This aid aims at saving lives, alleviating suffering, and protecting human dignity. It can be provided from public and private donors

¹ <https://www.issai.org/wp-content/uploads/2019/08/Guid-5330-Exposure-Draft.pdf>

to those affected by disaster (individual, community, organization, or government) as cash or financial aid and in-kind aid, or a mixture of these. Financial aid is cash or other monetary assistance. In-kind aid is assistance in the form of materials or services, such as food, tents, and the secondment of staff or international military assistance.

Disaster aid can flow:

- ▶ directly from donors to the affected by disaster, for example from donor governments to the governments of affected countries or from NGOs which have collected private contributions to affected communities
- ▶ through one or more intermediary entities which may be operational agencies implementing aid actions directly, or international agencies channelling aid towards operational agencies or directly to individuals or communities in need.

V. DISASTER RISK:

The potential loss of life, injury, and destruction or damage to assets which could occur to a system, society, or a community in a specific period, determined probabilistically as a function of hazard, exposure, vulnerability, and capacity. Disaster risk comprises different types of potential losses which are often difficult to quantify. Nevertheless, with knowledge of the prevailing hazards and the patterns of population and socioeconomic development, disaster risks can be assessed and mapped, in broad terms at least. It is important to consider the social and economic contexts in which disaster risks occur and to bear in mind that people do not necessarily share the same perceptions of risk and their underlying risk factors.

VI. DISASTER RISK MANAGEMENT:

Disaster risk management is the application of disaster risk reduction policies and strategies to prevent new disaster risk, reduce existing disaster risk and manage residual risk, contributing to the strengthening of resilience and reduction of disaster losses. Disaster risk management actions can be divided into prospective disaster risk management, corrective disaster risk management and compensatory disaster risk management, also called residual risk management. Prospective disaster risk management activities address and seek to avoid the development of new or increased disaster risks. They focus on addressing disaster risks that may develop in future if disaster risk reduction policies are not put in place.

Examples are better land-use planning or disaster-resistant water supply systems. Corrective disaster risk management activities address and seek to remove or reduce disaster risks which are already present, and which need to be managed and reduced now. Examples are the retrofitting of critical infrastructure or the relocation of exposed populations or assets. Compensatory disaster risk management activities strengthen the social and economic resilience of individuals and societies in the face of residual risk that cannot be effectively reduced. They include preparedness, response, and recovery activities, but also a mix of different financing instruments, such as national contingency funds, contingent credit, insurance and reinsurance and social safety nets.

VII. DISASTER RISK MANAGEMENT PLANS:

Disaster risk management plans set out the goals and specific objectives for reducing disaster risks together with related actions to accomplish these objectives. They should be guided by the Sendai Framework for Disaster Risk Reduction 2015-2030 and considered and coordinated within relevant.

The Sendai Framework for Disaster Risk Reduction is a 15-year, voluntary, non-binding agreement which recognizes that the State has the primary role to reduce disaster risk; but that responsibility should be shared with other stakeholders including local government, the private sector, and other stakeholders. It aims for the substantial reduction of disaster risk and losses in lives, livelihoods, and health and in the economic, physical, social, cultural,

and environmental assets of persons, businesses, communities, and countries. development plans, resource allocations and programme activities.

National plans need to be specific to each level of administrative responsibility and adapted to the different social and geographical circumstances that are present. The timeframe and responsibilities for implementation and the sources of funding should be specified in the plan. Links can be made to sustainable development and climate change adaptation plans should be drawn up where possible.

VIII. DISASTER RISK REDUCTION:

Disaster risk reduction is aimed at preventing new and reducing existing disaster risk and managing residual risk, all of which contribute to strengthening resilience and therefore to the achievement of sustainable development.

IX. DISASTER RISK REDUCTION STRATEGIES AND POLICIES:

Disaster risk reduction strategies and policies define goals and objectives across different timescales and with concrete targets, indicators, and time frames. In line with the Sendai Framework for Disaster Risk Reduction 2015-2030, these should be aimed at preventing the creation of disaster risk, the reduction of existing risk and the strengthening of economic, social, health and environmental resilience.

X. EARLY WARNING SYSTEM:

An integrated system of hazard monitoring, forecasting and prediction, disaster risk assessment, communication and preparedness activities systems and processes that enables individuals, communities, governments, businesses, and others to take timely action to reduce disaster risks in advance of hazardous events.

- ▶ Effective “end-to-end” and “people-centred” early warning systems may include four interrelated key elements:
- ▶ Disaster risk knowledge based on the systematic collection of data and disaster risk assessments
- ▶ Detection, monitoring, analysis and forecasting of the hazards and possible consequences
- ▶ Dissemination and communication, by an official source, of authoritative, timely, accurate and actionable warnings and associated information on likelihood and impact; and
- ▶ Preparedness at all levels to respond to the warnings received. These four interrelated components need to be coordinated within and across sectors and multiple levels for the system to work effectively and to include a feedback mechanism for continuous improvement. Failure in one component or a lack of coordination across them could lead to the failure of the whole system.

XI. EMERGENCY:

A serious situation or occurrence that happens unexpectedly and demands immediate action.

XII. EMERGENCY RELIEF:

Emergency relief represents the financial assistance, goods or services made available to individuals and communities that have experienced losses due to disasters.

XIII. EMERGENCY RESPONSE:

Emergency response is the effort made to mitigate the impact of a disaster on the population and the environment.

XIV. GEOGRAPHIC INFORMATION SYSTEMS (GIS):

GIS are used to integrate, store, analyse, manage, and present data that are linked to locations. GIS technology can be used by governments to assess where hazardous natural phenomena are likely to occur. Mapping hazards and

potential sources of disaster using GIS provides essential data for disaster risk reduction plans by allowing governments to link data using a geographical dimension.

XV. HAZARD:

A process, phenomenon or human activity that may cause loss of life, injury or other health impacts, property damage, social and economic disruption, or environmental degradation. Hazards may be single, sequential, or combined in their origin and effects. Each hazard is characterized by its location, intensity or magnitude, frequency, and probability.

XVI. PREVENTION:

Activities and measures to avoid existing and new disaster risks. Prevention (i.e., disaster prevention) expresses the concept and intention to completely avoid potential adverse impacts of hazardous events. While certain disaster risks cannot be eliminated, prevention aims at reducing vulnerability and exposure in such contexts where, as a result, the risk of disaster is removed.

Examples include dams or embankments that eliminate flood risks, land-use regulations that do not permit any settlement in high-risk zones, seismic engineering designs that ensure the survival and function of a critical building in any likely earthquake and immunization against vaccine-preventable diseases. Prevention measures can also be taken during or after a hazardous event or disaster to prevent secondary hazards or their consequences, such as measures to prevent the contamination of water.

XVII. RECONSTRUCTION:

The medium- and long-term rebuilding and sustainable restoration of resilient critical infrastructures, services, housing, facilities, and livelihoods required for the full functioning of a community, or a society affected by a disaster, aligning with the principles of sustainable development and “build back better”, to avoid or reduce future disaster risk.

XVIII. RECOVERY:

The restoring or improving of livelihoods and health, as well as economic, physical, social, cultural, and environmental assets, systems, and activities, of a disaster-affected community or society, aligning with the principles of sustainable development and “build back better”, to avoid or reduce future disaster risk.

XIX. REHABILITATION:

The restoration of basic services and facilities for the functioning of a community or a society affected by a disaster.

Chapter 1: Introduction and Background

Disaster management is a specialized subject. Therefore, to audit of the disaster related subject matter, auditor must have the requisite knowledge of the subject matter. The information contained in Chapter 1 is the essential knowledge the auditors must possess for auditing disaster related subject matter. The Chapter deals with applicable ISSAIs, best practices contained in GUIDs, the disasters pertinent to Nepal, OAGN's role in the audit of disasters, classification of various disasters, different disaster phases, and the international frameworks/best practices useful to audit of disaster management related subject matter.

1.1 About the Disaster Management Audit Directives

- ▶ Disaster management is a specialized subject. To audit disaster management related subject matter, OAGN auditors shall know the subject matter. They must understand the international benchmarked best practices and capable to customize them to the national context of Nepal.
- ▶ The auditor must be familiar with the subject matter with international frameworks and national legislative and institutional systems to reduce the impact and manage the disaster.

The Disaster Management Audit Directives provides guidance to OAGN auditors in auditing disaster management related subject matter with essential know how covering the selection of the subject matter, audit planning, audit execution, reporting and follow up.

1.2 Design of Disaster Management Audit Directives

In designing this directives, the content of the OAGN's existing manual on the subject consistent with the latest applicable ISSAIs and the IFPP's GUIDs have been retained. Additional material relating to disaster phases, international best practices and other relevant matter is added with explanations.

Annexures provide additional inputs to enable effective audit of disaster related subject matter. Based on the subject matter and the context, auditors are encouraged to customize and innovate the audit procedures.

Applicable ISSAIs and GUIDs on disaster related subject matter:

Relevant ISSAI documents (issai.org) are:

ISSAIs on the audit of disaster management: ISSAI 5500 series and INTOSAI GOV 9250

The Working Group on Accountability for and the Audit of Disaster-related Aid (WG-AADA).

In 2007 INCOSAI created the Working Group on Accountability for and the Audit of Disaster-related Aid (WG-AADA) to prepare guidelines to assist SAIs in auditing disaster-related aid and to ensure accountability and transparency in humanitarian aid and it presented its paper to INCOSAI conference held in China in 2013 containing the following:

- ▶ a new 5500 series of ISSAIs on auditing disaster-related aid including examples of good practices provided by SAIs,

- ▶ an INTOSAI GOV presenting the Integrated Financial Accountability Framework (IFAF), which is a framework for reporting transparent, verified information on humanitarian aid detailed in INTOSAI GOV 9250 which stipulates the following:
 - Stakeholders of humanitarian aid, both providers and recipients, should prepare IFAF tables and encourage their partners to do so as well,
 - Work should continue so that the production of IFAF tables is integrated into the IATI initiative by further developing IATI tools to enable this; and
 - SAIs should continue to support the IFAF initiative and recommend its implementation wherever possible.

The 5500 series of ISSAIs

The 5500 series of ISSAIs relate to auditing disaster-related aid as indicated below:

- ▶ ISSAI 5500 – Introduction to the 5500 series on disaster-related aid and INTOSAI GOV 9250
- ▶ ISSAIs 5510 and 5520 relate to audit of the pre-and post-disaster phases, respectively.
- ▶ ISSAI 5510 – The audit of disaster risk reduction
- ▶ ISSAI 5520 – The audit of disaster-related aid
- ▶ ISSAI 5530 - Adapting audit procedures to take account of the increased risk of fraud and corruption in the emergency phase following a disaster
- ▶ ISSAI 5540 - Use of geospatial information in auditing disaster management and disaster-related aid
- ▶ ISSAI 5500 provides an overview of the series of ISSAIs on disaster-related aid and
- ▶ INTOSAI GOV 9250.

The ISSAIs contain examples of auditing disaster-related aid a to supplement the general guidance. They provide detailed guidelines for conducting audits relating different stages of disaster management.

As the government of Nepal formulates its disaster management policy and legal and institutional set up to manage different types of disasters, these aspects are also covered.

- ▶ ¶The Directives contains also non-mandatory best practices contained in GUIDs.
- ▶ ¶Once the Directives is approved by OAGN it shall become mandatory.
- ▶ ¶INTOSAI GUID 5330 is aligned with ISSAI 100 to audit disaster management. GUID 5330 is yet to be finalized, however, it contains updated best international practices. The Guide covers the audit of pre-disaster activities/disaster risk reduction, emergency response, post disaster aid and rehabilitation and reconstruction aspects.

1.3 Objectives of the Directives

The main objectives of the Disaster Audit Directives are as follows:

- ▶ To assist the auditors to conduct audit of disaster management following the benchmarked international best practices with professionalism,
- ▶ To make disaster management audits cost-effective, efficient, and effective,
- ▶ To familiarize the fundamental concepts of disaster management audit and design audit planning, process, and procedures,
- ▶ To identify subject matter related for audit of disaster management activities, selecting audit methodology with risk assessment,
- ▶ To enhance the competence of the auditors of OAGN to audit disaster management audits.

1.4 Background of disaster management in Nepal

Nepal is exposed to natural and human-induced disasters. The country ranks 4th, 11th and 30th in terms of climate change, earthquake, and flood risk respectively². The country is susceptible to floods, landslides, glacial lake outburst floods, earthquakes, epidemic, and fire.

Nepal is prone to recurrent multiple hazards³. Every year, the country suffers loss of human lives and damage to properties due to natural and non-natural disasters like flood, landslide, thunderbolt, fire, road accidents, and epidemics⁴. The country is affected by natural hazards like earthquake, flood, landslide, soil erosion, inundation, lightning, drought, snowstorm, hailstorm, avalanche, glacial lake outburst, heavy rainfall, rainfall deficit, windstorm, cold wave, heat wave and forest fire due to the adverse geography, fragile geology, climate variability and climate change and is also affected by the non-natural hazards like road accidents, epidemics, famine, insect and micro-organism havoc, animal and bird influenza, universal contagious pandemic flu, snake bite, animal terror, accidents in mines, air, water and industry, fire, poisonous gas, chemical or radiation leakage, gas explosion, poisonous food consumption, environmental pollution, deforestation or physical infrastructure damage and accident during rescue. The examples include ongoing COVID-19 pandemic of 2020, Gorkha earthquake of April 2015, flood, and landslide of 2014 and 2017 where the country suffered loss of lives and damages of properties. Growing population, poverty, unplanned urban development, and risk-prone development activities increase the disaster vulnerabilities.

Nepal experienced frequent catastrophic earthquakes. Kathmandu Valley is the world's most risky urban area to seismic activity, Nepal is in the top 20 multi-hazards prone countries in the world⁵.

More than 80% of the population is exposed to the risk of natural hazards, such as earthquakes, droughts, floods, landslides, extreme temperature, and glacier lake outburst floods (GLOFs). The environment, economic and social implications of hazards are severe resulting into loss of livelihoods, increased poverty and the loss of agricultural crops leading to food insecurity. The socio-economic aspects, including caste, ethnicity, employment, and gender contribute to social vulnerability. The most productive Terai regions suffer the most severe consequences of climate change.

The success of disaster management depends on systematic formulation of policy strategies, legal provisions, and institutions in dealing with disasters, divided into four phases of a disaster management cycle, disaster preparedness, response, relief/recovery, and mitigation. The Government of Nepal has made efforts to formulate and implement legal and policy provisions for disaster risk management.

Disaster risk reduction policy interventions

Future disaster risk reduction and enhancing climate resilience in Nepal are significant for disaster risk reduction and management. Nepal has adopted the important global policy frameworks are Sendai Framework for Disaster Risk Reduction and Sustainable Development Goals and the Paris Climate Agreement.

The Disaster Risk Reduction (DRR) Report 2019

The Disaster Risk Reduction (DRR) report⁶ 2019 sums up the progress Nepal has achieved under the four priorities of the Sendai Framework and some of the key challenges such as creating coherence among the global frameworks

² (MoHA, 2016)

³ <http://drrportal.gov.np/uploads/document/1476.pdf>

UNDRR (2019). *Disaster Risk Reduction in Nepal: Status Report 2019*. Bangkok, Thailand, United Nations Office for Disaster Risk Reduction (UNDRR), Regional Office for Asia and the Pacific

⁵ (MoHA, 2017)

5. UNDRR (2019). *Disaster Risk Reduction in Nepal: Status Report 2019*. Bangkok, Thailand, United Nations Office for Disaster Risk Reduction (UNDRR), Regional Office for Asia and the Pacific

at the country level and strengthening the overall Disaster Risk Management (DRM) governance by government institutions and other stakeholders at national, sub-national, and local levels.

To audit disaster management related subject matter, the auditors of OAGN must be familiar with varied types of disasters applicable to Nepal, different phases of disasters and how to prepare, manage and measures to mitigate the adverse impact to life and property.

Applicability of OAGN's FA/CA/PA Manuals/Guides

As disaster management can be conducted under Financial, Compliance and Performance Audits, the respective OAGN Manual/Guide/Guidelines must be used in audit planning, conducting, reporting, follow up and documentation/working papers and quality review of the audit process.

1.5 OAGN's role in audit of disaster management:

- ▶ The Government of Nepal is prone to disasters like earthquakes, floods, fires, avalanches etc. and has been facing disasters and as per the government sources available on the website of the Ministry of Home Affairs and other ministries of the Government of Nepal, substantial financial and human resources are being invested for disaster management. The central, provincial, and local governments, ministries, departments, national and local bodies of Nepal are involved in disaster management.
- ▶ OAGN has a predominant role in ensuring accountability, transparency and good governance relating to disaster management especially risk reduction, cost effectiveness of risk reduction actions, auditing the post disaster aid for rehabilitation and reconstruction work. Often, ex-ante controls may not be effective, standard operating procedures not in place and institutional mechanisms are inadequate or weak.

OAGN conducts audits in accordance with the Constitution of Nepal, the Audit Act and other applicable laws, regulations, rules, standards, and directives. To increase the quality, reliability, and professionalism in auditing, OAGN is following the guidelines and standards issued by INTOSAI, the apex international body on formulating auditing frameworks, standards, and guidelines.

Statutory and legal provisions related to audit

The Constitution of Nepal guarantees the Auditor General the right to conduct audit the accounts of all government offices and bodies as provided in the law considering the regularity, economy, efficiency, effectiveness, and propriety. As per the constitutional provision, the Auditor General or any of his staff may request and view any documents and information for audit at any time and to be provided by the concerned head of office. The Audit Act, 2075, the Auditor General is empowered to decide the audit methods and areas to be covered in the audit. The Act provides entity to submit documents relating to performing the audits.

1.6 Disaster management: definition, key concepts, and applicable frameworks

To audit disaster related themes, auditor must be familiar with disasters, types of disasters and mitigation and management of disasters.

1.6.1 Definition of disaster

Disaster is⁷ 'a serious disruption of the functioning of a community or a society at any scale due to hazardous events interacting with conditions of exposure, vulnerability and capacity, leading to one or more of the following: human, material, economic and environmental losses and impacts. The effect of the disaster can be immediate and localized but is often widespread and could last for a long period of time. The effect may test or exceed the capacity of a

⁷ <https://www.unisdr.org/we/inform/terminology>

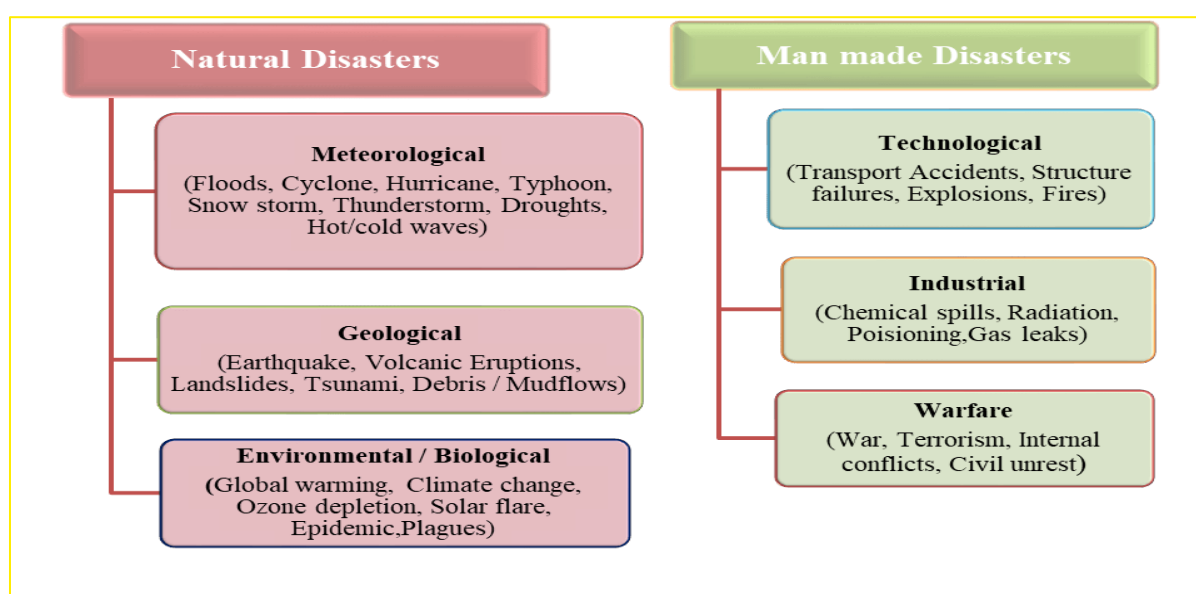
community or society to cope using its own resources, and therefore may require assistance from external sources, which could include neighbouring jurisdictions, or those at the national or international levels.

The following terms are also used:

- ▶ Small-scale disaster: a type of disaster only affecting local communities which require assistance beyond the affected community.
- ▶ Large-scale disaster: a type of disaster affecting a society which requires national or international assistance.
- ▶ Frequent and infrequent disasters: depend on the probability of occurrence and the return period Disasters and their impact.

Classification of Disasters

Disasters can be classified broadly in two types: natural disasters and man-made disasters as below:



Source: <https://www.asosaijournal.org/audit-of-disaster-management-an-experience-of-sai-nepal/>

Legal and Policy and institutional frameworks in Nepal for Disaster Management

Nepal has, not limiting to this, adopted following laws and policies to deal with disaster related issues.

