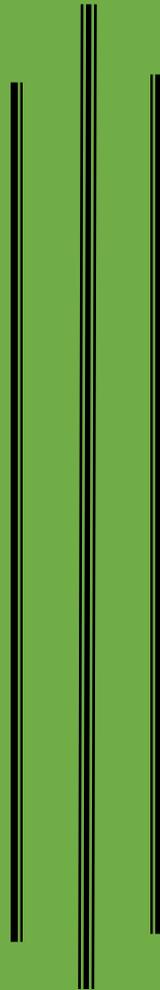


(Unofficial Translation)



Action Plan of Auditor General (2017 – 2023)



Office of the Auditor General
Kathmandu, Nepal

Serving the Nation and the People

Vision

We strive to be a credible institution in promoting accountability, transparency and integrity for the benefit of the people.

Mission

Provide independent and quality audit service to assure our stakeholders that the public funds are efficiently used.

Core Values

Integrity

Independence

Professionalism

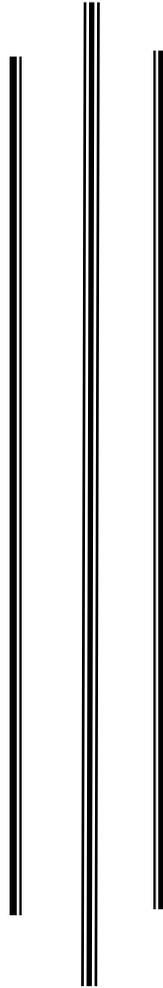
Transparency

Accountability

(For Official Purpose)

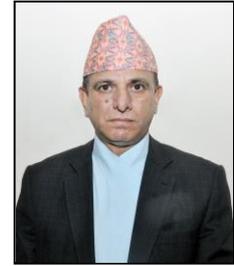


Action Plan of Auditor General (2017 – 2023)



Office of the Auditor General
Kathmandu, Nepal

Foreword



I feel privileged to publish the *Action Plan* for my sexennial tenure after assuming office as the Auditor General as appointed pursuant to the Constitution of Nepal. For many years, much of my career in the civil service of the Government of Nepal has revolved around accounting, auditing, financial management and revenue administration. I have taken the responsibility of the Auditor General with determination and a great zeal to improve the financial administration, and add value in the financial discipline and good governance of Nepal by utilising that experience.

While assessing the present status of Nepalese economy and financial administration, both positive as well as negative aspects have been witnessed. A high economic growth rate of 6.9 percent is expected after a long period elapses. Based on the assessment of the government expenditure and fiscal accountability, financial indicators of the country, including accounting, recording, and reporting system, credibility of the budget, comprehensiveness, and transparency, have remained equal or even higher compared to the world's low and few middle income countries. On other side, the status of overall financial discipline has been witnessed to be deteriorating due to excessive increment in irregularities, deteriorated state of overall good governance, poor capacity of the government machineries that are responsible for implementing development works and delivery of services, low absorption capacity in capital spending, and operational weaknesses in public procurement, revenue administration, and public enterprises among others.

The factors contributing to weakening of the financial administration and adherence to the financial discipline include political transitions and instability persisting over the past several

years, degrading capability in government officials to comply with responsibility and accountability as well as managerial weaknesses, non-existence of people's representatives in local level since a long period, and lack of healthy working environment in governmental functions, among others. Further, the factors such as inactive state of the parliamentary committees of legislature-parliament for a longer period of time, and non-appointment of an Auditor General in the past for long periods of time with frequent time gaps have also caused poor performance in effective external scrutiny and monitoring in the financial administration. As a result, such problems get proliferated.

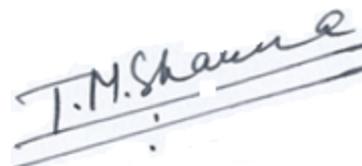
Currently, a state of affairs has been changed. Legislature - parliament and parliamentary committees have started functioning. People's representatives have started to assume their responsibilities after recently held local level election. In this perspective, there has been a great opportunity to promote good governance and maintain financial discipline by managing development works, service delivery, public expenditure and resources properly. Undertaking audit at the local level is about to be conducted from scratch. Hence, capitalizing on such an opportunity, all concerned should give due attention in establishing sound financial management procedures and system from the very beginning. By grasping this opportunity, in order to maintain and cause maintenance of financial discipline, I do pledge that the Office of the Auditor General will play a leading role by promoting accountability and transparency in public fiscal affairs through provision of credible and reliable audit with adoption of scientific approach and methodologies as enshrined by the Constitution of Nepal to carry out audit with due regards to regularity, economy, efficiency, effectiveness, and propriety thereof.

In order to enhance effectiveness of the Auditor General's function, duties, and responsibilities by analysing the strengths and weaknesses of the existing financial administration, the Auditor General's action plan (2017-2023) has been made public. It has been prepared in the basis of past strategic plans, action plans, and reports among others. by considering the fact of new approaches of audit

methodology developed in international arena, changes taking place in political, social, and economical circumstances of the country, and extended jurisdiction of the audits for province and local level as stipulated in the Constitution of Nepal. Reform agenda in areas such as organizational structure and working system, audit process and methodology, accounts and audit policy, and amendment in legal provisions, human resources management, and capacity development, enhancement of the audit effectiveness and quality assurance, maintaining financial discipline, constitutional and parliamentary relations, and external relations and communication, have been incorporated in the action plan.

After the implementation of this action plan, it is expected that it will enhance responsibility and accountability in public entities, promote transparency, ensure value for money from the control of misutilization of public funds, improve in good governance indicators by enhancing immune into the system against irregular and wrong practices of the country's governance system, alleviate irregularities by maintaining financial discipline, increase people's awareness with respect to financial management, and enhance credibility and international reputation of the Supreme Audit Institution of Nepal by improvements in quality and effectiveness of audits conducted by the Office of the Auditor General.

Last, but not the least, I would like to extend my thanks to all including staff of the Office of the Auditor General who provided suggestions and assisted in the preparation of this action plan. I expect cooperation from all concerned in the implementation of this action plan.

A handwritten signature in black ink, reading "T.M. Sharma", is written over a set of three horizontal lines. The signature is slanted to the right.

June, 2017

(Tankamani Sharma, Dangal)
Auditor General of Nepal

Table of Contents

| | | |
|----|------------------------------------|----|
| 1 | Constitutional and legal provision | 1 |
| 2 | Role of the office | 2 |
| 3 | Rationale for the action plan | 3 |
| 4 | External environment | 4 |
| 5 | Internal environment | 10 |
| 6 | Action plan | 16 |
| 7 | Implementing strategy | 31 |
| 8 | Monitoring mechanism | 31 |
| 9 | Risks | 32 |
| 10 | Expected outcomes | 32 |

Chapter – One

Background

1. **Constitutional and legal provision:** As per the Article 240 of the Constitution of Nepal, the President shall appoint the Auditor General on the recommendation of the Constitutional Council along with approval by the Parliamentary Hearing Special Committee of Legislature-Parliament after completing the hearing process. As per the Article 241, the Auditor General is empowered to carry out the audits of all Federal and Provincial Government Offices, Local level, and other institutions as specified by law in accordance with the procedures determined by law with due regard to the regularity, economy, efficiency, effectiveness and the propriety thereof. The Auditor General shall submit an annual report to the President as required by the article 294. Functions, duties, and powers of the Auditor General as specified in the Constitution of Nepal are given below:

- To carry out audits of all Federal and Provincial Government Offices including the Office of the President, Office of the Vice-President, Supreme Court, Federal Parliament, Province Assembly, Province Government, Local level, Constitutional Bodies & Offices thereof, Courts, Office of the Attorney General, Nepal Army, Nepal Police and the Armed Police Force, Nepal,
- To provide consultation in the matter of appointment of an auditor to carry out the audit of a corporate body of which the Government of Nepal or Province Government owns more than fifty percent of the shares or assets.

- To undertake audits of the Funds, Boards, and Entities as specified in the prevailing laws for the audits to be conducted by the Auditor General,
- To examine accounts related documents at all time,
- To approve accounts formats, and
- To submit an Annual Report of its functioning to the President.

Audit Act, 2048 (Amended) specifies about the audits methodology, area, and matters to be audited, as well as the matters related to audit of wholly and substantially state-owned corporate bodies.

2. **Role of the office:** In pursuant to ensuring good governance, the Office of the Auditor General has set its Vision as "*We strive to be a credible institution in promoting accountability, transparency and integrity for the benefit of the people*" and Mission as "*Provide independent and quality audit service to assure our stakeholders that the public funds are effectively used.*" Independence, integrity, professionalism, transparency and accountability are the Core Values of the office.

With reference to promoting public interest through audit, the office has been playing the role of a whipper by highlighting the problems regarding, *inter alia*; regularity, economy, efficiency, effectiveness, and propriety thereof; related to financial transactions conducted without complying prevailing laws & directives and weaknesses related to service delivery to people by public entities. Consequently, it has helped achieve maximum returns from the country's scarce resources by restricting it from misappropriation, misuse, and loss & damage, and enabling its proper utilization. As a response made to the matters pointed out by the office, public moneys that were misutilized have been recovered and deposited in the Consolidated Fund and additional

revenues have also been generated to state's treasury as a result of legal, policy and organizational improvements. There are numerous examples where economy and efficiency have been maintained and effectiveness has been brought in service delivery to people. Thus, Office of the Auditor General has made a huge contribution in establishing fiscal discipline.

3. **Rationale for the Action Plan:** After formulation of the Strategic Plan (2016-20) and for its implementation, Office of the Auditor General has prepared the Operational Plan (2016-21) and brought it into existence. This six-year Action Plan has been prepared by incorporating the activities as required for good governance to be maintained through considering the progresses achieved within one year of the implementation of the strategic plan, and to promote transparency and accountability, and to improve the audit methodology, scope and quality that is to be required in the course of implementation of the thrust of federalism in accordance with the Constitution of Nepal. Activities relating to new and very essential organizational restructure, development of physical infrastructures, capacity development of human resources, legal reform, and improvement in working procedures and methodology have been incorporated in the Action Plan. This Action Plan is an integral part of the office's Strategic Plan and Operational Plan.

Chapter – Two

Present Condition

4. External environment: Indicators related to the country's overall fiscal discipline and overall status of situational analysis related to Office of the Auditor General, have been provided below:

4.1 Audited amount and irregularity: Audited figures in accordance with the Auditor General's 54th Annual Report (FY2015/16) are as follows:

| Audited entity and subject | In Number | Amount (Rs. in millions) | Audited entity and subject | In Number | Amount (Rs. in millions) |
|------------------------------------|-----------|--------------------------|----------------------------|--------------|--------------------------|
| (A) Financial audit | 4,775 | 3,339,780 | (B) Performance audit | 7 | - |
| 1. Government office | 3,944 | 1,295,440 | (C) IT audit | 3 | - |
| 2.. District Development Committee | 75 | 123,030 | (D) Environment audit | 1 | - |
| 3. Board & other institution | 693 | 122,470 | | - | - |
| 4. Corporate bodies | 63 | 1,798,840 | | - | - |
| Grand total | | | | 4,786 | 3,339,780 |

This year, audits have been carried out of a total transaction of Rs. 1 trillion 295 billion 440 million (including appropriation, revenue and deposit) of 3 thousand 944 government offices, Rs. 122 billion 471 of 693 boards and other institutions, and Rs. 123 billion 28 million of 75 District Development Committees (DDCs). From the audits, total irregularity of Rs. 97 billion 437 million mentioned below have been reported including Rs. 88 billion 856 of government offices and Rs. 8 billion 581 million of corporate bodies and Boards.

(Amount in Rs. million)

| Classification | Government offices | DDCs, boards and other institutions | Total | Percent of total irregularity |
|---------------------------|--------------------|-------------------------------------|---------------|-------------------------------|
| 1. Recoverable | 40,439 | 948 | 41,387 | 42.48 |
| 2. To be regularized | 24,403 | 6,078 | 30,481 | 31.28 |
| 3. Advance | 24,014 | 1,555 | 25,569 | 26.24 |
| Total irregularity | 88,856 | 8,581 | 97,437 | 100.00 |

This year, the irregularity figure increased by 72 percent, as irregularity figure of Rs. 97 billion 440 million was reported in the 54th Auditor General's Annual Report compared to the figure of Rs. 56 billion 650 million reported in the 53rd Auditor General's Annual Report. Recoverable irregularities have surged by 8.50 times.

4.2 Cumulative irregularity status: The cumulative irregular amount including recoverable to be settled by the audited entities had totalled Rs. 328 billion 520 million as reported in the 53rd annual report, while such irregularities have reached Rs. 396 billion 260 million as per the 54th annual report. Such amount has increased by 20.62 percent.