Some of the important terms relating to disaster management are defined in the Glossary as these terms are important to understand the relevant concepts.

1.6.2 Disasters and their impact

Auditors must know the nature of disasters, unpredictability in many of them and their impact to prepare for the audit of disaster related subject matter. Disasters may strike any part of the world at any time.

Disasters can be due to natural causes (e.g., earthquakes, tsunamis, flooding, or volcanic eruptions) or man-made ones (e.g., building in a flood plain, inappropriate building standards for earthquake-prone areas or nuclear

accidents) or a combination of them. Disaster may occur suddenly (e.g., earthquakes) or develop slowly (e.g., drought).

According to the International Federation of the Red Cross and Red Crescent Societies more than 90 percent of natural hazards are climate change related, caused by intense weather conditions.

Disasters often have severe human, environmental, economic. and social impact. Consequently, huge expenditure is incurred on humanitarian aid, rehabilitation of the people affected, re-building and reconstruction of infrastructure and public facilities. Disaster risk reduction activities must be cost-effective.

Each country formulates a disaster management policy with a view to improving the critical situation arising from the aftermath of the disaster. These policies cover most of the activities outlined in the above disaster management cycle. Disaster management including pre-disaster and post-disaster conditions.

1.6.3 Disaster Management Cycle

Note:

- ▶ To audit any disaster related subject matter, it is important to know the four phases of disaster management and the concerned in Nepal responsible for taking mitigation, remedial and preventive actions.
- ▶ OAGN audit can take any cycle of any disaster applicable to Nepal based on the selection criteria such as significance, auditability, public concern, risks to lives and property, possible outcome in systemic improvements, magnitude of expenditure incurred.
- ▶ Disaster management cycle must be clearly understood to know how to audit disaster related subject matter and prepare and plan audit of each any of the phase selected for audit based on OAGN's priority and magnitude of expenditure, auditability, impact, and other criteria. It is said, 'You are not supposed to stop the rain, but you are supposed to use umbrella during rain'.

This axiom is true in management of disasters. Disasters cannot be stopped but can be managed to ensure minimal effects. Disaster management involves activities aimed at *Disaster Risk Reduction*.

A *disaster risk reduction* is defined as 'the concept and practice of reducing disaster risks through systematic efforts to analyse and reduce the causal factors of disasters, including through reduced exposure to hazards, lessened vulnerability of people and property, wise management of land and the environment, and improved preparedness for adverse events.'

Disaster Management cycle is divided into six segments, as shown in figure 1.

Two of these segments relate to pre-disaster activities dealing with preventive and preparatory measures which government can establish and operate in advance of potential disaster; and the other four segments describe the post disaster activities that follow the occurrence of disaster.

1. Pre-Disaster Activities:

Prevention and Mitigation – Building codes and zoning, Vulnerability analyses, public education
Preparedness – Preparedness plans, Emergency exercises, Training, Warning systems

2. Post-Disaster Activities:

Recovery and Relief activities – Emergency operations, search & rescue, first aid, relief distribution
National and International response to emergency
Rehabilitation – Temporary shelter, Basic facilities, medical care, social cares
Reconstruction– Full Restoration of Services, rebuild destroy property, Repair infrastructure

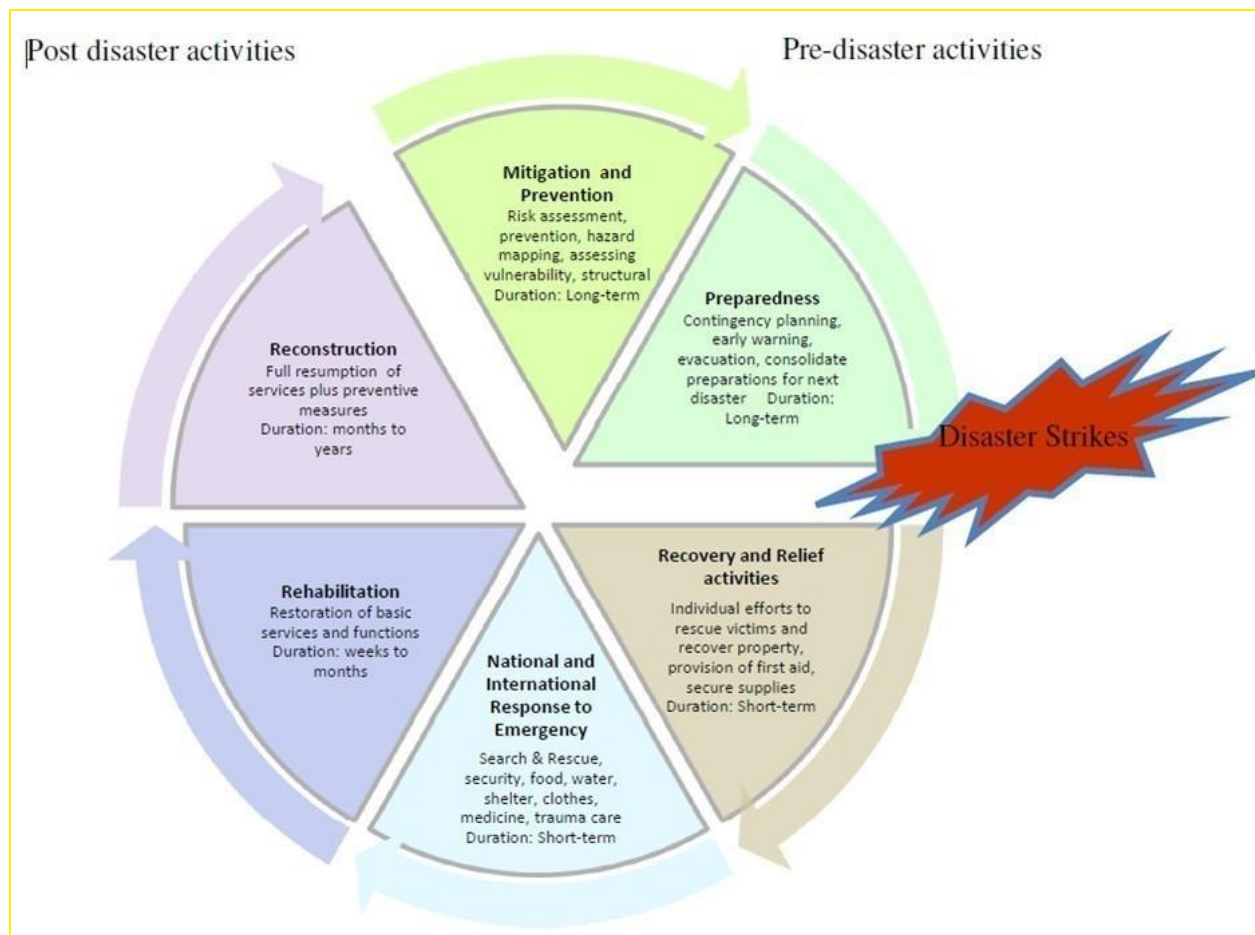


Figure 1: Disaster management cycle showing pre- and post-disaster phases

Source: <https://www.issai.org/wp-content/uploads/2019/08/Guid-5330-Exposure-Draft.pdf>

In advance of a disaster, governments focus on prevention, mitigation and preparedness measures including assessing the risk of disaster, the installation of early warning systems, developing and testing plans of action, educating the population at risk and taking actions to reduce the vulnerability of infrastructure to disaster impacts. These activities are based on experiences of previous similar disasters and can be grouped together under the heading “Disaster Risk Reduction”.

Activities which take place once disaster strikes are emergency or non-emergency in nature and can be carried out at individual, local, national, and international level.

Emergency response activities include:

- ▶ rescue, recovery, first aid assistance, evacuation of the injured and dignified and proper management of the dead,
- ▶ emergency assistance and services (shelter, water, medicines etc.),
- ▶ emergency food aid; and
- ▶ coordination of the relief and assistance actions, and crisis communications.

Post disaster activities include:

After the emergency, the post-disaster rehabilitation and reconstruction activities commence designed to rebuild housing and infrastructure, exploring opportunities to reduce future disaster risks, and restore services and the functioning of the local economy and alleviate survivor’s emotional distress.

1.6.4 Applicable global disaster risk reduction frameworks applicable universally as well as in Nepal

The benchmarked global disaster risk frameworks are applicable universally all over the world. The Government of Nepal also uses these frameworks with suitable adaptation and contextualization to the country's specific situations. Hence OAGN auditors must have clear understanding of the frameworks so that they know how the government uses them and how they must be factored while conducting audit of disaster related subject matter especially—during planning and designing the audit, audit execution, reporting and during the follow up process.

The global frameworks for disaster risk reduction, climate resilience and management are Sendai Framework for Disaster Risk Reduction, Sustainable Development Goals, and the Paris Climate Agreement. These frameworks aim to strengthen resilience and adaptive capacity to climate-related natural disasters with common national, regional, and global indicators and targets to manage the risks and rebuild after a crisis. In 2015, the United Nations Framework Convention on Climate Change (UNFCCC) reached the Paris Agreement to strengthen the global climate change response and foster climate resilience aiming 'to enhance adaptive capacity and resilience; and to reduce vulnerability, with a view to contributing to sustainable development'.

i. The United Nations 2030 Agenda for Sustainable Development Goals (SDGs)

The United Nations 2030 Agenda for Sustainable Development Goals (SDGs) include 17 goals and 169 targets for all countries to pursue. One of the goals is SDG 13 "Take Urgent Action to Combat Climate Change and its Impact. The target of SDG 13.1 is to strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries. Besides, there are 232 indicators covering all SDGs and targets developed by the Inter-Agency and Expert Group on SDG indicators (IAEG-SDGs) and endorsed by the UN Statistical Commission in March 2016. The 2030 Agenda members commit to engage in systematic follow-up, monitoring and review effective implementation focusing on the integration of SDGs into national development plans, strategies, and policies. This involves mapping the SDGs to existing government policies, programs, and agencies. A theme is crosscutting nature of the goals across multiple policies, programs, and agencies, and need coordination. In later years, the review will focus on actual achievement of SDGs, monitoring progress against the target and indicators, evaluating policies and programs, and reporting on progress.

ii. UN Sendai Framework for Disaster Risk Reduction

The Sendai Framework is a 15-year, voluntary, non-binding agreement that recognizes the national government's role to reduce disaster risk, however this responsibility should be shared with local government and the private sector and other stakeholders. The framework aims to reduce disaster risk and losses in lives, livelihoods, and health, and in the economic, physical, social, cultural, and environmental assets of people, businesses, communities, and countries with targets and priorities for action on disaster risk management, prevention of new risk, reducing existing risk and strengthening resilience. Sustainable development cannot be attained while disasters undermine economic growth and social progress. As the impacts of natural hazards are increasing in frequency and intensity due to the impacts of climate change, disaster risk reduction needs to be at the core of sustainable development.

The Sendai Framework for Disaster Risk Reduction 2015-2030 includes seven global targets⁸ with four priorities for action to reduce the impact of disasters. Strong accountability is the cornerstones of the Framework. It has 38 indicators to track progress in implementing the seven targets of the Framework reflected in the Sustainable Development Goals 1, 11 and 13.

⁸ <https://www.preventionweb.net/sendai-framework/sendai-framework-monitor/>



Figure: Sendai Framework for Disaster Risk Reduction 2015-2030

iii. Integrated monitoring of the global targets of the Sendai Framework and the Sustainable Development Goals

Progress in implementing the Sendai Framework meets progress towards meeting SDGs. Progress on SDGs can substantially build the resilience of people and governments to face disasters. There are several targets across 17 SDGs related to disaster risk reduction. All seven global targets of the Sendai Framework are critical for the achievement of SDGs.

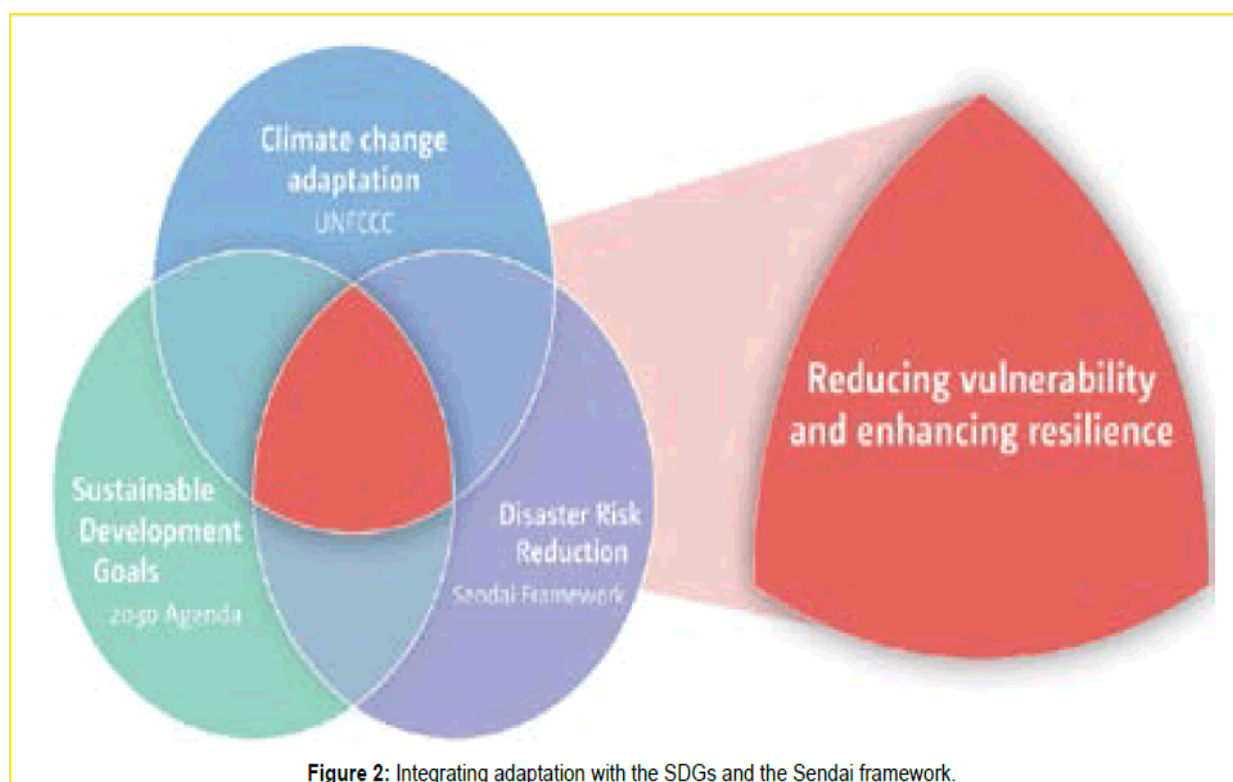
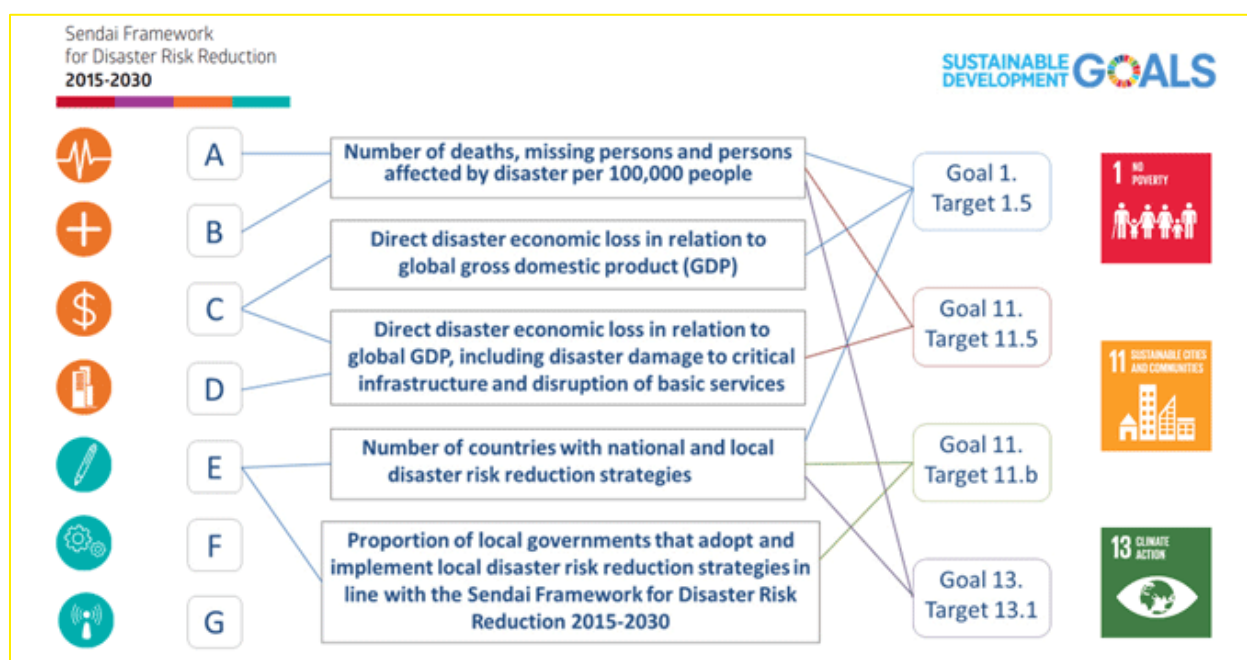


Figure: Integrating Adaptation with the Sustainable Development Goals and the Sendai Framework.

Source: https://unfccc.int/sites/default/files/resource/techpaper_adaptation.pdf:

Specifically, the Sendai Framework contributes to SDG 13 aims to reduce the risk of disasters as fundamental to climate change adaptation and sustainable development. Major disasters are caused by floods, storms, heatwaves, droughts, and other weather-related events consequent to climate change, which triggers wildfires, famine, health emergencies and other disasters. The Sendai Framework shifts the priorities from managing disasters to managing current and future risks including those due to climate change.



As a reflection of this, important synergies exist between reporting on the two frameworks. Monitoring of the Sendai Framework is intended to complement monitoring of 11 SDG indicators listed below

SDG indicators		Sendai Framework indicators
Goal 1. End poverty in all its forms everywhere		
1.5.1	Number of deaths, missing persons and directly affected persons attributed to disasters per 100,000 population	A1 and B1
1.5.2	Direct economic loss attributed to disasters in relation to global gross domestic product (GDP)	C1
1.5.3	Number of countries that adopt and implement national disaster risk reduction strategies in line with the Sendai Framework for Disaster Risk Reduction 2015-2030	E1
1.5.4	Proportion of local governments that adopt and implement local disaster risk reduction strategies in line with national disaster risk reduction strategies	E2
Goal 11. Make cities and human settlements inclusive, safe, resilient, and sustainable		
11.5.1	Number of deaths, missing persons and directly affected persons attributed to disasters per 100,000 population	A1 and B1
11.5.2	Direct economic loss in relation to global GDP, damage to critical infrastructure and number of disruptions to basic services, attributed to disasters	C1, D1, D5
11.b.1	Number of countries that adopt and implement national disaster risk reduction strategies in line with the Sendai Framework for Disaster Risk Reduction 2015-2030	E1
11.b.2	Proportion of local governments that adopt and implement local disaster risk reduction strategies in line with national disaster risk reduction strategies	E2
Goal 13. Take urgent action to combat climate change and its impacts		
13.1.1	Number of deaths, missing persons and directly affected persons attributed to disasters per 100,000 population	A1 and B1
13.1.2	Number of countries that adopt and implement national disaster risk reduction strategies in line with the Sendai Framework for Disaster Risk Reduction 2015-2030	E1
13.1.3	Proportion of local governments that adopt and implement local disaster risk reduction strategies in line with national disaster risk reduction strategies	E2

Source: <https://www.preventionweb.net/sendai-framework/sendai-framework-monitor>

Both the SDGs and the Sendai Framework aim at desired outcomes. They help to understand the complex interlinkage of social, economic, and environmental processes across the two frameworks. The Sendai Framework Monitor function as a management tool to develop disaster risk reduction strategies, make risk-informed policy decisions and allocate resources to prevent new disaster risks. The Target E of the Sendai Framework relates to development of actionable national and local disaster risk reduction strategies by 2020.

1.6.5 Global indicators

A set of 38 indicators was identified to measure global progress in the implementation of the Sendai Framework for Disaster Risk Reduction. The indicators can measure progress in achieving the global targets of the Sendai Framework, and determine global trends.

Global and Custom targets and indicators:

- The seven Global targets and thirty-eight global indicators will measure progress made by all countries on disaster risk reduction by the year 2030. These will contribute to the global analysis of the country level information submitted by countries and documented in the biennial Global Assessment Reports.

- ▶ Additionally, the custom targets and indicators are nationally defined instruments by Member States to measure their progress against the four priorities of the Sendai Framework. They are based on the priorities of respective countries and will be reflected in the national DRR reports of the countries.

Input, Output and Outcome Level Targets and indicators:

- ▶ **Input level:** Nationally defined, appropriate public policy indicators to measure the implementation of the 4 Priorities and the Sendai Framework in general
- ▶ **Output level:** Nationally defined targets and indicators to measure reduction of risk and increase in resilience
- ▶ **Outcome level:** Global targets and indicators as described above, which are objective and comparable



The present framework will apply to the risk of small-scale and large-scale, frequent, and infrequent, sudden, and slow-onset disasters, caused by natural or manmade hazards and environmental, technological, and biological hazards and risks. The framework guides the multi-hazard management of disaster risks at all levels and within and across all sectors. It aims to prevent new and reduce existing disaster risk through the implementation of integrated and inclusive economic, structural, legal, social, health, cultural, educational, environmental, technological, political, and institutional measures and helps to increase preparedness for response and recovery and strengthen resilience.

- I. Substantially reduce global disaster mortality by 2030, aiming to lower average per 100,000 global mortalities between 2020-2030 compared to 2005-2015
- II. Substantially reduce the number of affected people globally by 2030, aiming to lower the average global figure per 100,000 between 2020-2030 compared to 2005-2015
- III. Reduce direct disaster economic loss in relation to global gross domestic product (GDP) by 2030
- IV. Substantially reduce disaster damage to critical infrastructure and disruption of basic services, among them health and educational facilities, including through developing their resilience by 2030
- V. Substantially increase the number of countries with national and local disaster risk reduction strategies by 2020
- VI. Substantially enhance international cooperation to developing countries through adequate and sustainable support to complement their national actions for implementation of this framework by 2030
- VII. Substantially increase the availability of and access to multi-hazard early warning systems and disaster risk information and assessments to people by 2030

Priorities for Action

There is a need for focused action within and across sectors by States at local, national, regional and global levels in the following four priority areas”.

Priority 1: Understanding disaster risk

Disaster risk management must be based on understanding of disaster risk in all its dimensions of vulnerability, capacity, exposure of persons and assets, hazard characteristics and the environment.

Priority 2: Strengthening disaster risk governance to manage disaster risk

Disaster risk governance at the national, regional, and global levels is vital to the management of disaster risk reduction in all sectors ensuring coherence of national and local frameworks of laws, regulations, and public policies by defining roles and responsibilities and guide, encourage and incentivize the public and private sectors to take action to address disaster risk.

Priority 3: Investing in disaster risk reduction for resilience

Public and private investment in disaster risk prevention and reduction through structural and non-structural measures are essential to improve economic, social, health and cultural resilience of persons, communities, countries and their assets and the environment. These are drivers of innovation, growth, and job creation. Such measures are cost-effective to save lives, prevent and reduce losses and ensure effective recovery and rehabilitation

Priority 4: Enhancing disaster preparedness for effective response, and to Build Back Better» in recovery, rehabilitation and reconstruction

Disaster preparedness needs to be strengthened by effective response and capacities for effective recovery. The recovery, rehabilitation and reconstruction activities need to be prepared ahead of the disaster. It is an opportunity to “Build Back Better” through integrating disaster risk reduction measures. Women and persons with disabilities should publicly lead gender-equitable and universally accessible approaches during the response and reconstruction phases.

- ▶ Primary responsibility of States to prevent and reduce disaster risk, including through cooperation
- ▶ Shared responsibility between central Government and national authorities, sectors, and stakeholders as appropriate to national circumstances
- ▶ Protection of persons and their assets while promoting and protecting all human rights including the right to development
- ▶ Engagement from all of society
- ▶ Full engagement of all State institutions of an executive and legislative nature at national and local levels
- ▶ Empowerment of local authorities and communities through resources, incentives, and decision-making responsibilities as appropriate
- ▶ Decision-making to be inclusive and risk-informed while using a multi-hazard approach
- ▶ Coherence of disaster risk reduction and sustainable development policies, plans, practices, and mechanisms, across different sectors
- ▶ Accounting of local and specific characteristics of disaster risks when determining measures to reduce risk
- ▶ Addressing underlying risk factors cost-effectively through investment versus relying primarily on post-disaster response and recovery
- ▶ Build Back Better for preventing the creation of, and reducing existing, disaster risk
- ▶ The quality of global partnership and international cooperation to be effective, meaningful, and strong
- ▶ Support from developed countries and partners to developing countries to be tailored according to needs and priorities as identified by them.

Chapter 2: Audit cycle for auditing disaster management

In this Chapter, the entire audit cycle from audit planning, audit execution, audit reporting, audit follow up and audit documentation and quality control processes are explained.

Audit planning begins with selection of the subject matter based on the selection criteria.

Based on the audit objective, the type of the audit is decided. The subject matter and type of the audit will form part of the OAGN's annual audit plan. The audit team is subsequently constituted. The pre-engagement activities will be completed.

The audit planning includes familiarization of the subject matter, defining the audit objectives, audit questions and sub-questions, determining the audit scope, risk assessment, adoption of appropriate audit approach, developing the audit criteria, preparing the audit design matrix, completion of the audit checklists, preparing draft audit plan and draft audit program.

The draft audit plan and program may undergo changes, if required in the audit execution stage, when field audits are undertaken.

2.1 Selection of topics relating to disaster management

Potential audit subject matter relating to disaster must be identified in terms of risks, materiality, identification of problems, auditability, and other selection criteria:

- ▶ Selection of audit topics must be based on assessing risk, analyzing problems, and considering materiality. Risks shows the likely impact of an impending disaster or an ongoing disaster.
- ▶ Materiality indicates huge loss to life and property, financial, social and/or environmental, such as the number of people affected.
- ▶ Poor performance of an entity may be a serious risk and cause serious impact on specific regions or people.
- ▶ Financial or budgetary amounts that are substantial.
- ▶ Areas traditionally prone to risk (for example emergency procurement of vaccines, drugs, oxygen cylinders, PPE (Personal Protection Equipment) during the COVID 19 pandemic, technology, environmental issues, and health infrastructure etc.).
- ▶ New or urgent activities because of emergency requirements and demands.
- ▶ Expected impact of an audit done by OAGN to the nation and to the larger public
- ▶ Greater added value can be achieved by selecting disaster related subjects which can improve future disaster management activities by providing valuable inputs and recommendations for improved governance. For laying down proper procedures for emergency procurement during disasters can bring value addition to the entities responsible for procurement.
- ▶ Topics to be selected must be auditable based on the competence, skills, and capacities of the auditors to conduct the audit.

ISSAI 5520 explains how to select topics relating to disaster-related aid for audit

- ▶ Disasters may create unprecedented situations with complex aid flows and multiple actors. SAIs of recipient and donor governments audit disaster-related aid. For example, OAGN has the mandate and responsibility to audit the government entities receiving aids during any disasters in Nepal.
- ▶ While auditing it may be kept in view that the aid can pass through the public accounts or aid may be paid directly to operational agencies which are not part of the government of Nepal.

- ▶ The type and extent of that audit depends on the mandate of SAI. OAGN has mandate and hence is responsible to report on whether the intentions of donors and the interests of aid recipients are being met.
- ▶ An audit tool has been prepared by the Active Learning Network for Accountability and Performance in Humanitarian Action based on OECD guidance on evaluating humanitarian assistance which can be used as a reference while auditing⁹.
- ▶ Post-disaster emergency activities deserve special attention as the circumstances of an emergency response require immediate decision-making even disregarding existing procedures or laws to save lives. There must be legal framework underpinning emergency procedures¹⁰.
- ▶ As there can be increased risk of fraud and corruption in emergency situations, audit may recommend improvements to minimize the risks in the event of a future disaster¹¹.
- ▶ After the emergency, auditors can check normal rules and procedures. During rehabilitation and reconstruction activities, audit may check the risk of fraud and corruption in procurement incurring huge public expenditure and other important issues around tax revenues and insurance recoveries¹².

2.1.1 Selection process and criteria for selection of topics

Selection process

The selection process must consider the following:

- ▶ Understand the disaster management processes and the focus of each phase (pre disaster, emergency relief, post disaster);
- ▶ understand the structural, legal, and regulatory framework of the entities being audited;
- ▶ assess the nature of the risks in each phase; and
- ▶ familiarize themselves with the internal controls applied by each of the organizations responsible for managing disaster-related aid and tested whether those internal controls are operating and are sufficient to overcome or reduce the risks.

Criteria for selection of topics

- ▶ The subject matter must be decided based on significance, visibility, impact, materiality, auditability, magnitude of budget allocation and other defined criteria for selection of topics for annual audit plan.
- ▶ In the planning phase, OAGN selects the topic and include in the annual plan for CA or PA based on the audit objectives, OAGN's priorities, significance, auditability, competency, impact etc.
- ▶ OAGN must be able to ensure quality control procedures and make sure that the team is able to conduct the audit with required documentation, complete, reliable evidence, and communication as detailed in the OAGN's CA and PA audit guides.
- ▶ Based on OAGN's strategic planning process, annual audit plans are prepared after determining which audits must be carried out.
- ▶ The strategy of OAGN guides the auditor in the selection of topics, programmes or themes for audit including disaster related subject matter also.
- ▶ The number of potential topics, programmes and themes or entities involved in disaster management of a specific disaster such as the ongoing COVID 19 Pandemic can be researched and analysed.
- ▶ Topics for disaster related subject matter must be selected based on defined selection criteria, for example a specific type of disaster which has maximum impact to the lives of the citizens of Nepal. The subject

⁹ <http://www.alnap.org/resources/guides/evaluation/ehadac.aspx>

¹⁰ <http://www.training.fema.gov/EMIWeb/IS/IS230B/IS230bCourse.pdf>

¹¹ ISSAI 5530 <http://www.issai.org/composite-280.htm>

¹² <http://www.auditnz.govt.nz/who-we-are/scott-tobin-feature>

matter may be chosen based on maximum scale of emergency procurements where there is likelihood of noncompliance of Prudential Financial regulations, and relatively high risk of fraud.

For example, in case of COVID 19 Pandemic many government agencies are involved in emergency expenditures relating to procurement of masks, drugs, sanitization liquids, PPEs, and many such essential items to fight against the pandemic. Individual government agencies who are responsible for managing certain disasters like earthquakes, floods, avalanches, landslides etc. can be chosen based on the significance, impact, auditability, and value addition in good governance.

- ▶ The audit must include all potential subject matters relating to disasters with a brief account of the possible problems, questions, budget/expenditure with arguments supporting each topic.
- ▶ The methodology in selecting audit is same as any other PA topics. OAGN can follow a bottom-up approach, where the auditor participates in the selection process or a top-down approach, where the top management selects audit topics, and the auditor does not take part in the selection process or a mix of both approaches. A combined or mix approach has added advantages.

2.2 Types of audits of disaster management related subject matter

Note:

- ▶ Based on the audit objectives, the type of audit must be chosen.
- ▶ As per the type of audit viz. FA, CA, PA the audit scope, audit questions and sub-questions, scope, criteria, design matrix, audit checklists, audit procedures etc. must be developed.
- ▶ The fundamental auditing principles provided in ISSAI 100 are applicable to all public sector audit engagements.
- ▶ FA is done along with the annual financial audit commenting on the receipts and expenditure relating disaster related funds. There is no separate audit report but there can be comments and disclosures in the audited financial reports relating to disaster management related transactions and disclosures etc.
- ▶ In case of FA, while conducting annual FA of entities, all transactions relating to disaster related receipts and expenditures are examined by auditors and suitably commented in the audited financial statements.
- ▶ In a Financial audit, audit evidence is collected to show whether an entity's financial information is presented in its financial statements in accordance with the applicable financial reporting and regulatory framework. The disaster may affect the circumstances.
- ▶ The other type of audits will be either compliance of a specific area, laws, systems, and procedures as in the case of CA. Whether CA or PA must be undertaken on a particular subject matter is decided by the audit objectives.
- ▶ In Compliance audit, audit looks at whether activities undertaken in relation to a disaster comply with legislation (i.e., the building code, public procurement act), agreed policies or principles outlined in international agreements aiming at guiding entities that are providing emergency assistance (i.e., adherence to the humanitarian principles of humanity, neutrality, impartiality, and operational independence).
- ▶ In a Performance audit, the economy, efficiency and effectiveness of government undertakings, systems, programmes, or operations are examined in relation to the disaster.
- ▶ If the audit objective can be addressed only by a comprehensive audit with PA framework is suitable to examine the 3Es to identify the gaps, root causes and impact and suggest remedial and preventive measures in the form of practical recommendations.
- ▶ Disaster related subject matter can be audited as FA, CA, or PA. The type of audit – FA, CA or PA is determined based on audit objectives.
- ▶ The audit objectives must be clearly defined and according to the objectives, audit questions and sub-questions must be framed.

2.3 Audit objectives

- ▶ Audit objective of FA is to comment the financial reporting of the entity who received funds relating to disaster management while certifying the accounts.
- ▶ For CA, compliance of the applicable laws, rules and regulations related to the audit subject matter must be identified first. The audit objective is to examine and report as to whether the applicable laws and rules have been complied with by the audited entity.
- ▶ While conducting a PA of disaster related subject matter, for example, procurement of drugs for treating COVID 19 patients in various provinces of Nepal can be:

“Does the government of Nepal have put in place an emergency procurement policy for procurement of essential drugs/vaccination/equipment needed for treating COVID 19 patients in seven provinces of Nepal, and,

if so; whether the policy is robust enough to help in procuring drugs/vaccination/equipment economically, efficiently, and effectively considering the situation to realize the outcome of saving human lives in Nepal?”
- ▶ The process of selection of audit topics are as per the CA and PA Guides. Only difference is that the subject matter is relating to disaster.
- ▶ The subject matter relating to disaster management shall be selected based on OAGN’s strategic planning process and preparation of the annual audit plan.
- ▶ If the audit focuses on how the funds received from various sources by a government agency, FA is applicable. While conducting annual FA of the entity, the funds related to disaster management is also audited and commented in the financial audit report of the entity. In this case, a separate audit report of OAGN on disaster management funds may not be required as the utilization of fund is commented during the financial reporting and financial attestation audit.
- ▶ If the audit intends to focus on compliance of applicable regulations including financial and procurement acts and rules, CA is the right choice.
- ▶ If the entire aspect of disaster management by a government entity is to be done, PA must be adopted.

CA and PA of disaster related subject matter:

When disaster related subject matter is selected for CA or PA, there shall be separate audit reports.

The Disaster Management Guide helps to assess the entity’s activities focusing on pre-disaster activities, disaster risk reduction, emergency response, post disaster aid, rehabilitation, and reconstruction.

Applicability of FA, CA, & PA Guidelines/Manuals

As the selection of subject matter is based on the established selection criteria described in FA, CA, and PA Manuals/Guides/Guidelines such as materiality, impact, significance, auditability, mandate, risk management, improvements in outcome, enforcing public accountability and good governance.

Need for coordination

There should be **coordination between different government agencies of Nepal** - the federal, provincial, and local governments must work in coordination to fulfil their specific roles and responsibilities to achieve the overall objective of the program.

Example of disaster audit subject matter with formulation of audit questions and sub-questions:

Subject matter: Flood risk prevention and preparedness

Key audit questions:

- ▶ Were there adequate procedures laid down for flood risk prevention and preparedness in the vulnerable provinces and places of Nepal?
- ▶ Were the preparedness and implementation of flood risk prevention procedures adequate, economic, efficient, and effective?
- ▶ While examining 3Es, audit may examine equity, ethics and environmental related issues and concerns as well

The following sub-questions are developed to address the key audit questions:

- ▶ Was the planning adequate?
- ▶ Was implementation for preparedness economic, efficient, and effective?
- ▶ Were the procedures for planning and implementation adequate to prevent flood risk?
- ▶ Were the preparatory procedures adequate for prevention of the flood risk?
- ▶ Was implementation in compliance with the applicable regulations of Nepal to prevent flood risk?
- ▶ Do preparedness activities of the authorities in charge adequately address timely response to the expected floods and mitigate its adverse impact?

2.4 Allocation of team and completion of pre-engagement activities

OAGN will constitute the competent team for the audit. The team will obtain all relevant documents/records for familiarization of the entity/subject matter and prepare the audit plan.

2.5 Training for audit of disaster management related subject matter

As disaster management audit is a significant subject matter for audit, it may be important for OAGN to consider imparting appropriate training involving suitable agencies if need be internal/domestic/foreign agencies to enhance the competency of the auditors in this field. The audit may be conducted by audit team trained in disaster management audit.

Training can be arranged with the help of the experts from other experienced SAIs/INTOSAI/ASOSAI with the objective:

- ▶ To impart acquire knowledge and skills in audit tools and technology, study tours of audit teams can be arranged to countries such as Turkey, Indonesia, Pakistan, India who have done disaster management audits.
- ▶ To provide training to trainers can be organized on disaster management audit from expert foreign bodies who can in turn provide training to other audit staff.

Study tours and training in the field of Disaster Management Audit can be sought in the following domains:

- ▶ Technical Assistance for Joint Audit from and training from other SAIs who have the expertise.
- ▶ Training programs can be organized with the support of international organizations having the requisite expertise.
- ▶ Capacity building programs from donor agencies can be arranged

Foreign assistance may be obtained only in the areas specified by the Auditor General to adhere to the policy and procedure of the Government of Nepal

2.6 Important steps in audit planning

The following steps must help in audit planning:

- i. Understand the subject matter and its context. Here all the policies, strategies, applicable acts, rules, institutional systems, and procedural aspects must be studied to have complete comprehension of the subject matter before undertaking the audit.
- ii. Section A of the table given below indicates the questions to be asked to understand the subject:
 - a) disaster characteristics,
 - b) governance framework and policies, and the government agencies responsible and involved.
- iii. In all types of audits FA, CA and PA, risk assessments shall be carried out. The questions to be asked in case of CA and PA are identical and given in the table. Similarly, for conducting risk assessment of FA, specific questionnaire is indicated in the table
- iv. Questions relating risk/problems relating to monitoring and MIS are given in the table to enable audit to examine the effectiveness of monitoring and timely action take or not taken etc.
- v. Disaster preparedness and monitoring depend largely on Geographical Information System and risks and problems relating to effective functioning of it and using the information for monitoring, control and mitigate the disasters. Relevant questions are given to examine in depth the effectiveness of GIS and come out with valid audit recommendations.
- vi. Audit must examine **risk and problems** linked to alert mechanisms, hazard maps and other ICT tools and disaster related instruments and warning systems.
- vii. Audit must examine risks/problems relating to pre-disaster activities examining role of multinational agencies, stakeholders, and various bodies involved, transactions and coordination activities among different agencies. Audit questions are listed out for this purpose in the table.
- viii. Audit must focus on risks/problems relating to post disaster activities. The relevant areas of audit probe are indicated in the questions given in the table below.
- ix. Audit must analyse risks/problems pertaining to coordination between different entities responsible for risk management related activities at regional, national, and international levels as many of the disasters like COVID 19 have multinational, regional and global ramifications, and impacts.

2.6.1 Familiarization of subject matter

- ▶ After allocation the team, audit resources, budget, audit objectives and type of audit by OAGN, the auditors must prepare the audit plan for the audit of disaster related subject matter.
- ▶ Planning for a specific audit may cover strategic and operational aspects. Strategical aspects of planning relate to audit scope, objectives, and approach.
- ▶ The audit objectives indicate what the audit is intended to accomplish. The scope defines the subject matter, and the criteria help to assess and report on the subject matter and directly relating to the objectives.
- ▶ The approach describes the procedures to be used for gathering audit evidence. The audit must be planned to reduce audit risk to an acceptable low level.

The operational aspect of audit planning entails setting a timetable for the audit and defining the nature, timing, and extent of the audit procedures. In post-disaster conditions, assessment of the appropriate timing of the audit is important.

2.6.2 Understanding of Institutional and Legislative Systems (ILS) in Nepal

Once the disaster related subject matter is selected for audit based on OAGN's strategic audit plan and included in the annual audit plan, the applicable legal provisions and institutional frameworks enable the auditor to design audit.

- ▶ legal and regulatory frameworks
- ▶ policies and programs
- ▶ Organizational/institutional set up

Note:

Most important first step of audit planning is familiarization of the entity/subject matter. For that, audit must collect all the disaster related policies, legislations, rules, regulations, and institutional frameworks, funding, programs etc. for preparing audit planning of the entity/subject matter.

Audit must establish

- ▶ Whether appropriate institutional frameworks exist or not
- ▶ Whether proper systems and procedures are laid down or not and if so, what are they
- ▶ Audit checks must include whether adequate books of accounts are maintained for accounting the receipt of funds and expenditure/utilization of funds
- ▶ Whether proper procedures and rules are complied with while incurring expenditure, inviting tenders, bidding and awarding procurement or works contracts
- ▶ Whether proper controls are laid down in the systems and procedures
- ▶ Whether controls exist, and if existing, are they functioning effectively to avert misuse or fraud while incurring expenditure
- ▶ Audit must evaluate the internal controls to report whether the internal control system is deficient /non-functional/not implemented
- ▶ Whether responsibilities are clearly defined to officers/entities
 - Whether the assigned responsibilities and activities are carried out effectively in compliance with rules to realize planned targets, milestones, outputs, outcome, and impact

Note:

- 1: Auditor must determine the appropriate audit procedure to evaluation of effectiveness of internal controls.
- 2: The laws and rules undergo changes from time to time. Auditors must update their knowledge while familiarizing the audit subject matter. It is a continuous process. Applicable laws and regulations must be used during audit planning.

2.6.3 Understanding of role of the government of Nepal in disaster management

- ▶ As disaster management is primarily the responsibility of the government, audit must examine whether there exists a governance framework and policies for managing disaster risk reduction or disaster-related short-term, medium-term and/or long-term operations. Knowledge on these issues enable the auditors to understand how national disaster plans are based analysis of potential risks, disaster management strategies, and provide the basis for prioritizing disaster management activities and coordinating them at all levels.
- ▶ The government must establish and maintain adequate arrangements for dealing with the vulnerability to disasters. Disaster management has also shared responsibility between government, the private sector and

civil society. There are many institutions/agencies involved in disaster risk reduction, in providing, coordinating, delivering, and reporting on relief, in recovery and emergency responses and in post disaster rehabilitation and reconstruction.