(Rs. in millions)

| Particulars | This year | Particulars | This year |
|---|-----------|---|----------------|
| Irregularities in government offices | 167,490 | Outstanding reimbursable Foreign grant | 22,520 |
| Irregularities in corporate bodies and boards | 54,400 | Outstanding reimbursable Foreign loan | 14,340 |
| Audit backlog | 5,310 | Overdue principal and interest of loans provided on GON guarantee | 20 |
| Revenue arrears | 132,180 | | |
| Grand total | | | 396,260 |

4.3 Ministries having high irregularities: Amongst total irregularities Rs. 88 billion 856 million of government offices, 5 ministries having higher amount of irregularities which is mentioned as below. This amount stands 80.47 percent of total irregularities.

(Rs. in millions)

| S.NO | Ministry | Audited amount | Irregularity amount | | | | Percent of total irregularities | Percent in comparison to audited amount |
|------|--|----------------|---------------------|-------------------|---------------------|--------|---------------------------------|---|
| | | | Recoverable | To be regularized | Outstanding Advance | Total | | |
| 1. | Finance | 718,957 | 37,536 | 1,549 | 30 | 39,115 | 44.02 | 5.44 |
| 2. | Physical infrastructure & transportation | 70,687 | 650 | 2,425 | 9,695 | 12,770 | 14.37 | 18.07 |

| | | | | | | | | |
|----|---------------------------------------|----------------|---------------|---------------|---------------|---------------|--------------|-------------|
| 3. | Federal affairs and local development | 67,063 | 255 | 4,201 | 3,578 | 8,034 | 9.04 | 11.98 |
| 4. | Education | 92,030 | 106 | 7,392 | 267 | 7,765 | 8.74 | 8.44 |
| 5. | Water supply and sanitation | 14,643 | 175 | 2,154 | 1,496 | 3,825 | 4.30 | 26.12 |
| | Total | 963,380 | 38,722 | 17,721 | 15,066 | 71,509 | 80.47 | 7.42 |

It is essential to monitor significantly to the ministries, entities and responsible persons that having significant amount of irregularities considering as the high risk area.

4.4 Corporate bodies, boards and other institutions: Among the institutions audited, 28 corporate bodies, committees, and other institutions that follow commercial accounting and prepare Balance Sheet, of which 16 corporate bodies, committees, and other institutions have generated total operating profits of Rs. 50 billion 370 million, whereas 12 institutions have suffered total operating losses of Rs. 8 billion 740 million.

4.5 Status of public expenditure and financial accountability: As per Public Expenditure and Financial Accountability (PFFA) Assessment of the Government of Nepal, the status of improved, deteriorated, and unchanged indicators in 2014 compared to that of 2007, have been mentioned below:

| Assessment status | No. of indicators | Percent |
|---------------------------------|-------------------|------------|
| Standard improved | 19 | 61 |
| Standard deteriorated | 2 | 7 |
| Standard unchanged (Status quo) | 10 | 32 |
| Total | 31 | 100 |

As per the assessment, the comparative status of score obtained by Nepal in different dimensions and scores obtained by fragile, least developed, and middle income countries, have been mentioned below. In the report, Nepal's status in 'External Scrutiny

and Audit' appears weak in comparison to other countries as a result of some causes including the absence of Public Accounts Committee in Nepal during assessment period.

| Country | Credibility of the budget | Comprehensiveness and transparency | Policy-based budgeting | Predictability and control in budget execution | Accounting, recording and reporting | External scrutiny and audit |
|---------------------|---------------------------|------------------------------------|------------------------|--|-------------------------------------|-----------------------------|
| Nepal | 3.5 | 2.7 | 3.25 | 2.5 | 2.6 | 1.5 |
| 15- fragile states | 2.0 | 2.0 | 2.3 | 1.9 | 2.0 | 1.7 |
| 26- least developed | 2.4 | 2.4 | 2.5 | 2.4 | 2.1 | 1.8 |
| 52- middle income | 2.8 | 2.8 | 2.8 | 2.5 | 2.5 | 2.3 |

4.6 Analysis of the government's spending capacity: Despite the government generating revenues every year nearly to the revenue estimate, expenditures have been incurred ranging from 73 to 86 percent of the budget estimate, which indicates the government has low absorption capacity to utilize resources. Moreover, the country's absorption capacity to utilize foreign resources has remained only 35 percent in 2015/16. Status of the government's revenues and expenditure for the past years is given below:

(Rs. in millions)

| Fiscal year | Appropriated budget | | Percent | Capital expenditure | | Percent | Revenue | | Percent |
|-------------|---------------------|---------|---------|---------------------|---------|---------|-----------|---------|---------|
| | Estimated | Actual | | Estimated | Actual | | Estimated | Actual | |
| 2013/14 | 517,240 | 435,050 | 84.11 | 85,100 | 66,690 | 78.36 | 360,080 | 356,620 | 99.04 |
| 2014/15 | 618,100 | 531,560 | 86.00 | 116,750 | 88,840 | 76.09 | 424,750 | 405,870 | 95.56 |
| 2015/16 | 819,470 | 601,010 | 73.34 | 208,880 | 123,250 | 59.00 | 501,960 | 498,920 | 99.39 |
| 2016/17 | 929,110 | 511,310 | 55.03 | 311,950 | 98,500 | 31.57 | 565,900 | 484,690 | 85.65 |

Note: Actual of 2016/17 includes of the period only up to mid -May 2017.

Analyzing the status of capital expenditure of the past 3 years, the expenditure has been found to be gradually decreasing and has reached 59 percent of budget in fiscal year 2015/16. Of the total capital expenditure, it is found that 47 percent has been spent during the month of mid July (last month of fiscal year), which in turn,

incurred expenditure that would not be utilized properly by having inferior quality of works. Although the recovery of revenues has been found nearer to set targets at present, this recovery should be done on the basis of total estimation including all feasible revenue sources.

4.7 Governance status of Nepal: Nepal's governance comparative status as mentioned in the survey report of the United Nation's Economic and Social Commission for Asia and the Pacific is given below:

| Heads | 1995 AD to 2004 AD | 2005 AD to 2014 AD |
|--------------------------|---------------------------|---------------------------|
| Rule of law | 42.6 | 34.2 |
| Oversight quality | 39.9 | 36.3 |
| Corruption control | 42.3 | 36.4 |
| Government effectiveness | 38.6 | 33.1 |
| Good governance | 40.9 | 35.0 |

As per the comparative statement mentioned above, indicators of all dimensions have been found decreasing, especially in the latter survey period. This indicates the state of degradation in governance. Likewise, Nepal's Corruption Perception Index (CPI) as per the report published by Transparency International has been found declining during the past 4 years' period. Nepal's position, which ranked 116th in 2013, thereafter started to decline and has downgraded to 126th, 130th, and 131th position in the years of 2014, 2015 and 2016 respectively.

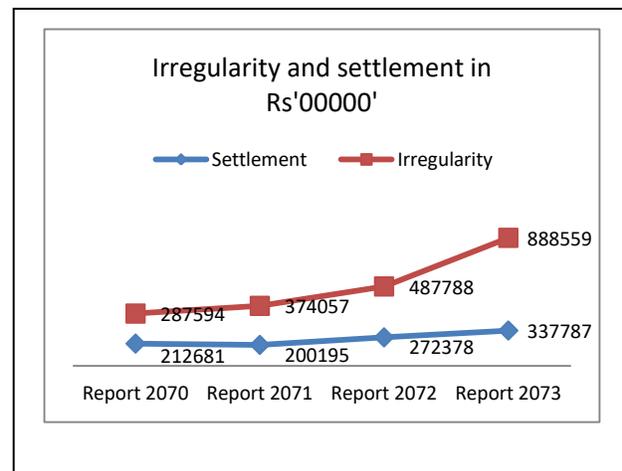
4.8 Fiscal discipline and status of irregularities settlements: Weaknesses have been observed in the areas of planning and budgeting, expenditure management, public procurement, project management and public enterprise management. In public entities, the status of internal control system has been found unsatisfactory, and the state of safeguard & utilization of resources and operation of revenue administration, has also been found not very effective as expected. Internal controls are weak. Irregularities have started

increasing. This fact can be justified from the following government entities' comparative figures of audit and irregularity of past 3 years:

(Rs in millions)

| AG Report | Audited amounts | Irregularity amounts | Percent |
|-------------------------|-----------------|----------------------|---------|
| 52 th Report | 853,946 | 37,406 | 4.38 |
| 53 rd Report | 1,043,238 | 48,779 | 4.67 |
| 54 th Report | 1,295,449 | 88,856 | 6.86 |

Irregularity amount in comparison to audited amount, which figured at 4.67 percent in the 53rd report, has increased and stands at 6.86 percent in the 54th report. Likewise, if the status of irregularity settlement of past 4 years is to be analysed, it is observed that irregularity figures have surged every year, but irregularity settlements figures through follow up



audit has increased at lesser rate as shown in diagram. There has been a situation that similar audit observations are repeated every year, but attentions are not given to their improvements. There exists a situation that the regulating agencies are not functioning effectively and directives issued by the parliamentary committees have not been implemented. Hence, the financial accountability situation is found to be below the mark in entirety.

Lack of adherence to the financial discipline is attributed to political, administrative & managerial, and external & social circumstance. Financial governance has been witnessed in weak condition due to political transition & instability of the governments, impunity, weakness of centralized governance system, absence of people's representatives in local level since two decades, lack of

responsibility & accountability within public officials, lack of technical & managerial capability of the government machinery to implement the increased volume of budget & programme, weak manpower management of the government & lack of discipline, and absence of healthy working environment in the government's work processes among others .

5. Internal environment: An analysis of internal environment of the Office of the Auditor General shows the following situation:

5.1 Independency of the Auditor General: Lima and Mexico declaration of the International Organization of Supreme Audit Institution (INTOSAI) mentions that every Supreme Audit Institution should have financial and administrative autonomy. In OAG context, executive (government) involvement is inevitable in respect to the appointment, performance evaluation and promotion of employees of the office and allocation of financial resources.

It is required that the Audit Act, Rule and Audit Service Operation Rule are to be formulated in order to maintain the administrative and financial independency as per the Constitution of Nepal. Likewise, necessary legal provisions are to be established to achieve administrative and fiscal independency as stated in the Mexico Declaration. There is also a need for formulation of fiscal accountability laws and other relevant laws are to be amended for the same purpose.

5.2 Human resources and facilities: The approved positions of the Office of the Auditor General have not been revisited since a long period. There are 4 Divisions, 14 Departments and 27 Directorates in the office. Status of existing approved positions and fulfilled position is given below:

| S.No. | Name of Post | Approved Position | Fulfilled Position |
|-------|---------------------------|-------------------|--------------------|
| 1 | Deputy Auditor General | 4 | 4 |
| 2 | Assistant Auditor General | 14 | 13 |
| 3 | Director | 86 | 82 |
| 4 | Audit Officer | 167 | 152 |
| 5 | Audit Superintendent | 82 | 82 |
| 6 | Other Staffs | 95 | 56 |
| Total | | 448 | 389 |

In comparison to other civil service employees, no additional facility has been entitled to employees of the Office of the Auditor General. The human resources management of the office has been operating under the Civil Service Act and Rule. The office lacks a separate Audit Service Operation Rule.

The office has the human resources that have specialization in accounts and audit subjects, but lacks multi-disciplinary skilled staffs. They have minimal opportunities for professional capacity development. Various subject matter experts (infrastructure expert, health expert, economist, sociologist, IT expert, engineer, press & information expert etc.) are needed for carrying out audit function efficiently. Additional domestic and aboard trainings, and twinning programs are to be provided for the capacity development of employees. Legal provisions are to be framed to let employess comply strictly with the code of ethics in order to refrain from pressure, influence, and allurements, and give continuity to the staff incentive system after its review.

5.3 Work load: The growth of audit work-load of Office of the Auditor General of the period 1991/92 to 2015/16 has been given below:

(Amounts in Rs millions)

| Audited figures | 1991/92 (2048/49) | 2007/08 (2064/65) | 2011/12 (2068/69) | 2015/16 (2072/73) |
|-------------------------------|----------------------|----------------------|----------------------|----------------------|
| Number of offices | 2,800 (Approx) | 3,342 | 4,802 | 4,511 |
| Audited amounts | 129,159 | 805,438 | 1,884,659 | 3,339,783 |
| Government offices | 44,238 | 242,807 | 742,594 | 1,295,449 |
| Other institutions, boards | 84,921 | 562,631 | 1,102,065 | 2,044,334 |

Although there has been no significant change in the approved positions of the office since fiscal year 1991/92 onwards, the audited amounts have gone up substantially. For carrying out the audit of local level in accordance with the recently promulgated new constitution, additional works need to be performed. As mentioned in the 54th Annual Report, the office's 362 staffs have carried out the audits of Rs. 1 trillion 418 billion 460 million, the total transaction of government offices, boards and other institutions, and audits of Rs. 1 trillion 798 billion of corporate bodies.