- ▶ To conduct audit of disaster management related subject matter, most important prerequisite is familiarization of the topic selected for audit and all relevant issues and applicable laws, acts, rules, regulations, procedures, and practices relating to it. All the policy documents relating to the subject matter, planning, vision, mission, activities, programs, projects, targets, objectives, timeframe, milestones, outputs, and outcome both qualitative and quantitative must be understood to planning the audit, framing suitable audit questions, sub-questions, determining audit scope, audit criteria, audit evidence, designing audit design matrix, audit check lists etc.
- ▶ For the audit on disaster management, auditor must understand and determine the stage of the disaster management cycle and include the disaster types, the likelihood with which they are expected to occur, the objectives, operations, regulatory environment, internal controls, financial and other systems, and research the potential sources of audit evidence.
- ▶ Knowledge can be obtained from interaction with those charged with governance, other stakeholders, consulting experts and examining documents (including earlier studies and work done by other SAIs).
- ▶ Auditors must also understand the entire process of disaster management, management of disaster-related aid, main participants, and stakeholders and aware of each main participant's arrangements for audit and disaster management plan which exists (including any revisions), accounting practices and national legal requirements.
- ▶ Auditors need to be trained in the skills required to audit disaster-related aid. A multi-disciplinarian team with methodologists, engineers, economists, etc., can supplement the need. All aspects must be considered when planning the audit.

Emergency response and relief aid system of government of Nepal at three levels, federal, provinces and local government levels

- ▶ Emergency response and relief aid system of government of Nepal at three levels, federal, provinces and local government levels
- ▶ Use of funds for rehabilitation activities to the flood/cyclone/earthquake/drought/avalanche affected people of Nepal
- ▶ Performance Audit on the Post-disaster Reconstruction Activities in Nepal
- ▶ Performance Audit of state Disaster Management in Nepal
- ▶ Earthquake/storm/drought/flood/glacier melting/snowstorms/avalanche Preparedness of Nepal
- ▶ Performance Audit on distribution of aid to earthquake and other disaster affected regions and population of Nepal
- ▶ Performance Audit on distribution of aid to flooding victims of Nepal
- ▶ PA of national capacity of Nepal for disaster reduction and management
- ▶ Implementation of National Program for Reduction of Earthquake Risks
- ▶ Material stockpiling for search and rescue
- ▶ Relief Collection & Distribution to Earthquake Victims
- ▶ Relief activities carried out after the earthquake,
- ▶ Geo-hazard assessment and mapping programme
- ▶ Effectiveness of land use management:

- ▶ Focus on flood prevention and mitigation
- ▶ Performance Audit of development and operation of the flood protection system
- ▶ Rural water supply and sanitation after disasters
 - ☒Transport, aviation, and automobile disasters
 - ☒Fires, explosions, fires in buildings
 - ☒Accidents by radioactive substances
 - ☒Hydrodynamic accidents
- ▶ ☒Geophysical, geological, meteorological, hydrological, wildlife, plagues – earthquakes, downpour, floods (flash flood, high waters), storms, hailstorms, avalanches, glacier melting, cloud burst, landslide, flooding, drought, wildfire, forest fires, plagues, epidemics etc.
- ▶ ☒Emergency Management Phases

Flood is an emergency.

General principles of managing the emergency situations are applicable.

Management of emergency has 4 key phases:

1. Prevention
2. Preparedness
3. Response
4. Recovery

According to the law, the preventive measures must be identified:

- ▶ The measures for determining probability of the emergency, monitoring and prevention
- ▶ The measures adopted for systematic reduction of potential hazardous natural phenomena and processes and respective engineering-technical solutions
- ▶ Preparing a map of the emergency risk
- ▶ The preparation of safety passport of potentially hazardous facilities and for municipalities
- ▶ implementing educational projects for raising awareness of people

Preparedness measures include:

- ▶ Issuance of prior notice to the population on state of emergency (early warning system)
- ▶ educating the population on civil protection measures
- ▶ training and equipping professional rescuers
- ▶ civil safety exercises
- ▶ creation of material reserves to liquidate the consequences of the emergency situations
 - the national system of civil protection
 - the strategic, operational, and tactical levels,
 - using the relevant resources and instruments, exercises relevant complex measures to protect human lives and health, environment and/or property from the state of emergency

National entities, municipalities must ensure:

- ▶ Emergency risks management
 - identification of hazard,
 - analysis of the emergency risk and their impact and on its basis development of the state of emergency risk management plan.
- ▶ Planning and implementing measures for prevention of the state of emergency, among them risk of the state of emergency.
- ▶ Preparedness for the state of emergency
- ▶ Responsiveness to the incidents/state of emergency
- ▶ Protection of humans, environment, and property from the incident/state of emergency.
- ▶ Develop a warning system for the incident/state of emergency, among them early warning system.
- ▶ Development of the emergency management plan etc.
- ▶ The municipality bodies exercise power on delegation to makes decision to respond to the state of emergency of local or national significance.

The impact on disaster related aid on saving lives and property and restoring human dignity must be kept in view. Auditors can measure the effectiveness of disaster-related aid in terms of results, by consulting the intended beneficiaries of the aid. The input of the affected population can be obtained by interviews, surveys and consulting civil society organizations. Auditors can go on-the-spot at an early stage of the emergency to record evidence of the way in which disaster-related aid was implemented.

2.6.4 Audit Planning

2.6.4.1 Audit Planning for FA, CA and PA

Audit planning for FA:

In financial audit, national legislation and in SAIs' mandates help in designing the audit based on the results of the assessment of risks of material misstatement due to error and fraud. Disasters can impact the quality of financial statements. Financial audits may review of the accounts and the underlying transactions, including disaster-related expenditure.

Audit planning for CA and PA

In compliance and performance audits, based on the audit risks assessed as critical/priority, the auditor must decide:

- ▶ whether to conduct a compliance audit or performance audit; and
- ▶ the specific life cycle stage(s) of the disaster management cycle to be covered in the scope of the audit.

Auditors must identify and rank potential audit topics for performance audit based on two criteria:

- ▶ audits expected to add maximum value in terms of improved accountability, transparency, economy, efficiency, and effectiveness; and
- ▶ audits that ensure an appropriate coverage of disaster management within the limitations of the resources available for the audit.

Auditors must consider whether they have sufficient knowledge and audit experience collectively as a team to audit the potential topics. Once auditors have chosen an audit subject matter, they may design the specific audit. To define the scope of the audit, auditors must identify which entities are to be covered in the audit. The audit objective(s) can be the basis for develop audit questions to be answered in audit.

Audit objectives of CA and PA:

Compliance audits of disaster management related subject matter is done based on the applicable regulations and how far they are complied with or deviated from during the disaster discussing the root causes and impact.

The main objectives of Compliance audit would include:

- ▶ The auditor should evaluate the internal control measures instituted by the government entity and determine the extent of reliance on the objectives of the audit. Auditor must test compliance with applicable laws and regulations to provide reasonable assurance of detecting errors, irregularities, and illegal acts. Non-compliance with applicable laws and regulations is often tested to fairly present the situation.
- ▶ There may be a high risk of a material misstatement in the financial statements, such as omission of a provision or liability in respect of future expenditure. Competent, relevant, and reasonable evidence should be obtained to support the auditor's judgement.
- ▶ Determine and document whether disaster risk reduction policies comply with the Sendai Protocol or any relevant international agreements on disaster risk reduction,
- ▶ Determine and document whether the rehabilitation and reconstruction projects are compliant with the terms of the contractual agreements and/or the tender/procurement procedures,

- ▶ Determine and assess whether the Government has put in place an anti-fraud strategy to prevent, or detect and correct identified risks in a manner consistent with the legal and regulatory framework,
- ▶ Verify compliance with the requirements of international agreements covering recovery, relief, rehabilitation and reconstruction measures and activities (for instance with the United General Assembly Resolutions 46/182 of 1991 and 58/114 of 2004 to adhere to the humanitarian principles of humanity, neutrality, impartiality, and operational independence),
- ▶ Assess the extent to which potential deviations from rules, laws, and regulations, which may be required to save lives and alleviate human suffering, are documented, and explained.

Performance audit of disaster management:

- ▶ Enable audit of disaster preparedness in a cost-effective manner,
- ▶ Audit the economy, efficiency, and effectiveness of disaster management activities,
- ▶ Audit the internal controls systems to suggest better accountability, transparency, and good governance,
- ▶ Audit whether the internal controls are in place for procurement procedures and their effective functioning,
- ▶ Audit to deter, detect, prevent, or reduce fraud, waste, and abuse; and
- ▶ Audit the costs and benefits of recovery investments to ensure infrastructure is resilient to future disasters.

The objectives of Performance audit of disaster management are to:

- ▶ Determine if Government's activities to accomplish the goal of disaster risk reduction, such as emergency exercises, training and public awareness-raising or management tools in the form of Geographic Information Systems or Early Warning Systems are likely to mitigate the impact of disaster when it strikes and/or reduce vulnerability or exposure to hazards,
- ▶ Determine if disaster preparedness activities are based on identified characteristics of the potential disasters and the likelihood with which they are expected to occur,
- ▶ Determine if activities are based on national strategy and action plans which are themselves based on sound risk assessment, and if they are coordinated, with responsibilities specified,
- ▶ Assess the appropriateness of the policies to reduce disaster risk,
- ▶ Assess the appropriateness of the responses of disaster management agencies in the event of disaster, including the use of disaster management tools such as Remote Sensing and a Global Positioning System, for instance,
- ▶ Assess whether the aid pledged has been provided, and has led to appropriate expenditure,
- ▶ Assess whether the aid has been spent on the intended purposes, as efficiently and effectively as possible.
- ▶ Determine if the affected population received the help needed,
- ▶ Assess the effectiveness of recovery and control of operations,
- ▶ Assess the economy with which the disaster-related aid was used,
- ▶ Assess the efficiency with which human, financial and other resources were used,
- ▶ Assess how effectively those responsible for managing and implementing disaster-related aid have performed in relation to the objectives set.

Note:

In case of CA, the scope is limited to an entity/system or compliance of a specific issue, law/rules, or subject matter. In case of PA, the audit is more comprehensive involving examination of 3Es relating to the subject matter. Audit questions and sub-questions, criteria, checklists, and design matrix are designed based on the audit objectives and audit type.

Examples for audit scope and methodology:

<p>Scope of the audit of efficiency of management</p> <ul style="list-style-type: none">▶ prevention and preparedness)▶ the emergency situations caused by floods covers the period from --- to ---▶ to analyse the trend, information/data to be collected from the previous impact and current period and compare and analyse to find the gaps in preparedness and learning from the past experiences▶ Scope of the audit includes two phases of flood management:▶ prevention and preparedness.
<ul style="list-style-type: none">▶ The auditees can be as follows:<ul style="list-style-type: none">○ Entity/ Ministry▶ Emergency Management Service.<ul style="list-style-type: none">○ Ministry of Environment & concerned government department/ agency in Nepal subordinated to the Ministry○ Ministry of Provinces and local government entities of Nepal○ National Security Council and disaster management concerned entities who are responsible for disaster management planning and implementation

Examples for audit methodology & audit sub-questions:

The methodology to answer the audit questions are as follows:
<ul style="list-style-type: none">▶ Analysis of the legal base and regulations▶ Acknowledging international practices and standards that can be applied to Nepal▶ Performance Audit Report▶ Analysis of the existing conditions of the implemented and planned prevention and preparedness events/actions in the provinces impacted by the disaster▶ Analysis of the documentary information such as funds received from external sources, internal sources, budgeting, allocations, and expenditure incurred for various activities. Applicable government rules relating to procurement and utilization of resources must be used to analyse the deviations and inadequate control systems and procedures▶ Interviews and surveys with structured questionnaire with open and closed questions with auditees (respective accountable persons) and flood/disaster impacted population, communities and other stakeholders, experts including international and national experts on disaster management planning, implementation and monitoring and taking timely deterrent, corrective, and preventive actions▶ Analysis of the data and statistical information to find out systemic and procedural lapses, deviations and inadequacies and controls issues to enable audit to suggest possible acceptable value additions in the form of recommendations which can be used by policy and planning and implementation by the government in future▶ Interviews, surveys, FGDs, public hearing to obtain inputs from NGOs and international organizations relating to utilization of funds, disaster response related activities, complaints, concerns, issues, and problems along with suggestions and inputs for effective response, planning, implementation, review, monitoring and management and relief operations<ul style="list-style-type: none">• Interviews/surveys/FGDs/Public Hearing to obtain inputs from CSOs/NGOs working in the field of environment and disaster related issues• Inputs form community leaders. concerned agencies responsible for rural, urban disaster preparation and development

- ▶ Survey, interview, FGDs and public hearing of population residing at the areas vulnerable to the floods
- ▶ Survey/Interviewing the impacted villages, and municipalities.

The following audit procedures are useful to answer the audit questions:

<p>Audit Question 1:</p> <p><i>To what extent are sufficient and efficient planned and implemented procedures for flood risk prevention?</i></p> <ul style="list-style-type: none"> ▶ OAGN audit team must study the applicable legal regulatory base, risk reduction strategy and the action plans. ▶ The responsible persons must be interviewed. ▶ Information must be collected about the number of occurrences per year, physical impact on humans and economic damage. ▶ The existing emergency management at the federal, provincial, and local levels must be audited. ▶ The audit team must select adequate representative villages, localities/municipalities to study the situation. ▶ The responses must be obtained using the specially developed questionnaires. ▶ Activities implemented by the concerned agencies for the emergency management service, authorities responsible for National Security of Nepal, Ministry responsible for Environment, Forest, and other related ministries responsible for flood prevention must be analyzed in audit.
<p>Audit Question 2:</p> <p><i>To what extent do preparedness activities provide timely response to the expected floods and mitigate its negative effects?</i></p> <ul style="list-style-type: none"> ▶ To address this question, OAGN audit team must study and analyse the extent of preparedness of reacting forces and the projects aimed at raising the public awareness. ▶ The population in the localities must be identified for survey, interviews, FGDs and public hearing. ▶ The highly vulnerable localities to floods and adequate number of residents in the locality must be interviewed comprising citizens of various age groups

Examples for developing audit criteria:

<ul style="list-style-type: none"> ▶ During the audit, the applicable legislative acts and rules regulating the auditees' activities must be used to derive the relevant assessment criteria
<ul style="list-style-type: none"> ▶ Federal, provincial, local rules, documents, files, and international level documents defining key trends of the disaster risk reduction policy must be used as the criteria of the audit
<p><i>Public Safety Related Issues and Concerns:</i></p> <ul style="list-style-type: none"> ▶ <i>②National Disaster Risk Reduction Strategy and action plan of Nepal</i> ▶ <i>②National Plan of Civil Protection/Public Safety of Nepal</i> ▶ <i>②Law on Planning and Coordination of the National Security Policy of Nepal</i> ▶ <i>②Rules on Emergency Management Plan Development of Nepal</i> ▶ <i>②Emergency Risk Management Plan Development Rules etc. of Nepal</i>

Methodologies/frameworks/best practices used for Disaster Risk Reduction

While auditing the standards and best practices developed by the international organizations and professional unions for management of Disaster Risk Reduction (DRR) can be applied to the context of the disaster:

<ul style="list-style-type: none"> ▶ UNDP methodologies
<ul style="list-style-type: none"> ▶ SENDAI Framework for Disaster Risk Reduction (SFDRR)
<ul style="list-style-type: none"> • Best practices and experts' opinions must be indicated to identify methodologies and strategies

2.6.4.2 Risk Assessment

I. Risk Assessment: identify the potential risk of fraud

Risk assessment is critical for the audit. Important audit observations will be based on the potential risks and how well these risks are managed or reduced. Audit recommendations will be essentially directed to mitigate the risks, taking corrective and preventive actions, based on reliable evidence and analysis of relevant facts, data, and information.

Auditors must perform procedures to identify the risks of fraud relevant to the audit objectives, while maintaining professional scepticism, they must be alert to the possibility of fraud throughout the audit process.

There are specific risks of fraud in disaster management activities to be assessed:

- ▶ increased risk of fraud and corruption in emergency situations following the occurrence of a disaster, due to the large volume of aid arriving quickly at affected regions for rapid distribution to disaster victims,
- ▶ once rehabilitation and reconstruction activities commence, increased risk of fraud and corruption in procurement associated with high volumes of public expenditure on reconstruction projects; and
- ▶ issues around tax revenues and insurance recoveries which may also require careful examination by auditors.
- ▶ Fraud and corruption can take various forms, such as overstated needs and data manipulation (exaggerating the number of victims for instance), demands for kickbacks from suppliers and from those applying to receive aid and mark-ups and embezzlement/asset theft.
- ▶ During planning, auditors must be assigned tasks as appropriate and resources required, such as subject experts. Audit planning must be responsive to significant changes in circumstances and conditions. Planning is iterative process taking place throughout the audit.

II. Risk assessment - problem analysis

ISSAI 100:46 states that “the auditor should consider and assess the risk of different types of deficiencies, deviations or misstatements that may occur in relation to the subject matter”.

The auditor must understand the subject matter and its context and assesses management’s response to the identified risks and how proper response is implemented. Audit must evaluate the appropriateness and quality of the risk/vulnerability assessment carried out by the government’s agency responsible for developing disaster plans and analyse the internal controls.

The evaluation of the risk assessment is complex in nature looking at: when is it good or good enough? what is sufficient? OAGN can benefit from sharing experience with other SAIs to identify answers to some of these questions. It may engage external experts. The G20/OECD methodological framework¹³ for Disaster Risk Assessment and Risk Financing can guide auditors on assessment of disaster risk.

The fact that governments may not accurately estimate their exposure to a disaster, auditors need to conduct risk assessments of the audit environment to properly identify high-risk areas as potential audit subject matters/audit objectives.

The 9 risk activities applicable in disaster related aid:

These 9 types of risk activities must be kept in view while auditing disaster related aids:

¹³ <http://www.oecd.org/gov/risk/q20oecdframeworkfordisasterriskmanagement.htm>

I. Damage and needs assessment

The damage and needs assessment help in identifying the damage caused by a disaster, the location of the victims and their basic requirements to guide those providing shelter, emergency food and water and distributing donations or financial relief.

II. Aid selection

The aid should meet the victims' needs. Damaged/obsolete stocks should be avoided. Aid must be based on needs assessment.

III. Aid collection

Aid is collected from donors with the agreement between donor and recipient countries, followed by the commitments and ends with the disbursement.

IV. Procurement

Financial aid can be used for procuring the necessary goods and services. Procurement processes should be cost-effective with due attention to quality, quantity, and timeliness.

V. Storage

Goods and materials donated in kind or purchased must be inventoried and stored to meet the victims' needs.

VI. Distribution

Distribution of goods and materials from storage to the disaster victims may be directly or through the appropriate distribution channels.

VII. Infrastructure building

Infrastructure damaged/destroyed by disaster must be repaired/ rebuilt and made operational; and new infrastructure may be constructed to prevent/mitigate future disasters.

VIII. Reporting

Recipients of disaster-related aid should report on the use of financial aid and in-kind contributions received.

IX. Accountability

Donors requires recipients of disaster-related aid to account for the use of funds and in-kind contributions received with multiple reporting by recipients complying with the individual accountability and audit requirements of each donor. This may lead to the diversion of resources away from relief and reconstruction activities¹⁴.

The provision of accountability, whether in an ex ante investigation or an ex post disclosure may improve transparency

The 17 Risk factors applicable in disaster management:

Auditor must keep in view the following 17 risk factors and use the factors applicable in a particular subject matter selected for audit. All 17 risk factors may not be applicable in all cases. Some may be applicable, and some may not be applicable in a particular disaster management related program.

I. Delay

¹⁴ INTOSAI GOV 9250 proposes a framework for unique reporting of humanitarian aid. <http://www.issai.org/composite-194.html>

When a disaster occurs, the priority is that aid be given promptly to save lives. Delays in the collection and distribution of aid may be due to unfamiliarity of disaster response protocol, infrastructure damage or unsuitable human and organizational resources.

II. Unintended recipients

Disaster managers must conduct a needs assessment to ascertain the specific requirements. The victims and the procedure for registering them should be defined. Unintended recipients are not entitled to receive aid. Inadequate demographic data may mislead information on victims and aid to be channelled away from needy individuals/communities.

III. Undistributed funds/materials/aid

Financial and in-kind aid must be distributed to the victims. Inappropriate human or organizational reasons and damaged infrastructure may cause aid to remain in storage. Another reason might be an inappropriate needs assessment.

IV. Fiduciary controls

Rapid response to disaster-aid is critical to minimize damage from natural or man-made disasters. For that, the procurement processes and flow of funds must be well-defined and tested in advance with flexibility to accommodate unexpected events. The process should have built-in mechanisms to detect delivery bottlenecks.

V. Fraud and corruption

Appropriate internal control standards and mechanisms to prevent fraud and corruption should be in place and operational to avert opportunity for fraud and corruption. Examples can be exaggerating the number of victims, demands for kickbacks from suppliers and those receive aid, mark-ups and embezzlement or asset theft¹⁵.

VI. Poor economy

Attention should be paid to economy when using disaster-related aid to procure goods and services for disaster victims by paying significantly more than the normal market price. During the emergency phase, such purchases should be clearly documented. In the reconstruction phase, procurement procedures, rules and regulations must be followed.