5.4 Workload at the Federal, Province and local level: Numbers of district offices, audited amounts and local levels as per province number, are given below:

| State | No. of offices | Audited amounts (Rs. in millions) | No. of local level | | | | Total |
|--------------|----------------|--------------------------------------|--------------------|------------------|--------------|--------------|-------|
| | | | Metropolitan | Sub Metropolitan | Municipality | Village body | |
| 1 | 713 | 136,155 | - | 3 | 46 | 88 | 137 |
| 2 | 415 | 230,154 | - | 4 | 43 | 79 | 126 |
| 3 | 1,412 | 992,605 | 3 | 1 | 41 | 75 | 120 |
| 4 | 510 | 66,175 | 1 | - | 29 | 62 | 92 |
| 5 | 589 | 251,942 | - | 4 | 32 | 72 | 108 |
| 6 | 410 | 36,041 | - | - | 22 | 51 | 73 |
| 7 | 462 | 50,273 | - | 1 | 33 | 54 | 88 |
| Total | 4,511 | 1,763,345 | 4 | 13 | 246 | 481 | 744 |

In order to carry out audits of all entities mentioned above, existing organizational structure of the office should be extended

up to province level by conducting the organization and management (O & M) survey.

5.5 Physical infrastructure: The office has been run in rented building at Pulchowk due to unserviceability of the office's old building caused by earthquake. Operational problems have been encountered as some of the divisions are situated in Babarmahal while majority of the divisions are run from Pulchowk building. Difficulties have been encountered in conducting trainings and meetings caused by absence of training hall. Working environment has been affected due to lack of minimum physical infrastructures to majority employees and availability of limited number of vehicles, and in absence of the required spaces, many employees have to sit in one common place for carrying out their office works. Hence, to improve the work environment, the construction works of centrally contracted office building should be completed on time and an immediate action should also be taken to acquire additional physical infrastructures (including office buildings, vehicles) for running the central and province level offices. Additional logistic supports and facilities should be provided to motivate employees on their jobs.

5.6 Audit Methodology and Quality: The office has adopted risk-based audit methodology while carrying out audits with regards to regularity, economy, efficiency, effectiveness and propriety as specified in the Constitution of Nepal. For this, Government Auditing Standards, Financial Audit Manual, Procurement Audit Guide, Administrative Expenditure Audit Guide, Project Financial Statement Audit Guide, Revenue Audit Guide, Performance Audit Guideline, Audit Quality Assurance Handbook have been enacted. These standards and guidelines, which are updated in accordance with international standards (ISSAI), are to be fully complied.

Detailed audits have been carried out at field level with preparation of Annual Audit Plan, Ministry level Plan and Entity level plan. However, some of audits have been completed following with short audit procedures- only examining internal audit report and consolidated financial statement. In course of auditing, audit works are being supervised by high level officers. In respect to the subject matters selected as special importance, performance and special audits have also been conducted. With completion of audits on ministry-wise basis, quality assurance reviews of selected audited files are performed through an independent evaluation team, and audit observations pointed out by the audits are also being reviewed. The office has started using electronic devices for conducting audits.

Pursuant to high-risk subject matters, both financial audit and performance audit methodologies have been adopted performing in-depth analysis of the aspect of regularity, economy, efficiency, effectiveness and propriety thereof. Likewise, concurrent audits are to be carried out to evaluate the value for money of government expenditure, development works, and effectiveness of service delivery. Further, special audits shall have to be conducted pertaining to subjects such as sustainable development & environment, disaster management, concerns of public health, manipulation and loss & damage prone areas, revenue planning & recovery system. There has been need to improve the quality of audit as per international standard using information and technology sustainably in order to make the audits paperless, strengthen the effectiveness of quality control & quality assurance procedures, and make full compliance with all audit standards and guidelines. Similarly, there exists a situation that the audit directives for local level are to be formulated and methodologies and procedures frameworks related to audits and reporting of federation, province and local level are to be specified. In addition,

conducting audit during the time of operation of transactions prior to end of a fiscal year as practiced by other countries, are to be adopted in respect to the matters of public concerns and special type of works.

5.7 Institutional relation and communication: Stakeholder relationship plays an important role in enhancing the effectiveness of audit. To give due importance to this fact, interactions with committees of legislature-parliament, members of the Public Accounts Committee, government offices, and high level officials of the Government of Nepal, have to be conducted in regular basis. It is imperative to use websites for making public and make flows of information regularly keeping in touch with media in order to communicate all audit results to all people in transparent manner.

Information related to the compliance with fiscal discipline are to be disseminated through conducting regular interactions with the government offices, Public Accounts Committee and other parliamentary committees, business professional associations/institutions, local level officials, private sector, communication media and other stakeholders. Likewise, it is essential to conduct regular monitoring for the implementation of audit plan, and conduct mass education, training, orientation programmes in respect to financial management. The status of financial administration of the country needs to be communicated to the general people by implementing the communication strategy, establishing intranet connection, conducting press briefing, publishing booklets & brochure, and strengthening the relationship with communication media.

Chapter - Three

Action Plan

6. Action Plan: After making the analysis of internal and external environments mentioned above, areas requiring improvements especially have been identified as - independency of the office, audit methodology & process adopted by the office, internal controls & governance, physical infrastructures, human resources development and relations with stakeholders. While preparing this action plan, special consideration was also given to the suggestions provided by various studies & researches conducted in financial sector, past Auditor General's reports & work plans, and peer review report done by other Supreme Audit Institution. These subjects are to be considered as major dimensions of audit quality management frameworks, and expected result or outputs of the audit can not be attained unless improvements are made in this respect. Hence, the office has prepared this action plan of 6 years and brought it into existence, incorporating the subjects mentioned below:

1. Organizational structure & working system reform,
2. Policy and legal system reform,
3. Improvement in the Audit procedures,
4. Enhancing audit quality and its effectiveness,
5. Maintaining fiscal discipline and accountability, and
6. Institutional relations and communication.

1. Improve organizational structure and working system

1.1 Organizational structure

- (A) Conduct an Organization and Management (O&M) survey of the office for conducting audit of Provincial Governments and Local levels in accordance with the provisions of Constitution of Nepal and prevalent laws, and implement the survey report accordingly,
- (B) Strengthen the field audits by restructuring the existing central office and establishing field offices at province level,
- (C) Establish and operate separate units for internal controls, parliamentary relations, public relations, research & development, and information & communication, (D) Establish an Audit Training Center and an Audit Excellence Center within the office equipped with required logistic facilities,
- (E) Establish and run an effective Audit Follow-up and Irregularities Clearance Unit for implementation of audit report and clearance of irregularities.
- (F) Strengthen and operate an effective Audit Quality Assurance Unit with skilled manpower for assuring the audit quality control and credibility; and make the existing Central Coordination Unit effective, and
- (G) Bring effectiveness in performance by establishing Special Sector Audit Units to carry out audits in accordance with nature of financial transactions, coverage, methods and risk level.

1.2 Physical infrastructure

- (A) Constitute a 'Physical Infrastructure Requirement Identification Committee' and arrange the necessary infrastructures accordingly on the basis of the report to be submitted by the committee,
- (B) Complete the construction works of central office building on due time by initiating the works immediately. Arrange government residence for the Auditor General in co-ordination with the Government of Nepal,
- (C) Make office buildings in central and other Provinces equipped with modern physical facilities and differently abled-people friendly,
- (D) Acquire sufficient vehicles, furniture, office goods and machinery and equipment for the central and field offices. Arrange for research materials that are necessary for carrying out the audits,
- (E) Develop IT friendly infrastructures to implement IT Strategy, and
- (F) Establish an 'Audit Cell' within every central level audited entity, and an 'audit field office' within every district level.

1.3 Human Resource Management and Capacity Development

- (A) Formulate and implement a long-term human resource plan for mobilization and career development of various subject-based expert employees as per new organization structure,
- (B) Formulate an 'Office of the Auditor General Employees' Audit Service Operations Rule' and determine terms of service, facilities and career development,

- (C) Make arrangement for taking the consultancy service from subject-matter experts as per the requirements of audits,
- (D) In order to retain professional staff, make arrangements for career development and special facilities to them,
- (E) Provide twinning trainings to employees in association with national and international institutions,
- (F) Enhance the capacity development of employees through international and national level training and teaching,
- (G) Provide IT friendly skills to all employees by formulating special courses and providing training to impart multi-dimensional knowledge and skills that are required for auditing,
- (H) Arrange the long term course for study opportunity to employees to ensure getting long-term service from professionally expertized employees, and
- (I) Conduct programme on the capacity development by procuring and renewing IDEA and other software licences, that support the auditing processes.

1.4 Staff facilities and relations

- (A) Conduct study and frame legal provisions for Performance-based Special Incentive System to prevent impairment of auditors' ethics & behaviour, and maintain their high morale,
- (B) Assess performance on achieved results by entering into the performance based agreement as per the employees' job description. and make an appropriate arrangement for the employees' facilities through conducting studies time to time in co-ordination with the Government of Nepal,

- (C) Operate Employees' Welfare Fund in coordination with the Government of Nepal to solve employees' unforeseen personal and familial economic problems,
- (D) Take initiative to provide maximum facilities for employees' family and children remaining within policy and plan of Government of Nepal,
- (E) Conduct internal socialisation programme to create mutual co-operation and respect between employees,
- (F) Make arrangements for hearing and addressing employees' welfare related reasonable grievances and problems,
- (G) Address appropriately to the employees' welfare and career development related demands that may be raised through the authorized trade union,
- (H) Develop a healthy work environment and advanced work culture establishing good relationship between management and the trade union,
- (I) Give attention to basic subject matters of employees' behaviour such as- punctuality, regularity, and use of specified dress codes, identity card etc.,
- (J) Encourage to make use of personal capabilities of employees, such as- novel thinking, creativity and new concepts, and
- (K) Develop an appropriate monitoring mechanism to discourage non adherence to employees' discipline, professional conduct, and auditors' code of ethics that is required to be complied with.

1.5 Improvement in the working system

- (A) Develop work culture of objectivity, credibility, professional dignity and professionalism on the basis of professional values and norms of the audit institution,
- (B) Establish an Office Automation System for the operation of internal procedures and install equipment like CCTV to monitor the office activities,
- (C) Make office's internal audit effective,
- (D) Specify the responsibility and accountability of the office employees by delegating power to each level on the basis of a specific standard; and involve concerned officers in decision making process,
- (E) Inform all public entities about the annual plan by preparing it on timely basis,
- (F) Identify the up-to-date status of actual audit backlog units and coordinate with the entities having audit backlog to get their accounts audited within 3 months,
- (G) Make necessary arrangements to complete timely audits will be made of the projects running with the support of development partners,
- (H) Inform the audited entities in advance pertaining to the audit time-table, significant informative data and statements required for audits, and auditors who involves in auditing,
- (I) Respond the public entities on timely basis to the subject matters raised or request for irregularity settlement by the public entities with adequate reasoning for irregularities clearance has not been settled,

- (J) Share information publicly by issuing notices prior to departure of audit teams at district level; and make arrangements for reviews of every audit performed at field level by taking reports and monitoring them,
- (K) Undertake discussion and interaction with the responsible officers related to audit observations and give opportunities to them to produce relevant evidences and justifications,
- (L) Monitor by obtaining report immediately for the sensitive subjects and areas prone to manipulation or loss & damage is identified in the course of audits,
- (M) Make arrangements for immediate settlement of audit observations; and adopt the policy of issuing audit report including only the issues which are of complex nature and immediate settlements of which are not possible,
- (N) Take initiative to make the responsible person for immediate improvement or settlement of observations and sensitive subject matters as pointed out by audits; and arrange the system of giving an information immediately to concerned higher management authority for the matter, if the responsible person shows an apathy or indifference to clear or settle such audit objections,
- (O) Arrange the system of addressing and clearing the subjects immediately (including follow-up audit for reported irregularities) that are received from public entities,
- (P) Improve the work procedures of the office through carrying out client surveys,

(Q) Bring in operation a system for settling works in a scientific manner by formulating an internal work operations procedure,