VII. Inflation

In the aftermath of disaster there is high demand for skilled labour, building materials, building equipment and housing leading to higher prices. High prices lead to lower output and/or poor quality (for example, houses).

VIII. Inefficiency

Disaster-related aid should be used efficiently in meeting victims' needs with aid received. During the reconstruction phase, unnecessary or overlapping works should be avoided and waste minimized.

IX. Ineffectiveness

The use of disaster-related aid should be effective. For example, when rebuilding infrastructure, governments and disaster management agencies must consider suitability of the infrastructure to the local conditions, culture, and geography.

X. Financial statement risk

¹⁵ ISSAI 5530 <http://www.issai.org/composite-280.htm>

A financial statement risk can be materially misstated. When auditing financial statements including aid receipts, auditors should test the validity of management "assertions" regarding existence, completeness, rights and obligations, valuation and allocation, presentation, and disclosure.

XI. Unrecorded aid

Unrecorded aid is what is not recorded in the recipient's books because of collection agencies which are unidentified, multiple accounts, failure by the authorities to make available information on aid and poor coordination among disaster management agencies.

XII. Damaged aid

During transportation items donated in-kind or bought using financial aid can be damaged or obsolete because of inappropriate storage or inadequate management.

XIII. Unequal aid distribution

There can be inequality which may result in disaster-related aid not reaching the population affected most acutely by disaster like a region may receive more aid than another as a political favour.

XIV. Environmental damage

Disasters cause damage to the environment and ecosystems. The process of rehabilitation and reconstruction may cause further damage causing to future disasters.

XV. Assets' ownership

Ownership of assets resulting from the rehabilitation and reconstruction phases must be defined including the legal right to occupy the assets and the obligations of owners in respect of their assets.

XVI. Double funding

Immediately after the disasters, there can be multiple flows of financial aid from donors to recipients. Lack of transparency may lead to receipt of aid funds from multiple donors for same project. There may be double funding and misuse.

XVII. Information flows

In an immediate post-disaster situation, information to the public and stakeholders is critically important. The timely receipt of feedback from the public and disaster relief agents to the government bodies implementing disaster aid is important. Two-way communication is critical.

2.6.4.3 Risk Matrix

I. Risk Matrix on disaster-related aid activities and associated risk factors

Note:

The matrix below shows probable 17 risks to be examined by audit in different disasters. All risks may not be applicable in a particular disaster chosen for audit. Based on the applicability of risks in a particular disaster, audit must study and analyse the risks by gathering evidence and analysis.

Auditor must focus on the following 17 risks on the disasters based on the applicability'

- ▶ A: Delay
- ▶ B: Unintended recipients
- ▶ C: Undistributed aid
- ▶ D: Fiduciary controls
- ▶ E: Fraud and corruption
- ▶ F: Poor economy
- ▶ G: Inflation

- ▶ H: Inefficiency
- ▶ I: Ineffectiveness
- ▶ J: Financial statement risk
- ▶ K: Unrecorded aid
- ▶ L: Damaged aid
- ▶ M: Unequal aid distribution
- ▶ N: Environmental damage
- ▶ O: Assets' ownership
- ▶ P: Double funding
- ▶ Q: Information flows

II. Risk matrix is prepared as shown in the table below:

Audit themes	Probable 17 Risks as denoted by A to Q as given in the table above like A denotes delay																
	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q
1. Damage and needs assessment – <i>Damage due to disaster must have been evaluated. The evaluation process and methodology must be examined in audit</i>																	
2 Aid selection – <i>The basis of aids received, and process followed and availability on time etc. must be probed.</i>																	
3 Aid collection – <i>To be examined in audit how the funds are received and from whom and when etc.</i>																	
4 Procurement- <i>Disaster procurement must be based on the emergency, with a view to save human lives and property and many applicable procurement rules must have been diluted or short circuited and hence audit must examine and ensure</i>																	

<i>reasonableness of procurement process keeping in view the emergency conditions.</i>																
5 Storage – <i>Inventory management of items procured must be evaluated.</i>																
6 Distribution- <i>How the aids are distributed – whether the principles of equity and ethics have been followed and based on priority aids have been delivered to the sections of people as per the needs without discrimination and inclusive of vulnerable sections like women, minorities and economically and socially underprivileged</i>																
7 Infrastructure building – <i>Audit may examine whether needed infrastructure like relief camps etc. was constructed on time and complying with proper procedures</i>																
8 Reporting – <i>Disaster warning, reporting of loss to human lives and damage to property and measures taken to reduce the disaster impact and proper relief measures must</i>																

<i>be studied by audit to bring in suitable improvements because of audit recommendations after evidence gathering and analysis and audit findings.</i>																	
9 Accountability – <i>Audit must investigate the issues of public accountability, compliance of rules, adherence to transparency, proper timely delivery of services and governance.</i>																	

III. Preparing Audit Plan

The draft audit plan will be prepared with the following essential components (Audit scope and audit criteria and audit approach and methodology are decided after examining the applicable policies, strategic planning, legislative and institutional frameworks):

<i>Auditors must keep abreast with the applicable policies, strategy, planning, legislative and institutional frameworks, review of documents/files relating to external aids received, budget allocations, expenditure incurred for various goods, services, and activities, books of accounts, procurements and contracts undertaken by different agencies.</i>
Scope of audit <i>Scope of audit must define the period to be audited, what is to be covered in the theme, which authorities to be audited, which locations, officers to be covered in the field audits and duration of audit.</i>
Audit criteria <p>Audit criteria must be developed from the applicable national and international frameworks, applicable rules and regulations, best practices, and methodology. Audit criteria</p> <ul style="list-style-type: none"> ▶ <i>"Criteria"</i> ('what should be') Criterion is reasonable and attainable standard against which to existing standards of performance is assessed. The criteria would have been identified in the planning stage of the audit. ▶ <i>"Condition"</i> (What is) The condition refers to what is currently being done or the current situation. The condition should be compared to the criteria to assess if the condition falls short of the criteria beyond acceptable levels. The comparison between the criteria and the condition will form the basis of the audit findings. ▶ <i>"Cause and effect"</i> (Why is there deviation from norms or criteria?) The findings should also identify the cause and effects of the condition. Cause can be defined as the source or factor for the occurrence of an event. Identifying the cause provides information on accountability relationship and initiates measures of improvement.

- ▶ *"Consequence"* (reasonable and logical future impact) The result of an event i.e. the effect of the condition falling short of the criteria.
- ▶ *Corrective action* ('measures to improve the condition)- On the basis of evaluated audit evidence and response received by the auditee, possible recommendation should be issued in the audit report.
 - a. At first, carry out document analysis to obtain background information about the subject and this task, including reviewing articles and studies concerning disaster management to understand the overall environment of disaster preparedness, reports relating to the disaster preparedness phase, rehabilitation/reconstruction, and emergency response stages.
 - b. During the audit, public accountability tools like interviews, surveys, FGDs, public hearing involving all the key stakeholders must be held including responsible authorities and non-governmental organisations (NGOs) and the other bodies concerned to get valid audit inputs.
 - c. The involvement of the stakeholders will highlight the issues such as enhancing transparency, accountability, and governance.
 - ▶ procurement was done on time
 - ▶ complying with applicable rules and delivered on time,
 - ▶ efficiency of operations carried out by the agencies included in the audit scope must be examined with reference to what should be based on the best practices and applicable rules and what is the condition, and what is the consequence in outputs and outcome.

Audit findings will be based on evidence/data analysis and appropriate recommendations on planning, implementation and monitoring will be developed based on the audit findings to improve the system.

Audit approach and methodology

- ▶ *Audit can be system oriented, result oriented, or problem oriented or a combination of the three.*
- ▶ *Adequate representative sampling must be selected.*
- ▶ *Proper social accountability tools like survey, interviews, FGD, budget racking, public hearing etc. must be used for audit evidence gathering.*
- ▶ *There will be existing problems in the system like lack of planning, coordination, delay in reaching help, releasing funds, etc.*
- ▶ *Audit must focus on result and improvements in the present system with better internal controls consequent data analysis, evidence, and audit recommendations.*

2.6.4.4 Audit Design Matrix

Audit Design Matrix

If the disaster must be identified based on risk assessment for the purpose of performance audit or compliance audit, the audit design matrix should be prepared by mentioning the audit issues/audit questions, evidence collection methods etc.

Audit Topics:

Audit Risk:

Audit Objectives	Audit questions	Audit grounds	Evidence collection (Information to be collected)	Audit method	Work number	Prosperous office bearers

By identifying the risks, the subject matter sought from the audit should be kept. • Clear • Measurable • Specific • Can be counted	About which subject, want to know? • Clear • Measurable • Can be counted	Basis for measuring or evaluating • Disaster Management Act, Rules, Directives, Strategy, Law, Action plan • Organizational responsibility	Documents, details, etc. to know whether the rules and regulations have been complied with.	Documents, Review, Questionnaire, Inspection, Observation, Discussions, Inquiries etc.	Collected evidence and note number,	
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Matters that should be considered in the design of audit programme are:

- ▶ Size of task geographic dispersions audit environment the components of the system to be audited whether only broad issues have been identified or specific criteria available based on resources and other known constraints,
- ▶ select an approach that will best help achieve objectives identify the universe that needs to be reviewed select the appropriate sample a precise description of data that is needed,
- ▶ where it can be obtained, and the reliability of the data if the data necessary to conduct the audits has not been compiled, surveys, case reviews, or other means can be used to collect the appropriate data whether it is necessary to visit the auditees' field offices, regional programme sites, or recipient household during the field work Extent of test of controls depending on the nature and complexity of the auditee,
- ▶ the definition of certain terms may need to be agreed upon to avoid misunderstanding later in the engagement based on the professional proficiency of the collective staff,
- ▶ the audit may require special skills such as electronic data processing, engineering, legal, or another specialist.
- ▶ when and in what sequence various audit procedures should be performed?
- ▶ what type of recommendations will be expected to result from the engagement and in what level of detail?

Above considerations enables the auditor to develop audit programme.

Audit design matrix can be used as a part of audit programme which helps the auditor in breaking down the audit objectives into sub-objectives or audit questions where appropriate methodologies are identified to answer the questions.

Example: Audit design matrix

Subject matter: Relief distribution to earthquake victims

Audit Objectives	Audit questions	Audit grounds	Evidence collection (Information to be collected)	Audit method
Evaluate whether all the earthquake victims have received adequate relief as required	<ul style="list-style-type: none"> Are the earthquake victims of Inaccessible area equally relieved? Is the relief distribution focused only on the road access area? Has the relief received from different donors been distributed to the victims of the same area? Has the distribution of relief been coordinated by adopting a one-time policy? 	<ul style="list-style-type: none"> Natural Disaster Management Act, 2039 Relief is to be distributed to the victims as per the Disaster Management Guidelines. 	Fill in the details of area victims and relief distribution, reimbursement of relief distribution.	<ul style="list-style-type: none"> Interview with earthquake victims Questionnaire Documents Noble test Observation inspection Discussion with stackers

Note:

The audit frameworks and tools/templates and process and procedures of FA, CA, and PA must be followed as detailed in the OAGN's FA, CA, and PA Manuals/ guidelines.

Audit checklists for PA

Audit checklists must be developed for examination of 3Es based on the theme for PA:

- ▶ economy of procurement of goods and services and other costs incurred
- ▶ whether at right place from the right source with right specifications at right quantity and right time of delivery to the concerned agency must be probed
- ▶ Effectiveness of activities must be evaluated
- ▶ whether funds were released on time.

2.6.4.5 Audit Checklists

Detailed audit checklists: questions and issues to be examined in different phases of the disasters:

A. Understand the subject matter and its context.				
	Questions to be asked	Yes	No	Note
1	Identification of the disasters' characteristics			
	► Specifying disaster types and the likelihood with which they are expected to occur can be the first step in auditing disaster management. Government approaches and policy preparedness activities depend on this first step.			
	► What types of disaster affect Nepal?			
	► What is the probability of each type of disaster?			
	► Does the government (specific agency) prepare risk assessments, considering the following aspects, among others:			
	*Natural, human, indirect hazards;			
	*Specific vulnerabilities;			
	*Specific geographic locations;			
	*Disaster management capacities?			
	► Are there up-to-date hazard maps and/or hazard analysis?			
	► What are the possible combinations of types of disasters?			
	► What is the likely average annual and probable maximum extent of loss or damage?			
	► What is the government's approach to prepare for such disasters and increase the resilience of the country?			
	► What is the recent experience of major disasters? What were the government's responses?			
	► What lessons have been learned?			
	► What was the worst disaster experienced by the country and how great was the damage?			
2.	Governance framework and policies			
	► What are the framework and policies in place in Nepal at various governments' levels – federal, provincial, and local levels?			
	*At federal, provincial and/or local level?			
	*What are the accountability practices and national requirements?			
	*What is the legal framework and rules applicable to emergency procedures, procurement procedures, tax revenue issues, insurance contracts, recoveries?			
	*What are the internal controls in place?			
	*What are the legislative measures in place to prevent or mitigate the vulnerability of certain areas / population? (Such as measures for the control of land use, building regulations, land planning...)?			
	*Has the province signed any agreements on reducing disaster risks and/or promoting cooperation against the threat of hazardous events?			
	Do the framework provide for			
	*Developing a national disaster management policy and allocation funds to the disaster management plan?			

	*An integrated risk-based approach between different possible disaster types?			
	*Preparing national plans and programs under this policy?			
	*Setting up a general framework for the responsibilities and roles of the institutions involved in disaster management and the arrangements for coordination between these institutions?			
	*A facilitating framework for international disaster relief and recovery assistance			
	*A specific budget for the institutions involved in disaster management, and if yes, is this budget in harmony with the tasks and responsibilities of those institutions?			
	Are there disaster plans (or substitutes)?			
	*At federal, provincial and/or local level if in high-risk areas or in case of cross border risks? Is consistency and harmonization ensured?			
	*Are NGOs/International Organizations involved in the design of the National Disaster Plan?			
	*Are there specific criteria such as accountability or transparency for NGOs determined as part of disaster management plans?			
	*Are they updated regularly?			
	*Do the plans include risk scenarios for multi-disastrous events which trigger each other?			
	*Are there procedures for systematically reviewing plans for timeliness, completeness, consistency with existing guidelines and overall usefulness?			
	*What information has been used for the plans? What is the quality of the information used? Have experts been involved?			
	*To what extent do the disaster plans have priority over other legislation? (e.g., limitations of ownership or property rights in the event of an emergency.)			
	*Does the national plan contain operational details to provide a good basis for timely, clear, and organized action or is it complemented by more detailed sub-plans?			
	*Is the critical infrastructure determined on a national scale within the scope of disaster plans/substitute tools?			
	*Do the disaster plans promote regular disaster risk reduction exercises, including evacuation drills, with a view to ensuring rapid and effective disaster response and access to essential food and non-food relief supplies as appropriate to local needs?			
	*Does the plan cover the international treaty/agreement obligations if any?			
3	Entities involved in disaster management			
	<ul style="list-style-type: none"> ▶ The many institutions and agencies involved in disaster risk reduction should be identified. ▶ For this, the auditor should have a comprehensive knowledge of the legal framework and organizational structure, of all entities involved. Establishing their roles, responsibilities, and cooperation among them will help the auditor assess where and how to collect data, who is responsible for what actions, etc. 			
	▶ How are roles and responsibilities defined and allocated?			
	▶ Which body is responsible for coordinating disaster planning and management?			

	▶ Which bodies are related to disaster management at each level? (Evaluate the organization structure, for example, by preparing an organizational map)			
	▶ Are the organizational structures and systems well defined and designed to facilitate successful disaster management activities?			
	▶ Are authority and responsibility clearly assigned?			
	▶ Does the main body responsible have capable and sufficient human resources?			
	▶ Is there a Quick Response Team to respond to disasters as they occur?			
	▶ What are the reviewing entities of the disaster plans? Are they independent with objective views?			
	▶ What is the chain of command?			
	▶ What are the feedback mechanisms?			
	▶ How are information flows designed among the various actors?			
	▶ What lessons have been learned from previous experiences of disasters in view of the position and authority of the relevant organizations? Have these lessons been properly reflected in such areas as the reorganization and strengthening of authorities?			

4: Risk assessment	Yes	No	Note
▶ General risk assessment for compliance and performance audits			
▶ Risk that the assessments of hazard risk, vulnerability, and disaster risk, at national and subnational levels are not undertaken on a regular basis			
Risk issues not covered by the assessments:			
▶ Areas of the territory that are the most vulnerable to a particular hazard?			
▶ Type of disasters and likelihood of each disaster (natural, human, indirect hazards, earthquake, tsunami, epidemic, major accident etc.)?			
▶ Possible combinations of types of disasters?			
▶ Vulnerability of people living in that area (identification of affected or potentially affected people, their needs, and interests)?			
▶ Vulnerability of critical infrastructures in that area?			
▶ What is the extent to which communities, structures, services, and geographic areas are likely to be damaged or disrupted by the impact of a particular hazard, on account of their nature, construction, and proximity to hazardous terrain or to a disaster-prone area (physical & socio-economic vulnerabilities)?			
▶ Impact/influence of a disaster on the other areas of the country?			
▶ Disaster management capacities?			
▶ Risk that those assessments do not use information generated from GIS?			
▶ Risk that lessons have not been learned from recent experience of major disasters?			
▶ Risk that the risk and vulnerability assessments are not properly documented for reference and audit purposes?			
▶ Risk that data used for these assessments are not the data needed, or that there are insufficient quality measures in place to ensure quality of information/data used, and/or that this information cannot be exchanged between relevant entities?			
*Does it evaluate the magnitude and likelihood of potential losses/damages?			

*Does it provide full understanding of the causes and impact of potential losses?			
Risk of incompleteness linked to the fact that the government has not used the voluntary framework developed by the OECD (See: http://www.oecd.org/qov/risk/q20oecdframeworkfordisasterriskmanagement.htm)?			
▶ Risk that the risk assessment is not used to guide the allocation of resources?			
▶ Risk that cost-benefit analyses of a range of disaster risk reduction measures are not performed on a regular basis and are not a requirement for public investment planning?			
▶ Absence of a strategic reserve of disaster relief goods?			
▶ Risks related to procurement processes and flow of funds evaluated not well-defined and tested to assess whether services and goods can be delivered swiftly to the affected population?			
▶ Procurement processes not flexible enough in design to accommodate unexpected events?			
▶ No pre-specification for services and goods which may be delivered in urgent circumstances to avoid low quality?			
▶ In urban settlements, the auditor can consider the key risks to be able to evaluate local disaster risk reduction activities and perform sampling in a sound manner:			
*Risk that rising urban populations and increased population density is leading to poor quality of housing, infrastructure, and services.			
*Weak urban governance preventing local authorities to provide infrastructure, services, or safe land housing.			
*Unsustainable urbanization: unplanned urban development taking place outside the official legal building codes, land use regulations and land transactions.			
*Increased risks in case of disaster if economic assets are clustered in large cities.			
*Risks those public buildings do not meet safety standards and are not upgraded.			
General risk assessment for financial audits (in case financial statements of audited entities are affected by a disaster): During financial audit of disaster, funds received to meet the disaster management must be accounted for. Audit must examine the total funds received from different sources, national and international agencies, whether proper accounting is done by the receiving entity relating to the funds received and expended. Audit must verify the contingency funding, and contingent expenditure incurred there from. Total budget, supplementary budget if any, and expenditure incurred against different items included in the budget must be verified with vouching and tallied against the entries in the entity's books of accounts. Audit focus is to ensure that proper accounting is done, and competent authority had approved the expenditure and there was no waste or imprudent or improper expenditure.			
▶ To what extent documentation, evidence have been destroyed by the disaster?			
▶ Are essential functioning of the entity or the Government significantly weakened by the scale of the disaster?			
▶ Is the aid collected from donors being recorded correctly (non-cash donations, committed donations that are not yet received)?			
▶ Are procurement rules being respected?			

▶ Are goods and materials donated in kind or purchased stored properly?			
▶ Are damages of infrastructures properly assessed?			
▶ Have the processes for receiving, managing, spending, and recording disaster-related funds been clearly established for each of the various funding channels, such as governmental funds and domestic and foreign donations?			
▶ Is there any periodic reporting on disaster fund allocation and utilization by recipient agencies?			
▶ Is the management and use of the financial and in-kind contributions received recorded and reported?			
▶ Are accountability principles respected? (government's record of commitment to rehabilitate or reconstruct infrastructure in the next period, government's accounting of assets given or built by a donation fund, disclosure of matters related to the receipt and use of disaster-related aid funds in the notes to the financial statements)?			
Risks/problems analysis linked to Disaster Monitoring/Management Information			
▶ Is a monitoring system in place to determine the extent of loss or damage following a disaster?			
▶ Is there and up-to-date disaster management information system?			
▶ Is the existing disaster management information system suitable for analysing risks and planning efforts to reduce the risk and/or mitigate the impact of disasters?			
▶ Does the management information system contain enough information on hazards and risks to determine, at the local level, who is exposed and who is vulnerable?			
▶ Has the main authority developed effective and appropriate instruments to guide the local authorities in making the risk assessment in their own areas in accordance with the national strategy and policies?			
▶ Does the main agency responsible regularly review disaster management tools and measure on their efficiency and effectiveness? When is this assessment done?			
▶ Are the results of this assessment used for decision-making and the improvement of future disaster management initiatives?			
▶ Does the main authority enable an integrated database system among and between local and central units?			
Risks/problem analysis linked to Geographical Information System (GIS)			
▶ Is an appropriate geographical information system used? For what purpose?			
▶ Is there a need for using a GIS in disaster risk reduction?			
*What planning decisions need to be made?			
*Which decisions involve the use of mapped information and information appropriate for map display?			
*What information cannot be managed efficiently with manual techniques?			
*What information management activities can be supported by the proposed GIS?			
*What types of decisions can be supported with a GIS?			
*Are the GIS appropriate for the analysis? Will it produce the necessary maps?			
*To what extent will a GIS help achieve the desired objectives?			
Is the GIS suitable?			
*Are its capabilities compatible with the needs of the new users?			

*Is the in-house technical expertise capable of serving the new users?			
*What are the institutional arrangements that would enable the appropriate use of this GIS?			
Is the GIS sustainable?			
*Who will be the users of the information generated with the GIS?			
*In terms of information, time, and training needs, what is required to obtain the desired results? Can these requirements be fulfilled?			
*Is the budget sufficient and is staff availability adequate?			
*What agencies are participating in similar projects?			
*To what extent would a GIS help to attract the interest of other agencies and facilitate cooperation?			
Risks/problem analysis linked to Alert Mechanisms, Hazard Maps, and Other Tools			
▶ Does the country have early warning mechanisms to predict calamities that may hit the country during a certain period?			
▶ Are the warning systems built based on identified risks for relevant areas?			
▶ Are hazard maps prepared taking into consideration the existing environmental plans, land use planning and building development schemes, etc.?			
▶ Are hazard maps and/or hazard analyses updated?			
▶ Are there any special tools intended to mitigate disaster risks and impacts?			
▶ Are there any standby arrangements for purchasing, receiving, storing, and distributing disaster relief supplies?			
Risks/problem analysis linked to pre-disaster activities			
▶ Taking multi-national and stakeholders' structure of disaster management into account, auditors would focus on how coordination and concerted action can be achieved by the various bodies involved			
▶ Is the government promoting public awareness and education and strengthening community participation in disaster risk reduction? Are there plans for disaster risk reduction training for the public and/or public education campaigns to raise public awareness? Are these executed according to plan?			
▶ Are education programmes and training on disaster risk reduction planned and realized in schools and local communities?			
▶ Have training requirements and effective training plans been established and are they being updated as appropriate?			
▶ Do programmes provide organizations and individuals with the necessary knowledge and skills to respond effectively and quickly recover from various types of disaster?			
▶ At the local level, have more practical matters such as evacuation areas/routes and possible shelters been considered, disseminated, and reflected in the disaster drills?			
▶ Is responsibility for developing and conducting emergency exercises and training clearly defined and assigned to an appropriate agency, department or individual?			
▶ Are local drills and simulation exercises conducted at all levels of government?			
▶ Are training/emergency exercises at the national and local levels, including at the town level, implemented and/or supervised by an authorized body/agency? Is it ensured that training functions and activities are not unnecessarily duplicated or overlapping?			
▶ Is there any specific programme for training/emergency exercises for particularly vulnerable people (Patients in hospitals, students in schools, employees in			

government/private sectors housed in tall buildings/dilapidated buildings, people living in low-lying areas or near river - banks)?			
▶ Are various local departments (fire dept., police, and hospitals), community-based organizations, NGOs, the media, and local businesses involved in the training/emergency exercises?			
▶ Has the government been involved in capacity building by sending officials to other more developed countries for purposes of learning the most effective emergency exercises during disasters?			
▶ Is a communication mechanism established and introduced into the community?			
Risks/problem analysis linked to post disaster activities			
▶ Risk/problem analysis related to short-term post disaster activities			
▶ Are damages and needs assessments performed to identify the destruction caused by a disaster, the location of the victims and/or their basic requirements to effectively select the aid needed?			
▶ Are those assessments the basis for providing shelter, emergency food and water, or any other support to victims?			
▶ Does the affected population receive the help needed?			
*Goals attainment: did the affected population receive the help it needed in a timely manner, including crisis counselling?			
*Process: were procedures adequately prepared in advance and then respected during the post-disaster period? Are procurement processes cost-effective with due regards to quality, quantity, and timeliness?			
*Cost/benefit: were the objectives of the disaster-related aid met at the lowest possible cost?			
*Quality: was the quality of the output (food aid, shelters, etc.) acceptable? (No damaged or outdated stock for instance)			
Are the goods and materials donated in kind or purchased using financial aid inventoried and stored so that they can be retrieved to meet the victims' requirements?			
Is the aid distribution organized in an effective manner either directly to victims or through appropriate distribution channels?			
Risks/problem analysis related to medium and long-term post disaster activities			
▶ Are the newly built infrastructures disaster-resilient to prevent and mitigate future potential disasters, socially acceptable and sustainable?			
▶ Are the maintenance and operating costs of the newly built infrastructures ensured?			
▶ Are there reporting mechanisms on disaster-related aid and its economy, efficiency, and effectiveness?			
▶ Risk that planned reconstruction projects do not take place			
Risks/problem analysis linked to coordination between the different bodies at provincial, national and international level			
▶ Has a coordination mechanism been established that should function in the event of a disaster?			
▶ Are responsibilities clear to everyone at every layer of government: "who, when, what?"			
▶ What responsibilities have private entities, NGOs?			
▶ Could the main body responsible provide the facilities and support necessary for the activities of the non-government bodies?			

▶ Are all relevant participants identified and included in this coordination mechanism (national/regional/local level and the main contact point for external bodies)?			
▶ Has the expected level of coordination between and among the agencies concerned been achieved during recent disasters (if any) or by means of test exercises?			
▶ Is there a monitoring mechanism to provide information to help ensure cooperation, as appropriate, with different bodies at the regional, national, and international levels?			
▶ Does the existing coordination foster collaboration to avoid the duplication and overlap of activities in the field, to make the most efficient use of resources and to raise awareness of the risk of disaster?			
▶ Are different forms of cooperation to reduce disaster risk, such as technical assistance, consultancy, equipment, and supplies, etc. specified in accordance with the nature, role, and work of different participants in this field?			
▶ What alternative means of communication are ready, such as telephones, radios, and the internet? Are there multiple options in the event of a disaster?			

Draft of audit plan

- ▶ Draft audit plan is prepared at the audit planning stage with a view to conduct the filed audits successfully.
- ▶ The draft audit plan may undergo changes during the field audits if any new facts come to the notice of the audit teams.
- ▶ The objective of the draft audit plan is *to find out the gap between what should be as per the legally assigned responsibility of the audited entity regarding management of the disaster and what is the real situation.*
- ▶ *Audit probe in execution phase of audit must focus on the root causes for the deviations and must study the impact to the affected stakeholders.*
- ▶ *Audit must be able to identify gap with evidence and recommend the remedial and preventive actions with a view to manage the future disasters.*

Audit Programme

The main reasons for using audit programme are to:

- ▶ establish a clear relationship between audit objectives, audit questions, audit methodology, and the anticipated field work to accomplish those objectives
- ▶ identify and document the procedures to be performed, before commencement of testing
- ▶ facilitate delegation, supervision and review
- ▶ ensure that all planned procedures are performed
- ▶ document performance of procedures executed
- ▶ document the application of audit sampling to provide sufficient audit evidence.

The audit programme working documents should describe the nature, timing and extent of planned audit procedures required to implement the audit plan. The audit programme essentially translates the audit plan into detailed audit procedures designed to satisfy detailed audit objectives. It could be integrated with audit plan. The audit programme should be revised as necessary during the course of the audit.

Hiring of external experts

- ▶ Some of the disaster related subject matter must be complex such as cloud bursting/glacier melting and its impact on flooding in rivers and climate change in Nepal, timely prediction of natural disasters like earthquake

<p>and pre and post disaster management and relief operations etc. OAGN auditors will not be able to evaluate the scientific and highly technical aspects of the phenomena and put authentic and credible audit findings in the OAGN's audit report without the assistance of a competent and reputed institute or expert in the field. While undertaking audit of such disaster related themes, it is advisable to hire an accredited institute or known expert in the audit team. The terms of reference of the expert must specify the charter of responsibilities with timeline. The hiring process must be based on the applicable procurement rules of hiring services of experts.</p>
<p>▶ The AG can hire the services of an expert in audit. According to the Appropriation Act, the accounts should be examined, and all government entities' financial transactions are subjected to audit to test their correctness. The AG may ensure that government assets are safeguarded. The AG checks whether there is internal audit system and internal controls are effective to prevent loss and misuse of cash and other government assets.</p>
<p>▶ While using the findings of the external experts, auditor must take abundant precaution and get the findings verified with evidence and then use it appropriately quoting the experts in the audit report. Audit is responsible for the audit findings, and hence the findings of the external experts must be checked for accuracy and appropriateness while using in the audit report.</p>
<p>▶ Audit needs to verify adherence to rules by government entities, proper work distribution and performance, avoiding duplication of work and omission and effective utilization of available resources.</p>

Cooperative/parallel audits

When designing the audit, OAGN may consider whether there is benefit in cooperating with other SAIs. OAGN must assess need for cooperative audit/ parallel audits:

<p>For instance, disaster management activities in Nepal may be funded by another country.</p> <p>The SAI of the donor country may like to collaborate with OAGN to cover all aspects of disaster management. Collaboration between the SAIs of different countries is equally important when auditing bilateral or multinational treaties on disaster management and/or on audit of hazards transcending national borders such as the establishment of early warning systems.</p>
<p>▶ Moreover, the flow of disaster-related aid from donors to recipients and the information flow from recipients to donors can be complex. Several auditors may audit complex aid flows such as governments donating humanitarian aid, international agencies receiving and donating aid and governments receiving aid.</p>
<p>▶ There is scope for joint, parallel, or coordinated audits (Ref INTOSAI GUID 9000). For example, two or more SAIs of donor governments may cooperate on auditing contributions to a disaster-affected population.</p> <p>▶ Donor and recipient government SAIs may find it useful to coordinate their audits of aid especially when major disasters take place, and many donors are involved.</p> <p>▶ SAIs of donor governments can learn from SAIs in recipient countries about the national legal and operational environment for auditing disaster-related aid. SAIs of recipient countries can learn the</p>

international context of receiving disaster-related aid. The exchange of information and knowledge between SAIs can be beneficial.
Feasibility of joint or parallel audits
<ul style="list-style-type: none"> ▶ OAGN may develop similar objectives and auditing standards to consider the feasibility of cooperating, by carrying out joint or parallel audits. This helps to pool resources, share tools, learn from each other, and possibly overcome issues regarding individual audit mandates. Parallel audits are often the most convenient way of cooperating.
<ul style="list-style-type: none"> ▶ In disaster management auditing, OAGN may communicate the audit objectives and terms of the audit with the audited entity's management and those charged with governance and others as applicable as per the mandate and usual audit procedure. Audit of disaster related subject matter may include examining aid paid directly to operational agencies which are not part of the government. Disaster audit may be conducted cooperating with other SAIs, if needed, in situations where multi-donors operate.
<ul style="list-style-type: none"> ▶ OAGN shall conduct a risk analysis to define a realistically scope and audit objectives. Availability of information may be challenging in situations of emergency. As disaster management is often involved by multiple layers, their roles and obligations must be clearly defined.
<ul style="list-style-type: none"> ▶ After selection of the disaster related subject matter for audit based on risk assessment and deciding the type of audit – financial audit, performance audit or compliance audit, the audit design matrix should be prepared by mentioning the audit issues/audit questions, evidence collection methods etc.
<p>Note:</p> <p>When planning an audit, auditors may consider organizing an on-the-spot visit at an early stage of the emergency to gather information and record evidence on disaster-related aid implementation. In the present COVID 19 pandemic situation, digital platforms must be used.</p>

2.6.5 Audit Execution

Audit Execution: Audit of disaster related subject matter

General:

Applicable ISSAIs are:

- ▶ ISSAIs: ISSAI 3000 &
- ▶ ISSAI 5500 series on Disaster management

<ul style="list-style-type: none"> ▶ background knowledge to understand the entity to be audited, for assessment of the risk, possible sources of evidence, auditability, and the materiality and significance of the area (ISSAI 3100/2.4.1)
<ul style="list-style-type: none"> ▶ The audit objective, questions or hypotheses, criteria, scope and period to be covered by the audit, and methodology including techniques to be used for gathering evidence and analysis (ISSAI 3100/2.4.1).
<ul style="list-style-type: none"> ▶ Staffing requirements, i.e. competencies (including the independence of engagement staff), human resources, and external expertise required for the audit, knowledge of the auditors in the subject matter (ISSAI 3000/2.2); and

- ▶ The estimated cost of the audit, project timeframes and milestones, and control points (ISSAI 3100/2.4.1).

- ▶ ISSAI 100. 49 states that auditors must perform audit procedures that provide sufficient appropriate audit evidence to support the audit report.
- ▶ When auditing disaster management, auditors' decisions on the nature, timing and extent of audit procedures will affect the evidence to be obtained. Auditors' approach to obtaining the audit evidence depends on the complexity of disaster management activities.
- ▶ Auditors must be aware of emergency procedures which may be in operation during the emergency phase following a disaster. Compliance with all the laws and regulations in emergency situations may not be feasible. Audit must understand that some rules cannot be applied in exceptional circumstances or due to force majeure to prioritize the saving of lives and the alleviation of human suffering. However, auditors will ensure that where it is reasonable, the deviations from the rules need to be documented and explained. Audit may also verify the degree to which appropriate disaster preparedness measures were already in place and whether the measures factored the need for pre-defined emergency procedures.
- ▶ Furthermore, methods for obtaining audit evidence such as on-the spot inspection or observation may be challenging. Therefore, alternative methods for obtaining evidence can be applied. However, audit may ensure that the evidence is sufficient to persuade a knowledgeable person that the findings are reasonable, relevant, and reliable.

Conducting Financial audit, Compliance audit and Performance audit

- I. **While conducting FAs of entities**, disaster management related funds received, how the funds are used, what items and services were procured and what were the control lapses, if there was any noncompliance of financial rules, accounting standards, if there was any fraud, accounting errors or management overrides and misuse of resources must be examined and **suitably commented in the certification of financial statements of the entity**.
- II. Material misstatements in the financial statements may be omission or understatement, or overstatement. Audit procedures must be directed at use of funds and resources linking to books of accounts taking adequate samples of transactions based on the risk parameters. Impacts of noncompliance of accounting standards and applicable financial rules and standards of financial propriety must be quantified in the audit report.
- III. Auditors must analyse the financial statements such as budget and accounts statements of the government entity, cash flow, receipts and expenditures, balance sheet, schedules with supporting accounts entries and vouchers to establish whether acceptable accounting standards for financial reporting and disclosure are complied with.
- IV. Given the nature of likely misstatements in the financial statements, the auditor should analyse the statements to identify noncompliance areas, the appropriateness of accounting policies and the existence and disclosure of contingent liabilities.
- V. In case of audit of disaster management, while doing financial audit of entities where disaster related funds are received and expended, audit should cover these transactions and must be suitably commented.
- VI. FA must be done during the regular annual financial audits of entities commenting on impact of disaster management related aspects on financial statements of the entities.
- VII. Financial audit related to disaster subject matter is thus limited to specific risk relating to audit of financial statements of entities affected by a disaster.

- VIII. The impact of disaster on the assets and liabilities of the financial statements of the entities may be examined by the auditor while doing financial audit of the entities and comment. Financial audit is done as usual but the impact of disasters, receipts and expenditure relating to it and relevant transactions and disclosures must be commented suitably while conducting FA. This must be done while conducting financial audits of the entities' financial statements.
- IX. Specific checklists based on the applicable policy, laws and rules must be prepared for checking the deviations from the rules and the noncompliance must be reported.
- X. There will not be a separate audit report usually on disaster management.

Example:

- ▶ ***The impact of COVID pandemic and funds received and spent by different government entities for different objectives during the disaster must be suitably commented in the FA of the entity's financial statements while certifying the accounts of the respective entity.***

OAGN must communicate the type of audit and the terms of audit as explained in FA, CA, and PA Guidelines/Manuals.

2.6.6 Reporting and follow-up

Auditors can perform FA/CA/PA¹⁶ of disaster management. The specific reporting and follow-up requirements of the audit engagement must be adhered to.

Disaster management is audited based on financial compliance and performance audit. Most of the Ministries Defence, Urban Development, Education, Health, Physical Infrastructure and Transport, Industry, Commerce and Supplies, Home Affairs, departments, and subordinate officers are involved in disaster management. A performance audit can be conducted annually every year on various aspects of disaster management.

There will be three types of disaster management audit reports:

a) Financial Audit:

FA is done along with usual certification of financial statements of the government entities as done based on the OAGN's annual audit plan. There will be no separate FA report exclusively in case of FA.

A preliminary report will be issued to the concerned body after auditing the financial and compliance of the income and expenditure of the government body including NEA. After receiving the feedback from the concerned body, final report will be issued as required and included in the annual report of the Auditor General.

b) Compliance Audit and Performance Audit:

Separate audit reports must be prepared on the disaster management related subject matter identified for audit for CA or PA. The report must be sent to the concerned body or authority and included in the annual report of the Auditor General.

Such report will be sent to the Office of the Prime Minister and the Council of Ministers until the composition of the NEA is effective. In addition to the functional audit, the Board of Directors must arrange to collect reports from different implementing agencies on a subject and prepare a report on the identified risk areas. In such a case, the report will be sent to all the implementing agencies and the offices of the Prime Minister and the Council of Ministers.

¹⁶ Ref: ISSAIs 200, 300 and 400

2.6.7 Audit recommendations

Making timely recommendations can maximize the audit impact on disaster management.

Auditors may develop recommendations that:

- ▶ would be of use in preparatory measures for potential future disasters (for example, in the field of infrastructure development, auditors may recommend rebuilding infrastructure in such a way as not only to replace damaged facilities, but also to reduce the impact of future disasters and create a resilient community),
- ▶ would advocate for improvements of local legislation, regulations and/or policies, including on the need to clearly assign roles and responsibilities,
- ▶ would draw attention to the absence of disaster risk reduction policies if this is the case, or raise awareness of the importance of such policies if they are not a matter of high priority to the Government,
- ▶ advocate the establishment of clear roles and responsibilities within the different aspects of emergencies and for a more effective management of donor coordination. For that purpose, they can recommend improvements to the policies, procedures, planning, and oversight of international cash and in-kind donations in response to disasters. They can also recommend, for instance, that Parliament enacts appropriate laws or concludes international agreements to facilitate international cooperation,
- ▶ propose that a fraud and corruption prevention strategy is built,
- ▶ seek to improve human resources, develop organizational capacity and/or strengthen organizations' monitoring systems based, for instance, on comparative cost information,
- ▶ advocate the inclusion of crisis counselling in post-disaster activities.

The success of disaster risk reduction depends on the participation of society. The clarity of the audit reports is vital to ensure maximum impact. Giving publicity to recommendations in audit reports by using media, civil society organizations, academia and by auditors available for discussion with stakeholders will enhance audit impact.

Auditors may distribute audit reports widely, including auditors of a donor government who may use the work of the recipient government.

2.6.8 Documentation working papers and Quality Control/Quality Assurance Review

OAGN's FA, CA, PA Guide may be referred to for proper documentation and maintenance of working papers depending on the type of audit. Quality assurance review procedures must be also followed based on the type of the audit and following the process mentioned in the respective OAGN's audit Guide.

Disaster Management Audit Steering Committee

Note:

The DMA Steering Committee is constituted by OAGN. The constitution and the status of the DMA Steering committee may undergo changes from time to time based on the change in OAGN's personnel and emerging requirements.

For example, the COVID 19 pandemic has created new work environment which does not fully enable the audit teams to conduct the required field visits and discussions as usually done with the audited entities.

2.6.9 Example: Disaster management related audit:

Subject matter: Emergency procurement by the government entities of the government of Nepal during the COVID-19 pandemic

Selection criteria of the topic:

Must be selected based on the OAGN's selection criteria as per the FA, CA, and PA manuals/guidelines. Significance of the selection of the subject matter for audit

Subject matter is significant due to emergency procurement needs for saving human lives, the magnitude of amount involved, procurement procedures followed, procurement of goods and services at right prices, economic value order quantity, right specification and quality and timely delivery to the end users to save human lives and achieve the project planned outcome.

Substantial amount is spent under emergency conditions wherein prudential procurement rules are likely to be diluted and the risk of possible irregularities and frauds are likely to be high.

Audit planning:

Familiarization of the subject matter

- ▶ The government of Nepal has been procuring essential medicines, vaccines, oxygen cylinders, PEPs, ventilators and essential goods, and services during the COVID 19 pandemic to save the lives of the Nepal citizens.

Type of audit

- ▶ The type of audit must be decided. FA must be done including the funds received for the purpose with expenditure incurred by checking the supporting books of accounts and financial statements with supporting schedules/vouchers and documents while conducting the annual financial attestation audit.
- ▶ CA can be adopted to examine procurement of certain high value critical items by certain entities with reference to the applicable acts, rules, and regulations.
- ▶ PA can be used to conduct a comprehensive value for money audit using checklists made to check 3Es viz. economy, efficiency, effectiveness along with ethical, equity, environmental and sustainability issues, and concerns.