2. Improve accounts & audit-related policy and legal reforms

(A) Amend and enforce the existing accounts and audit related Acts, Rules and procedures and policy provisions in alignment with the Constitution of Nepal,

(B) Adopt auditing standards and good practices issued by international audit institutions,

(C) In the present context, formulate a timely Audit Act,

(D) Formulate and implement an Audit Rule for systematic management of the audit works,

(E) Formulate and implement an 'Audit Service Operations Rule' to manage and regulate the employees of Office of the Auditor General,

(F) Take initiative to promulgate financial accountability laws for determining accountability of office bearers of various public entities,

(G) Improve current legal frameworks to attain financial and administrative autonomy in accordance with Lima and Mexico Declaration,

(H) Provide suggestions for the amendment of the prevailing Financial Procedure Act to determine the 'controlling' and 'controlled' entities, and their responsibilities and accountabilities in pursuant to implementation of the Public Sector Accounting Standards (NPSAS),

- (I) Provide suggestions for making necessary amendments by studying the appropriateness of the existing accounting forms,
- (J) Make arrangements for approving and authenticating of the financial information system and software that are to be used by public entities, and
- (K) Prepare necessary policy and legal frameworks through the concerned regulatory entities for the subject matters to be audited by the auditors related to the transactions of various sectors of the economy.

3. Improvement in the audit procedures

- (A) Update and implement auditing standards and directives with regards to financial, performance, compliance, and specialized audit to ensure transparency and accountability as per the Constitution of Nepal and prevalent laws in aligned with the international standards,
- (B) Prepare and implement audit directives and guidelines related to Federal, Provincial and Local Level audits and reporting methodologies,
- (C) Give an opinion on financial statements of all controlling entities in accordance with the Nepal Public Sector Accounting Standards,
- (D) Make necessary arrangements for issuing entity-wise audit report immediately after the completion of each audit and submitting annual report as per the constitutional and legal provisions,

- (E) Prepare and implement the Standard Operating Procedures (SOP) for carrying out audits of corporate bodies, appointing external auditors and monitoring their audit works,
- (F) Enhance the capabilities to conduct audits of wholly government-owned corporate bodies and carry out audits of some of such bodies by the office's manpower; and make arrangements to evaluate the impact/effects of operating efficiency, productivity and service delivery of such bodies,
- (G) Make arrangements for issuance of separate audit reports of financial, performance and compliance audits,
- (H) Update the existing code of ethics for public sector auditors, and bring effectiveness in compliance and monitoring of the ethical codes,
- (I) Implement a paperless auditing system by enhancing the use of information and technology (IT) in auditing, and
- (J) Establish auditors' access to IT system used by the audited entities; and conduct risk assessments for audits utilizing such information system.

4. Enhance the audit quality and its effectiveness

- (A) Give special attention in conducting audits on the basis of risk assessment in the subject areas such as matter of public concerns and public importance, revenue projection and recovery system, sustainable development & environment, natural resource and its use, conservation of cultural heritage, public procurement, public health, epidemic and disaster management and delivery of public services to carry out audits effectively with due consideration of regularity,

economy, efficiency, effectiveness and propriety thereof in accordance with the Constitution of Nepal,

- (B) Carry out financial, performance, compliance or/and specialised audits as it needs to respond to the risk after identifying the irregularities, manipulation, loss damage, and corruption prone high-risk areas of public fiscal management and service delivery.; and adopt various scientific methodology, including concurrent and investigative audit, to enhance the efficiency and effectiveness of audit on the basis of materiality of risks,
- (C) Adopt the methodology of 'auditing leadership' to assess the effect and impact of public entity's office-bearer performance to achieve institutional objectives,
- (D) Concentrate the final audit in result-oriented areas establishing coordination with the concerned entities along with the enhancement of the effectiveness of internal audit,
- (E) Increase the participation of civil society in performance audit and specialised audit in accordance with the concept of social audit for assessing the effectiveness of public service delivery or developmental activities,
- (F) Carry out concurrent audit so as to take an immediate preventive action for the weaknesses of public financial management and public service delivery, and arrange for timely corrective measures for improvement,
- (G) Establish a Quality Assurance Unit for quality control and quality assurance of audit reports, and constitute an 'Audit Quality Control Committee' to enhance the quality of auditing through bringing consistency in audit irregularity reporting,

- (H) Reward the best performer audit-team based on review of audit quality assurance; and define auditors' responsibilities on the audited subject matters on the basis of prevalent laws and auditing standards, and
- (I) Develop and implement a policy of conducting 'Pre-issuance Review' of audit quality prior to issuance of audit reports; and ensure the audit quality assurance by conducting external peer review.

5. Financial discipline and accountability

- (A) Establish internal control system and adopt preventive measures to bear the responsibility and accountability to maintain financial discipline in public entities,
- (B) Minimize irregularities taking measures for the improvement of accounts management and work system of public entities and institutions; and take initiative to establish an irregularity free system, to the extent possible,
- (C) Take initiative for timely settlement of irregularities through establishing a separate institutional unit within public entities for settlement of audit observations. And conduct a campaign to make the irregularities clearance effective,
- (D) Execute a 'Pro-active follow-up audit system' and conduct monitoring of follow-up progress demanding 'time-bound irregularities settlement work plan' from Chief Accounting Officers (Secretaries) and Responsible Persons,
- (E) Conduct special vigilance and monitoring of public entities that having the higher irregularities by categorizing them into high risk group,
- (F) Settle or cause to be settled immediately to the audit observations that are pointed out during field audit; and settle

all irregularities, except the complex nature, prior to submission of the annual report,

- (G) Make effective the relationship between audited entities and auditors,
- (H) Inform to the concerned entities about the officials who are indifferent or apathetic to obedience of fiscal discipline and settlement of irregularities by preparing a record,
- (I) Evaluate the status of financial accountability by grading offices and responsible persons and make public such grading status through annual reports, and
- (J) Take performance criteria in compliance with fiscal discipline and financial accountability, as a basis while assigning a special responsibility to the officers who serve in public posts.