Audit scope

Audit scope will determine which entities to be covered, what items to be covered, which period to be covered including the field audit programs and offices to be covered with period of field audits and important issues to be examined during the audit.

Audit scope will decide which entities to be covered, which aspects must be included, and for which period etc. based on the audit resources and auditability and other criteria.

Auditors must study the applicable strategy, policy, applicable laws, rules and regulations, different projects, programs with objectives, targets, milestones, timeframe, out puts and outcome.

Most important issue is whether the government agencies responsible for emergency procurement in disasters like COVID 19 pandemic have laid down proper emergency procurement policy and regulations and if so, how far they are effective for the purpose of saving human lives considering the urgency of procurement.

- ▶ The procurement process must comply with applicable acts, rules, norms, standards, and principles.
- ▶ There should be public accountability, transparency, to realize the objective of good governance.
- ▶ Even in cases of emergency the responsible agencies who purchase goods and services must lay down appropriate purchasing procedures, identifying the economic order quantities, quality specifications with right price to discourage corruption, ensure public trust and confidence.
- ▶ For that, the government authorities must create specific online portals/websites sharing essential procurement information and data relating to emergency procurement items and process. Essential details like estimated cost of goods and services, details of procurements with vendors/suppliers, product specifications, comparison prices and prices paid etc.
- ▶ The Civil society organizations (CSOs), citizens and media/journalists must be able to access the public domain to obtain essential information to help monitoring the government authorities in purchases of important equipment, drugs, and items during the pandemic. Details of contracts, conditions of agreements, payments made for medical goods and services with specifications and manufacturers etc. must be provided to ensure public accountability and transparency.

Audit objectives

Based on the audit objectives the type of audit - FA, CA or PA can be used.

The policy documents will elaborate the objectives, targets, planned outputs and outcome with time frame. Audit criteria and audit questions can be developed based on the document review.

Audit must evaluate the budget, funds allocation and expenditure incurred for various activities and how effectively the public funds are incurred with reference to the outputs, outcome, and impact.

Audit methodology

A combination of result oriented, system oriented and problem-oriented approach may be adopted as an audit strategy and approach.

Audit objectives and audit questions and sub-questions can be developed, and audit design matrix can be developed to find out the audit evidence while executing the audit.

Total funds used with details of health-related medicines/drugs/equipment/services etc. procured such as the following:

- ▶ Procurement agency to procure the personal protective equipment (PPE)
- ▶ The government policy, strategy, procurement rules, approach to procurement of emergency related items during the pandemic
- ▶ System of controls to ensure the right price for right items with right specifications from right sources at right time to ensure better value for money
- ▶ The government measures to build needed public trust, public transparency, accountability, integrity in government procurement process

Procurement planning

The procurement authority in the government of Nepal should invest adequate time for planning and tendering and procurement process the essential goods and supplies during the pandemic.

Even during an emergency when quick delivery of items is crucial, it is essential to list out items and services with specifications with list of the competent suppliers, with quality certificates before a contract is signed off.

Key issues to be examined for emergency procurement

1. Problem-identification disclose emergency procurement data in the tendering process, selection criteria and specifications before a contract is signed.
2. Once a contract is signed, especially in an emergency, buyers must conduct internal quality checks on item specifications and supplier performance to ensure the quality of goods and services procured.
3. Governments should publish the defined emergency procurement strategies, with flexibility, for implementation during a crisis.
4. Planning for this involves creating an emergency procurement team, prequalified suppliers for certain items (such as PPE)
5. OAGN has the mandate and power to carry out real-time audits of emergency procurement. Emergency purchases
6. Social audits (by civil society organizations) by publishing open data
7. Contracting data on a single, unified open data portal to improve data accessibility for the citizen, public, journalists and CSOs.
8. Transparent tendering practices during the pandemic
9. Improved service delivery, better value for money, increased public integrity, and increased business competition.
10. CSOs realized that the government was overbuying medical gowns,
11. Major shortcomings with the health procurement agency's approach to transparency
12. Contract for purchase of ventilators
13. The ventilators lacked touchscreens and did not meet the specification requirements.
14. Short of ventilators
15. Recommendations for improved service delivery
16. To allow problem-identification by CSOs and journalists, procurement authorities should disclose COVID-19 procurement data in the tendering process, arguably even making selection criteria and specifications available to the public two or three days before a contract is signed.
17. Planning for this should involve creating an emergency procurement team, establishing a group of prequalified suppliers for certain items (such as PPE), and introducing procurement to National Disaster Preparation plans.
18. The need for governments to publish clear and open emergency procurement strategies during the coronavirus pandemic.
19. Emergency procurement plans should also allow for a certain level of flexibility, albeit with defined parameters, to account for unforeseen circumstances.
 - create and allocate resources to an emergency procurement team

- prepare lists of pre-qualified suppliers of frequently required emergency goods and liaise with suppliers to ensure readiness for mobilization (for example, tents for natural disasters, or PPE for a pandemic); and,
- mainstream procurement in emergency response planning; making sure that procurement is included in National Disaster Preparedness and Risk Reduction Plans.

Other aspects to be examined during audit of disaster related procurement

▶ The government's internal control mechanisms. during the state of emergency must be audited to find out internal control deficiencies. Evaluation of the Internal controls enables OAGN to comment on the system with evidence and data analysis.
▶ A good procurement system will ensure adequate reserve of essential equipment and goods such as PPE, ventilators, oxygen cylinders. Audit can help the authorities to do proper forecasting without causing shortages and allowing the government agencies to make quick data based informed procurement decision making.
▶ Civil society organizations may be interested to associate with OAGN' audit on the subject matter.
▶ Procurement authorities must lay down practical policies and regulatory framework to procure emergency goods and services during the disasters.
▶ They must coordinate with user agencies to consolidate the total requirement to enable them to go for economic scale of procurement.
▶ They must lay down the right quality specifications of items required with estimated price range considering available vendors, market prices, availability of products with various vendors to ensure timely delivery and avoidance of shortages of essential items.
▶ Better value for money
▶ The government agencies must identity the problem, magnitude of public spending used, streamlining the emergency procurement methodology, procedures, and contracts in line with the applicable government acts and rules to achieve good value for money. Audit must evaluate the urgency of the procurement authorities to pay in excess to the market price due to lack of laid down polies and procedures. The procurement authorities should consider the following actions:
▶ Short-term
▶ The procurement authorities should introduce pricing lists and price caps on key goods and services required during the disaster such as the COVID 19 pandemic or earthquake or avalanches, with price range considering market conditions and prices to prevent excess spending.
▶ The procurement agencies must provide justification, review similar contracts, and establish the basis upon which maximum prices for goods/services for meeting the contingency.
▶ There may be inflation on key items or services during a global emergency when demand is high. While fixing price caps this aspect should be considered. A proactive approach of publishing pricing lists early into a crisis must be adopted. The procurement authorities should implement framework agreements for emergency purchases, setting out the contractual terms and price caps with approved list of suppliers. This can ensure saving public funds and quality control. Time is short during emergencies. Civil society organizations, journalists, and social activists, community leaders may point out procurement irregularities and inadequacies.
▶ OAGN's CPA audits can involve CSOs to report the irregularities in procurement by the government entities as they monitor, track, analyse, and evaluate government performance, making the public officials accountable for their actions and decisions. National procurement authorities should work towards

publishing all contracting data on a single, unified open data portal to improve data accessibility for the stakeholders including citizens, journalists and CSOs. Contracts must be open to public scrutiny. The procurement authorities should hold themselves to higher professional standards with transparent contracting. Procurement authorities should consider reverse auction techniques during emergency to allow competition, outlining quality specifications with maximum price caps.

Audit recommendations:

Major audit recommendations may likely to cover the following significant area:

- ▶ Audit must focus on economic, efficient, and effective management of disaster related service delivery factoring equity, ethics, and sustainability concerns.
- ▶ For achieving timely service delivery to the end users to save human lives
- ▶ To obtain better value for money – obtaining the goods and services with possible planning, and designing policy guidelines and procurement rules and procedures for emergency procurement
- ▶ Increased public accountability, transparency, and integrity
- ▶ Procedures for better public accountability, transparency, credibility and thereby establishing good governance
- ▶ Audit must provide recommendations that enable the policy makers to improve the emergency procurement strategies that promote efficiency and fairness.
- ▶ Recommendations may include conducting joint procurement initiatives, making good use of existing market intelligence on suppliers, and checking whether existing contracts can be renewed or extended before making a direct award.
- ▶ OAGN has a key role in identifying cases of fraud, waste, and more general inefficiency in public procurement during a crisis. Audit can identify irregularities and inappropriate procedures and recommend how to correct such irregularities, and thereby improving service delivery.
- ▶ For instance, during the pandemic, audits can draw attention to the inadequate health infrastructures, in appropriate procurement strategy, observed problems, issues and weaknesses, avoidance of poor service delivery.

3. Annexures

Annex I: Acts and regulations related to disaster management

Note:

Laws, rules, and procedures undergo changes from time to time as new situations emerge like COVID 19 pandemic. Auditors must update their knowledge while familiarizing the audit subject matter. It is a continuous process. All the relevant documents must be studied at the audit planning stage as part of familiarization of the subject matter.

Sl. No.	Laws relevant to audit of various disasters in Nepal
1	Reconstruction of the Earthquake Affected Structures Act, 2072
2	Disaster Risk and Management Act, 2074 and Rules, 2076
3	Disaster Risk Management National Strategy, 2066
4	National Disaster Symbols Act, 2070
5	Prime Minister's Disaster Relief Fund Operation Rules, 2063
6	Post-Disaster Corps Management, 2068
7	Criteria for Disaster Rescue and Relief, 2064
8	Government of Nepal decides to maintain 83 open areas, 2069
9	District Disaster Management Plan Guidelines, 20691
10	Local Disaster Risk Management Plan Index, 2068
11	Disaster Victims Rehabilitation Operation Procedure, 2071
12	Firewall Operation and Management Procedure, 2067
13	Waterborne Disaster Management Policy, 2062
14	Forest Fire Management Strategy, 2067
15	Directive on Assistance for Relief from Unexpected Damage from Wildlife, 2065
16	Wildlife Damage Relief Assistance Guideline, 2069
17	Bird Flu Control Orders, 2064, 2065 and 2067
18	Prime Minister Helping Fund Rules, 2059
19	Local Government Operation Act, 2074
20	Environmentally Friendly Local Government Draft, 2070
21	Garbage Management Act, 2068
22	Garbage Management Rules, 2070
23	Water Resources Act, 2049
24	Water Resources Rules, 2050
25	Water Resources Strategy, 2059
26	National Water Plan, 2062 (National Water Plan, 2005)
27	Irrigation Policy, 2070
28	Forest Act, 2076
29	Forest Rules, 2079
30	Land and Watershed Protection Act, 2039
31	Intermediate Area Management Rules, 2052
32	Conservation Area Management Rules, 2053
33	National Parks and Wildlife Conservation Act, 2029

Sl. No.	Laws relevant to audit of various disasters in Nepal
34	Demand for Community Forest Development Program, 2065
35	National Agriculture Policy, 2061
36	Agricultural Biodiversity Policy, 2063
37	Poultry Policy, 2068
38	Khak Policy, 2068
39	National Seed Policy, 2056
40	Animal Health and Animal Services Act, 2055
41	Animal Health and Animal Service Regulations, 2056
42	National Land Utilization Policy, 2069
43	Infectious Diseases Act, 2020
44	Supply Policy, 2069
45	National Monitoring and Evaluation Directive, 2070
46	Environment Protection Act, 2076 and Rules, 2077

Annex II: Institutional provisions for disaster risk management

Source: Disaster Risk and Management Act- 2017 (BS 2074)

Institutions by Level		Functions
National/Federal Level	National Council for Disaster Risk Reduction and Management (NCDRRM)	<ul style="list-style-type: none"> ▶ Approval of national disaster management policies and plans ▶ Provide direction to executive committee and national authority ▶ Policy guidance to province and local level ▶ Management of financial resources for disaster management ▶ Evaluation of management activities
	Executive Committee	<ul style="list-style-type: none"> ▶ Submit the national policies and plans to the council ▶ Implementation of disaster risk reduction, disaster response and rehabilitation and mitigation related policies and programs depending upon the limits of approved policies and plans by the council ▶ Implementation and approval of the disaster risk reduction strategies and programs ▶ Determine the role of public, private and Non-Government Organizations (NGOs) on disaster management ▶ Determine the role and responsibilities of the concerned ministries, departments, and other institutions regarding disaster management ▶ Institutional capacity building of national, province and district and local level on disaster management. ▶ Incorporate disaster management related courses from the school level to higher education. ▶ Vulnerability assessment and hazard mapping
	National Disaster Reduction and Management Authority (NDRMA)	<ul style="list-style-type: none"> ▶ Implement the plans, programs and decisions approved from the council and executive committee ▶ Work as resource centre for disaster reduction and management ▶ Study and conduct research in the issues about causes and mitigation measures of landslide, flood, earthquake, climate change, land-use change and other different hazards and disasters. ▶ Provide financial and technical assistance to province and local level to prepare periodic plans related to disaster management. ▶ Involve private, NGOs and local community in disaster management

		<ul style="list-style-type: none"> ▶ Formation of search and rescue team to national, province and local level and build their capacities to handle disasters ▶ Mobilize security forces, search, and rescue team. Awareness creation about disaster management
Province/State Level	Province Disaster Management Committee (PDMC)	<ul style="list-style-type: none"> ▶ Policies plans and programs in the province level based on the approved national policies and plans from the council. ▶ Facilitation and coordination for effectiveness of the preparedness activities of the local disaster management committee ▶ Coordination with national, province and local level to make effectiveness of the activities about search and rescue ▶ Make standards for rescue items management ▶ Management of drinking water, food, clothes, and medicines in disaster affected areas ▶ Recommend to GoN for declaration of emergency in disaster affected areas ▶ Move the unsafe people to the safe place ▶ Establishment of disaster management information system and installation of Early Warning System (EWS)
	District Disaster Management Committee (DDMC)	<ul style="list-style-type: none"> ▶ Implement the policies, plans and programs approved by • council, executive committee, and province committee ▶ Preparation and implementation of Disaster Response Plan of • the district ▶ Mobilize emergency operation centre (EOC) of the district ▶ Conduct search and rescue works in the affected areas ▶ Management of dead bodies due to disasters• ▶ Management of drinking water, food, clothes, and medicines • in disaster affected areas ▶ Keep intact security forces ▶ Coordination of national and international assistance during disaster ▶ Information flow about disasters
Local Level	Local Disaster Management Committee (LDMC).	<ul style="list-style-type: none"> ▶ Design and implementation of local disaster management plan ▶ Allocation of budget for disaster reduction ▶ Coordination of public, private, NGOs, local volunteers, and social mobilizers to conduct disaster management activities ▶ Implementation of building codes and standards/guidelines

Disaster Management Audit Directives

		<ul style="list-style-type: none">▶ Information of disaster preparedness committee at ward and community level▶ Training about mock-drill▶ Management of rescue and relief at affected areas▶ Establishment of disaster management information system and installation of Early Warning System (EWS)▶ Activate the emergency operation centre (EOC) at local level
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Source: Disaster Risk and Management Act- 2017 (BS 2074).

Annex III: Evaluation of the control environment

Sl. No.	Control procedures	Yes	No	Remarks – how far the legislative, institutional, systemic, and procedural requirements are complied with deviations and how they impact the outputs and outcome and the stakeholders
1	Legal provisions have been made mentioning the activities related to disaster management, the duties, and rights of the concerned bodies			
2	Organizational arrangements have been made for immediate self-mobilization for disaster management			
3	Disaster management strategy has been prepared and implemented			
4	A situation where the task of coordinating the work of disaster management has been assigned to a body and has been carried out effectively			
5	Disaster Preparedness Plan has been implemented			
6	All types of cash and in-kind assistance received for disaster management purposes are received and distributed in a coordinated manner as per the policy.			
7	Policy, direction, and internal procedures have been decided regarding the mobilization of assistance			
8	Special policies, directives and procedures for relief distribution and rehabilitation of victims have been prepared and implemented.			
9	Arrangements have been made for control of internal activities including mobilization of aid, distribution of relief and operation of emergency activities.			
10	Arrangements have been made for an organizational structure with the necessary powers to deal with emergencies			
11	The victim identification system is independent, appropriate, and reliable			
12	Provision of proper monitoring to make the victim's identity and need estimate accurate and up to date			
13	Arrangement to compare the demographic data of the affected area with the collected information			
14	Whether the basis for estimating the damage is adequate and sufficient			
15	Provision for cash and in-kind relief distribution			
16	Donors have no restrictions on the use of funds			
17	Appropriate and safe storage arrangements have been made for the relief items received			

18	In case of emergency, implicit procurement procedure has been prepared and implemented			
19	Conditions affecting transparency and accountability by implicit procurement procedures			
20	Emergency procurement procedures used for reconstruction purposes			
21	Receipt of all types of cash and in-kind assistance and provision for recording and reporting of expenses			
22	Arrangements have been made for the exchange of information regarding the need for the victims and the assistance received and distribution between the agencies involved in disaster management.			
23	The area is divided between the agencies or teams involved for rescue and relief purposes			
24	Needed resources for post-disaster rehabilitation and reconstruction planning, implementation period has been determined and action plan has been prepared and implemented.			
25	A high-level device has been set up to monitor the implementation of various stages of disaster management			
26	A system has been established for continuous flow of information regarding disaster management activities, receiving complaints and feedback from various sources and timely improvement.			

Annex IV: Pre-disaster activity-related tests

Sl. No.	Risk areas	Test Subject / Test Method	Examiner	Worksheet
1.	<u>Organizational and strategic adequacy</u> 1. Integrated risk management strategies and policies for disaster risk reduction are unprepared or insufficient, 2. There will be no effective organizational framework if disaster risk reduction activities are carried out successfully and in a coordinated manner. 3. Effective technology and systems will not be used for disaster risk reduction.	1. The National Disaster Strategy and Action Plan estimates all possible disasters and necessary revisions and amendments have been made to it periodically. 2. The National Disaster Strategy and Action Plan has clearly stated the work duties and responsibilities of all the concerned bodies and has also mentioned the priorities and implementation schedule of the work duties. 3. In relation to Disaster risk reduction, national level objectives and strategies is based on sound financial and legal systems. 4. Disaster risk reduction legislation clearly defines the efficiency and responsibilities of the coordinating body. 5. The coordinating body for disaster risk reduction has adequate manpower, financial and other resources for planning, coordination, and monitoring. 6. An integrated information system has been set up at the national and local level to provide easy access to the concerned bodies and assist in the decision-making process.		
2.	<u>Contingency preparation at the local level</u> 1. Disaster and emergency assistance plans will not be prepared at the local level.	1. Emergency planning at the local level considers the risks of local disasters and aligns with the national plan. 2. The local level contingency implementation plan is based on reality and can be monitored and evaluated.		

	<p>2. Coverage of disaster areas and awareness raising activities will not be conducted.</p> <p>3. Adequate training and awareness activities will not be carried out.</p>	<p>3. The implementation plan covers various types of disasters in different situations,</p> <p>4. Implementation plan prepared in a participatory manner and periodically reviewed,</p> <p>5. The implementation plan sets out the activities to be handed over to the private sector and non-governmental organizations.</p> <p>6. The implementation plan has clearly defined the shift of responsibility</p> <p>7. The implementation plan has focused on making special arrangements for the disabled.</p> <p>8. Adequate storage of basic supplies such as food, water and medicine required during a disaster,</p> <p>9. To include the concerned bodies and the people in the plan of operation of the physical infrastructure to inform in case of disaster and its alternative system continuously and effectively has been included in the implementation plan.</p> <p>10. Identification of disaster sensitive areas and mapping of rescue operations,</p> <p>11. The strategy includes planning and monitoring of training and awareness-raising activities,</p> <p>12. Disaster early warning system connected.</p> <p>13. Emergency related training has been included in the annual training program and training has been conducted in coordination of training materials and related bodies.</p> <p>14. Awareness raising activities have been effectively managed and volunteers have been involved as per the plan.</p>		
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s3.	<p><u>Regarding housing sector preparations</u></p> <ol style="list-style-type: none"> 1. The risk of disaster will not be considered during passing the construction work map. 2. Disaster risk will not be considered in urban development planning. 3. No effective monitoring will be done regarding the construction of building standards and their implementation so that they can recover from possible disasters. 	<ol style="list-style-type: none"> 1. Planning has been done considering the risk of disaster and its adjustment has been done. 2. Identified high-risk areas based on micro-regional maps and local integrated disaster maps. 3. Identify high risk areas and plan conservation. 4. Identification, communication of information and settlement arrangements have been made for the disaster safe area. 5. There is an effective monitoring mechanism to ensure that the buildings are constructed in such a way that they can recover from the disaster. 6. According to the short-term and long-term plan, the building will be demolished. 7. The building has been demolished by determining the area and priority based on the disaster risk assessment. 8. There are plans, targets and budgets for subdivision and dismantling. 9. Transparency Urban Development Plan has been implemented to reduce the risk and damage of disasters. 		
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Annex V: Emergency Management Tests

Sl. No.	Test subjects and risk areas	Test subject / Test method	Examiner	Worksheet
1.	<u>Rescue work</u> 1. Rescue work may be delayed. 2. Emergency supplies may be delayed.	1. Arrangements have been made for immediate mobilization for the purpose of se/arch and rescue of survivors. 2. The team has been mobilized to make the essential items available immediately, 3. The team includes individuals and experts from all fields.		
2.	<u>Cash aid distribution</u> 1. The cash distributed can be received by an unrelated person, 2. The responsibility for cash distribution is not clear, 3. There may be more cash distribution than specified, 4. Cash distribution records not kept as prescribed, 5. The remaining cash may be misappropriated after distribution.	1. The money was sent to the distributor body through the official channel. 2. Arrangements have been made for distribution of more than one person or organization. 3. Appropriate arrangements for identification of aid recipients and proper distribution. 4. Distributed cash as per the criteria within the limits prescribed by the official body. 5. Signed or lapped by the recipient, filled out as specified and kept in a systematic record. 6. The number of recipients of a certain area is estimated, 7. Caution not to pay the same recipient more than once, 8. The cash that could not be distributed was received by the central institution and it was written off.		
3.	<u>Distribution of support</u> 1. Distributed goods cannot be received by unrelated persons 2. The responsibility for commodity distribution may not be clear	1. Donors aid distributors, 2. All goods are distributed under a one-time distribution system, 3. The distributor is responsible to the donor or provider, 4. All items received are recorded in stock,		

	<p>3. Records of procurement, distribution and inventory may not have been kept as prescribed</p> <p>4. Distributed commodities may be discarded or reused</p>	<p>5. Goods received from various organizations and distributed goods were exchanged,</p> <p>6. The storage place for food and other items is suitable,</p> <p>7. Distributed food items without expiration of edible period.</p> <p>8. Relief materials including food are of suitable quality,</p> <p>9. Arrangements have been made to distribute materials in the affected areas to prevent famine and malnutrition,</p> <p>10. Keep records of goods sent from the store,</p> <p>11. Being Relief materials according to the needs of the victims (religious, social values)</p> <p>12. The victims are aware of the use of relief materials,</p> <p>13. Distributed uniformity to the affected people without any bias,</p> <p>14. Received compensation from the recipient,</p> <p>15. Materials sent from the store and the number understood by the affected people were found,</p> <p>16. Adherence to time intervals for repeated distribution of aid to the same person,</p> <p>17. Distribution of relief materials is not limited to accessible areas but covers all areas,</p> <p>18. Distributed more relief materials than required from different sources in one place,</p> <p>19. Confronted with the details of the relief goods imported from the customs in the revenue exemption and the details distributed to the affected by the concerned agencies.</p> <p>20. Distributed cash and commodities for the same purpose.</p>		
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4.	<p><u>General management of distribution</u></p> <p>1. Lack of transportation facilities.</p> <p>2. Commodity collection and distribution centres may be in inconvenient and unsafe places.</p> <p>3. Sanitation and health facilities may not be available at the place of residence,</p> <p>4. Delivery may be delayed</p>	<p>1. Appropriate arrangements have been made for safe transportation of goods from warehouse to distribution centre.</p> <p>2. Arranged distribution centre at a convenient place for the affected people</p> <p>3. Provision of safe, adequate space, clean drinking water, epidemic control, health facilities for the temporarily affected people.</p> <p>4. Adequate management of basic medicines has been provided in the temporary accommodation,</p> <p>5. Material distribution of volunteers coming to the distribution centre and preventing unrelated persons from entering,</p> <p>6. Adequate volunteers / workers are provided so that the affected people do not have to wait in long lines for relief.</p>		
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Annex VI: Relief and Reconstruction Tests

Sl. No.	Risk areas	Test Subject / Audit Method	Examiner	Worksheet
1.	<u>Damage audit</u> <ol style="list-style-type: none"> The mobilized groups may not be efficient, independent, and impartial, Forms used to collect related information may not provide detailed information, Process monitoring may not be appropriate, The aggregate facts may not be in line with the facts in the local body, The collected information may not have been analysed as required and appropriate classification and collection may not have been done, The required documents for the process may not have been produced, It may be that we have not taken the information from the key stakeholders and given importance to it. 	<ol style="list-style-type: none"> The qualifications of the mobilized group were tested in the selection process, The forms used were counted as well as filled tests, The responsibility of monitoring has been assigned in the damage audit, I counted the test by mentioning the behaviour of the stakeholders in the minutes of the meeting, Giving false details of damage, False victims standing or claiming damage or relief amount by preparing documents after the disaster, The information including family number was compared with the data available in the local body, The basis for damage assessment has already been clearly determined and used uniformly, There is pressure and impact that the damage assessment could not be done independently. 		
2.	<u>Purchase</u> <ol style="list-style-type: none"> May not be purchased as needed, May have not complied with the Public 	<p>(A) Check for control -Check out the following by selecting a representative sample of the goods / services contract:</p> <ol style="list-style-type: none"> Whether or not the authorized officer had approved the procurement within the prescribed limits, 		

	<p>Procurement Act 2063 and Rules, 2064,</p> <p>3. May have purchased low quality goods for distribution,</p> <p>4. Construction professionals may not have the required qualifications for construction work,</p> <p>5. Low quality construction materials may have been used in the construction work,</p> <p>6. The government's interest may not have been protected in the contract,</p> <p>7. In the case of contract execution, the terms of the contract may have been changed in favour of the construction contractor,</p> <p>8. An order may be issued to purchase unnecessary goods,</p> <p>9. Items as ordered may not be received,</p> <p>10. May have received a different type of goods than ordered,</p> <p>11. The order may have been issued by a person other than the authorized person.</p>	<p>2. There was no provision to count the bill submitted by the supplier and the purchase order before submitting for payment.</p> <p>3. Whether there was an arrangement to check the goods and purchase orders, bills and services received according to the terms of purchase,</p> <p>4. There was an arrangement to check whether the goods or services of quality as per the purchase order were received or not, such as quality of rice, quantity of tarpaulin, capacity, and condition, torn not torn,</p> <p>5. Arrangements were made to pay the bill only after confirming the receipt of goods and services,</p> <p>6. There is no provision for quality testing and supervision if the construction work is done as per the specified criteria.</p> <p>(B) Essential Tests - Select a representative sample of the contract / work related to the goods or services and test the following:</p> <p>1. Whether or not it was purchased through an open competitive method,</p> <p>2. Whether or not the purchase notice was published in a popular magazine,</p> <p>3. Sobhi has not been purchased or the cost has been reduced,</p> <p>4. The specification is not clear, and it is not tailored to suit any requirements,</p> <p>5. There is no unnatural difference in the purchase rate of the same type of goods or construction work,</p> <p>6. In essence, whether the contract was awarded to the defaulter,</p> <p>7. There was not enough time to buy,</p>		
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		<p>8. How much or how little advance tax was paid on the purchase of taxable goods or services from value added taxpayers,</p> <p>9. Whether the purchase order, bill filing report, any other documents and the amount of the payment were with the sample test of the transaction.</p> <p>10. Whether or not only the goods or services received were paid for in the form of insufficient goods, replacement goods and redemptions,</p> <p>11. Supply of goods or construction work has not been done on time,</p> <p>12. Whether the bill and payment amount were mentioned at the appropriate price or at the agreed price including the freight at the correct price (to be paid if required),</p> <p>13. The bill mentions the amount in advance and how much was paid in advance or not,</p> <p>14. The construction work has not been completed as per the agreement, the justification for doing more work cannot be confirmed.</p> <p>15. To inspect the physical property constructed or under construction.</p>		
3.	<p><u>Goods Management</u></p> <p>1. Storage of items received or purchased from donors may not be appropriate for the affected person,</p> <p>2. People other than the official may have been allowed to enter the store,</p> <p>3. The security arrangements for the</p>	<p>(A) Control check – Select the representative model of business and situation and check the following: Whether there were appropriate procedures in place to ensure that materials were supplied as needed for the restoration and reconstruction work,</p> <p>1. Whether or not there were appropriate procedures in place to ensure that the goods are recorded quickly and accurately at the time of entry and exit for delivery.</p>		

	<p>stolen goods may not be adequate,</p> <p>4. There may be a situation where more than one party or organization may distribute the goods, there may be no exchange of information between them, which may result in undetected distribution of goods and materials.</p> <p>5. Excessive stockpiling of goods, over-procurement of goods or obtaining without coordination with a dental institution,</p> <p>6. Due to weak procurement and distribution system, mattresses can be misused and wasted.</p>	<p>2. The record of the material grant received from the donor was not mandatory,</p> <p>3. Physically available commodities, whether there was a system of periodic confrontation with their records,</p> <p>4. Whether the management was aware of the risk of leakage of the commodity and whether there was a system in place to control the leakage and to detect the leakage for the safety of the commodity.</p> <p>(B) Essential Tests - After selecting a representative sample of the business and the situation, obtain all the relevant documents and do the following:</p> <p>1. Records of the goods purchased and received from the donor and its distribution to the affected persons were properly kept in the untouched register or not,</p> <p>2. Taking a quantity confirmation from the donor of the major commodities received from the donors and counting it as mentioned in the stock register,</p> <p>3. Compare the check register, bill, and delivery information for the payment to the right party,</p> <p>4. Check the current condition of the last stock of commodities.</p>		
4.	<p><u>Financial management</u></p> <p>1. Due to the government's failure to do the required work, the agreed amount may not have been received for expenditure,</p> <p>2. Reconstruction funds may not have been properly accounted for</p>	<p>(A) Control check - The auditor must check whether there is a control system in place to prevent misappropriation, loss, and misuse of the relief fund and to detect the occurrence of such incidents. To test the control system by taking the sample of representative and high value transactions, the auditor must check the following.</p> <p>1. Whether the relevant laws and regulations have been followed in the operation,</p>		

	<p>and may not have been budgeted for.</p> <p>3. The money may not have been spent for the intended purpose,</p> <p>4. The money may not have been spent efficiently and effectively.</p> <p>5. There may be a delay in sending or receiving the evacuation to the concerned agency,</p> <p>6. Transactions may not be promptly and appropriately documented, and proof documents may not be attached,</p> <p>7. The authority may have acted improperly,</p> <p>8. Unnecessary involvement of more than one government body to provide livelihood and other assistance to the affected people may have resulted in poor coordination between them.</p> <p>9. There may have been misappropriation, loss, and misuse of funds without an updated accounting between the concerned authority, the bank, and the accounting office,</p>	<p>2. Whether there is a uniformity between the deemed necessary and the approved implementation plan,</p> <p>3. Whether or not the actual progress of the work and the reported physical progress from the on-site observation were identical,</p> <p>4. Whether or not expenditure has not been recorded and reimbursed as per the approved procedure.</p> <p>5. Whether or not the funds were disbursed in a manner consistent with the physical progress of the reconstruction work,</p> <p>6. Monitoring has been arranged to cover all the works related to reconstruction.</p> <p>7. Whether the terms of the agreement with the donor have been reviewed.</p> <p>(B) Essential tests –</p> <p>After selecting the sample of the business and taking all the related documents, various procedures of investigation and testing should be followed:</p> <p>1. Check the completeness and accuracy of the fund's income, expenditure and inventory from the relevant government office, accounting office, donors, and bank accounts.</p> <p>2. Recognize the support available without being included in the budget,</p> <p>3. Confirming with the account book from the bank, donor, and recipient,</p> <p>4. Assess the existence of the asset, the date of the recorded transaction, the parties concerned, the amount, the unit price, the deposit amount,</p> <p>5. Material assistance amount has not been accounted for and reported,</p>		
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	10. Management and donor accounts may not have clashed.	<ul style="list-style-type: none">6. Check whether the business has been recorded within the relevant financial year,7. Check the total purchase amount and purchase records in relation to property and other purchases and compare the accounts and financial statements,8. Compared the administrative overhead cost of donor assistance, the cost of foreign manpower, and the amount of aid that has reached the affected.		
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Annex VII: Impact of disaster of COVID 19 Pandemic on accounting and auditing profession in general and specific role of OAGN

Coronavirus (COVID-19)'s challenges for accounting and audit professionals.

IFAC has developed a web page with essential resources and guidance to accountancy professionals/organizations. IFAC website covers audit evidence, auditing accounting estimates, reporting etc. Viz. *Audit, Ethics & Independence, Financial Reporting, Business Continuity & Recovery, Professional & Personal Wellness, General Information*.

The Institute of Chartered Accountants of Nepal (ICAN) has issued advisory note to deal with financial reporting and auditing during the ongoing disaster of COVID-19 pandemic. Due to COVID-19 the approach/methodologies employed in the normal situation will not be appropriate. The guidelines provide recommendations to discharge professional duties with due care to ensure that the financial statements are presented and audited in compliance the applicable standards.

Challenges for OAGN

The supreme audit institutions (SAIs) like OAGN face problems in carrying out audits during the COVID-19 lockdowns. OAGN must explore new ways to ensure that waste and fraud are contained. The risks of government initiatives must be assessed to ensure that preventative controls are in place and functional. OAGN must examine programs having direct impact on the Nepal citizens: for example, medicine, food, cash, etc. are reaching timely to the people in need. Economic stimulus packages, management of public debt, economic health of state-owned enterprises, and the impact of delays in vaccination programs and progress toward the Sustainable Development Goals are priority areas for OAGN. Digital platforms, radio, television, websites, and social media will be able to support the governments to assure the public that the public expenditure is managed effectively.

Auditor must study the funds received by Nepal from different sources. Pandemic situation should not be used an excuse to justify ill-informed decisions, procurement of goods and services at inflated prices from unreliable sources. Good procurement practices must be followed. OAGN has a significant role to ensure that rules aren't bent to commit fraud and corruption.

Way forward

Due to COVID-19 pandemic OAGN faces challenges in conducting its mandated audit responsibilities. Innovative practices supported by digital interface, software application, computer aided working methodologies such as NAAMS can manage audit in an ongoing COVID-19 working environment. Suitable work norms aided by NAMS, other digital platforms like Google meet, Zoom, Microsoft apps for meetings etc. can help to complete the mandated audit responsibilities during the pandemic times.

OAGN has crucial role in supporting the government of Nepal to establish suitable systems to enforce effective public financial management, ensuring transparency, accountability, and good governance through its audits engagement relating to disasters and public health. OAGN auditors are constrained in visiting the auditee premises for onsite gathering of evidence. Under the circumstances, examination of internal control systems etc. may suffer. Home-based working arrangements may replace face-to-face meetings with limited access to information, audit evidence and explanations and verification of evidence. Audit plans and programs may need revision. Responses to audit inquiries will be delayed with delay in issuance of audit reports.

OAGN needs to assess the risks associated with government programs and plan audit approaches. OAGN may undertake audit of the critically important transactions, ensuring its independence. Experience with auditing during

the disaster situations may show increase in abuse of procedures to divert funding from intended purposes. OAGN auditors must consider these facts while making audit plans, conducting and follow up audits. Using professional judgment on materiality is critical. Use of IT tools in audit approaches can help in providing inputs to the legislature and the executive through expedient, doable audit reports.

The public health management institutions in Nepal are grappling with emergency. Many decisions may have been made without due regard to established principles of economy, efficiency, and effectiveness. ISSAI 5500 series developed by the International Organization of Supreme Audit Institutions (INTOSAI) provide generic guidance on auditing disaster-related aid. ISSAIs 5510 and 5520 cover the audit of the pre-Governance & Institutions and post-disaster stages, respectively. ISSAI 5530 deals with the specific risks of fraud and corruption associated with disaster-related aid. ISSAI 5540 discusses geospatial information as a tool for auditing the pre- and post-disaster stages. INTOSAI Development Initiative further provides practical guidance on what, when-and how to audit during COVID-19 and other relevant technical resources through its COVID-19 web page¹⁷. INTOSAI's Policy, Finance, and Administration Committee launched a dedicated website (www.intosaicovid19.org) as well.

The World Bank's Governance Global Practice provides insights and solutions to key governance issues such as "getting government financial management systems COVID-19 ready"; "ensuring state continuity during the coronavirus pandemic"; and "ensuring integrity in governance and institutional response"¹⁸. It provides to auditors with guidance on practical measures for strengthened external oversight. OAGN audits can play a significant role as a deterrent to those who take advantage of the emergency to misuse public funds.

Audit must factor the following key principles during the emergency state:
▶ Prioritize safety of people, front-liners, and audit and auditee staff
▶ Raise awareness among stakeholders on the risks of emergency activities based on insights from previous audit findings
▶ Take advantage of remote audit technology to continue audit operations or initiate real-time audits on COVID-19
▶ Secure audit trails on COVID-19 through monitoring, documenting, and analyzing government responses
▶ Enhance capacity through sharing of knowledge and experiences on COVID-19 with peers
▶ Keep communicating with key stakeholders and ensure the establishment of adequate built-in oversight mechanisms in government emergency relief packages SAs should respond to operational challenges during the emergency stage.

As a response to COVID-19 emergency procurement, OAGN can expedite the pre-audit process to the emergency needs and contribute to preventing uneconomic spending on personal protective equipment (PPE) and other medical equipment. Rapid pre-audit for COVID-19 expenditure can cover:
▶ prioritized reviews directly related to COVID-19;
▶ review of related contracts; and
▶ use of e-communication in receiving and forwarding contract data and documents from and to the entities subject to audit.
Monitoring of government's budget execution decisions and actions is important. OAGN must keep track of government decisions that create fiscal space for responding to the crisis from loans, assistance from

¹⁷ <https://www.idi.no/en/covid-19/>

¹⁸ <https://blogs.worldbank.org/governance>

development partners, and donations from the public, among other sources. The government's COVID-19 emergency stage decisions will affect the performance goals of economy, efficiency, and effectiveness. Financial controls may be diluted, records can be lost, quantitative financial limits removed, and financial decision-making authority can move very close to where service delivery takes place without appropriate checks and balances.

COVID-19 Post-Emergency Stage

When government of Nepal opens with public activities, OAGN may be able to resume regular audit programs and audit of COVID-19 emergency operations. Special attention should be given to audit the government's annual financial statements and conduct of high-priority performance audits. When Nepal returns to normalcy, public resources are provided to assist recovery. OAGN has the responsibility to ensure transparency and accountability. The following activities are important:

▶ Plan compliance, financial and performance audits of government of Nepal's COVID-19 response
▶ Provide advance information to the auditee teams to prepare
▶ Use the government's assessments of COVID 19 response and build on them
▶ Use professional judgment to contextualize audit conclusions to the COVID-19 emergency
▶ Audit expenditure from funding sources
▶ Use ICT in audit process
▶ Ensure timely audit output; produce several short and quick audit reports rather than delayed comprehensive single reports.
While planning the audit of the government of Nepal's response to COVID-19 during the emergency phase and continue until audit begins during the post-emergency phase. The key considerations include:
▶ Government's high-priority programs in terms of budget allocation, funding, materiality, and risk, such as stimulus packages and distribution of food and medical supplies
▶ Decide audits based on data availability
▶ In view of missing audit trails, limited access to data, and onsite physical verification, alternate procedures must be considered
▶ Leveraging of pre-audit and internal audit work
▶ Requisite skills of OAGN audit staff and actions to map and bridge the skill gap.
OAGN' audit may focus to review the following:
▶ Verification mechanisms to confirm the eligibility and legality of disaster-related expenditures, availability of budget, provision of goods and services, and submission of supporting documents for expenses incurred
▶ Commitment for post-disaster spending
▶ Disbursement monitoring arrangements from different sources, including special funds and other off-budget accounts.

Auditors must ensure that their findings are based on circumstances prevalent in the crisis phase to enhance accountability. Timeliness of audit reports is crucial. Quick and brief audit products with several themes instead of one comprehensive report may be desirable.

The COVID-19 expenditures can be grouped into three categories:

- I. health care support,
- II. social protection and humanitarian aid; and
- III. economic support.

OAGN may audit procurements during the COVID-19 emergency as a key public expenditure item. PPE, test kits, ventilators, medical equipment, and future procurement of vaccination etc. are prone to high risks of fraud and corruption. Audit focus can be on streamlining competitive procedures. OAGN must coordinate with other accountability agencies such as internal audit, procurement authority and the anti-corruption agency.

SSAI 5510 points out that international cooperation between SAs in auditing disaster risk reduction matters. Benefits of cooperative audits are:

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| I. | enhancing confidence in OAGN' work, |
| II. | Creating public awareness of activities and programs, |
| III. | strengthening political interest in accountability, |
| IV. | upholding common criteria; and |
| V. | sharing knowledge both domestically and worldwide. |

OAGN may opt for joint or parallel audits on the implementation of international health regulations. The use of disruptive technologies in auditing, such as artificial intelligence (AI) should be initiated to read documents, including voluminous contracts and millions of vouchers to prepare samples of high-risk areas. The auditors can load the accounting and finance data from ERP system into the AI tool, which can show anomalies, errors, using built-in algorithms against user defined parameters (e.g.: materiality levels, all urgent payments, unbalanced debits and credits, rare flows, all payments that went through multiple revisions or approval queries, acquisition of assets beyond certain threshold, etc.).



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नीति योजना तथा जनशक्ति विकास महानिर्देशनालय

पत्र संख्या २०७७/७८ च नं ०३



विषय नेपाल सरकारी लेखापरीक्षण मानकको कार्यान्वयन सम्बन्धमा

नेपाल
२०१६



मिति २०७७/१४/१६

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) २०७७/१४/१६ मा स्वीकृत गरिएको छ । अतः कार्यालयबाट यस वर्षदेखि लेखापरीक्षण गर्दा तपसीलका नेपाल सरकारी लेखापरीक्षण मानको कार्यान्वयन गर्नु हुन अनुरोध छ ।

तपसील

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 ।

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