6. Institutional relations and communication

6.1 Constitutional and parliamentary relations

- (A) Submit an annual report to the President following completion of the audits on timely basis,
- (B) Make arrangements to submit a report following timely completion of the audits of provinces and local levels,
- (C) Make effective the relations with Legislature-Parliament and its Parliamentary Committees,
- (D) Take initiative to hold deliberation and implement audit findings of annual audit reports through the support of Public Accounts Committee of the Legislature-Parliament,
- (E) Take initiative to hold deliberation and implement the findings of Province and local level audit reports,

- (F) Make arrangements to acknowledge the Public Accounts Committee about the contents of the Auditor General's report's to be discussed prior to such discussions,
- (G) Implement directives and recommendations of the committees by maintaining close relationship with the Legislature-Parliament and its Parliamentary Committees,
- (H) Establish relations, develop relationship, exchange information and cooperate in works with the constitutional bodies and their officials,
- (I) Implement the audit reports and evaluate their impacts, and
- (J) Activate and make effective to the Audit Advisory Committee.

6.2 External relations and communication

- (A) Implement Communication Strategy of the office after revising,
- (B) Enhance relationship with public media and civil society to enhance general people's access to audit results; and make arrangement to impart information through hotlines and live-chat,
- (C) Publish monthly bulletin incorporating the matters of audits and fiscal discipline activities; broadcast regularly the matters relating these through radios and television channels; and organize press meets with media-person on a regular basis,
- (D) Bring effectiveness in mobilisation of foreign resources and mobilise technical & financial assistances, holding discussion and interaction with the representatives of development partners,

- (E) Conduct interaction, discussion, mass education, training and orientation programmes on financial management and fiscal discipline with the officials of Federation, province and local level,
- (F) Receive suggestions holding regular discussions/interactions with the institutions and expert-specialists engaged in the field of accounting and auditing, civil society and institutions related to governance,
- (G) Undertake information sharing and promotional activities coordinating with private sector, cooperative and non-governmental sector,
- (F) Apprise the general people about the public revenue, expenditure, development works and their audits,
- (G) Arrange to take intern service from students in the office coordinating with the educational institutions, that offering financial management, account, audit courses, and
- (H) Have the presence of the office in international field extending relations with other international Supreme Audit Institutions (SAIs), and regional and international organization of public sector auditing.

Chapter – Four

Implementation and Outcomes

- 7. Implementating strategy:** In course of implementation of this action plan, promotional, preventive & curative and suggestive strategies will be adopted. Under promotional strategy, an attempt will be made to encourage the audited entities in maintaining fiscal discipline through training, interaction and flow of information. Under preventive strategy, audited entities will be encouraged to be free from irregularities through establishment of internal control & internal audit system, issuance of code of conduct & its implementation, and formulation of the necessary laws & work procedures. Curative strategy includes activities like- providing suggestions to concerned entities, monitoring the implementation of suggestions, recommending punitive actions to the entities and officials that remained apathetic to implementation of suggestions, and establishing the credibility of audit through enhancing its quality. For implementation of this action plan, the prime responsibility lies on various departments and directorates of the office, and the role of public entities will be supportive.
- 8. Monitoring mechanism:** Auditor General will implement, monitor and conduct follow-up of this action plan. For this purpose, there will be a monitoring committee under the leadership of the specified Deputy Auditor General. The committee shall inform the concerned departments for the activities to be performed, obtain progresses as per monthly basis, and report to the Auditor General including concerning problems encountered

during execution. Necessary improvements may be done in this action plan on the basis of facts/status witnessed during monitoring. It is the responsibility of all staffs of the office to contribute for the implementation of this action plan.

9. Risks: An assessment has also been undertaken to identify risks that may appear during the implementation of this action plan. Budgets are imperative for the execution of some of the activities related to physical infrastructure. It is very essential to have the support of the Government of Nepal for performing the administrative restructuring activities, and support of the Government of Nepal as well as legislature are required for making reforms in relevant laws. Hence, support, coordination, and active participation of all staffs, departments and directorates of the office, sufficiency of budgets, timely decision making, and availability of support from the Government of Nepal are the areas identified as prime risks. To mitigate these risks, strategies like-involving staffs in implementation process, disseminating information through meetings, and conducting regular interactions and receiving suggestions from the concerned entities, will be followed.

10. Expected outcomes: The following outcomes will be achieved during the period of 2017 - 2023 after the implementation of this action plan: -

- Organizational efficiency will be enhanced by improvement in organizational structure, work system, in audit methodologies, and in capacity of human resources. Efficient & effective organizational set-up for conducting the audits of Federal, Provinces and local levels will be established.

- Independence of the Auditor General will be maintained in true sense by the improved audit related policies and laws. Credibility and reputation of the Supreme Audit Institution, Nepal will go up through enhancement in the public sector auditing at par with the international standard.
- Financial administration sector will be reformed through exchange of suggestions, information, supports between Legislature-Parliament & its parliamentary committees and constitutional bodies.
- Principle of value for money will be prevailed through control on misuse of expenditure incurred from government treasury.
- Expected outcomes/results will be achieved as intended through the enhancement of transparency and efficiency in development works, revenue collection, expenditure management, and service delivery.
- To be healthy and competitive economy, it will be backed up with support of the enhanced effectiveness of regulating agencies that working in diverse sectors of the economy.
- Good governance indicators will be ranked up from enhanced immune capacity to fight against irregularities and wrong practices of governance system of the country.
- Financial discipline will be kept up by bearing of responsibility and accountability perfectly by the officials of public entities; Irregularities in operations of financial transactions will be minimized; and healthy

financial administration will be established from clearance of irregularities that existed at present.

- Wide access to information about the activities undertaken and reports produced by the office will be disseminated publicly, and information and cooperation will be exchanged by strengthening of the office's relations with stakeholders.



Office of the Auditor General's



Request

As mandated by the Constitution of Nepal, Audit Act, 1991 and other prevalent laws, all government entities are audited by this office. If any information comes to notice pertaining to irregularities, misuse, or manipulation in receipt and utilization of public fund, all concerned including civil society, community-based organizations/institutions, stakeholders, and general people are requested to inform the audit teams/their supervisors or this office. In addition, pursuant to improvement to be made in works delivered by this office, if any suggestion, complain, and information is available, all concerned are heartily requested to notify in the address given below and assist in making our audits more objective-oriented, credible and qualitative.

Correspondence or contact address

Office of Auditor General, Babarmahal, Kathmandu.

- Post Box No. 13328,
- Fax No. 01-4262798, 4268309
- Phone No. 01-4262382
- Email: oagnep@ntc.net.np, info@oag.gov.np
- Website: www.oagnep.gov.np
- Office's complaint Box
- Audit team or supervisor