



Financial Statements Audit Directives



Office of the Auditor General
Anamnagar, Kathmandu, Nepal
2023

FINANCIAL STATEMENTS AUDIT DIRECTIVES

**OFFICE OF THE AUDITOR GENERAL
ANAMNAGAR, KATHMANDU, NEPAL
2023**

Foreword

It is my immense pleasure to release the Financial Statement 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.

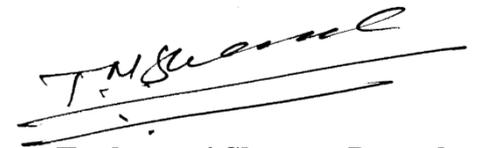
This directives provides a clear picture of methods and approaches to audit that the audit staff is required to comply with in imparting their duties. It has been built around the prevailing Audit Act, Nepal Government Auditing Standards (NGASs), and office policies that require conducting a high-quality 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 of NPSAS financial statements, audit of financial information with necessary annexures which encourages professional judgment where it requires. The directives does not override the legal requirements and conditions of NGASs. Likely, it shall not limit the professionalism of the officials entrusted with the responsibility of conducting audits.

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

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

April 26, 2023



Tankamani Sharma, Dangal
Auditor General

List of abbreviations

Abbreviation	Full form
DP	Development Partners
DTCO	District Treasury Controller Office
FAG	Financial Audit Guide
FCGO	Financial Comtroller General Office
FS	Financial Statements
GoN	Government of Nepal
IFPP	INTOSAI Framework of Professional Pronouncements
INTOSAI	International Organisation of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
ISSAI	International Standards of Supreme Audit Institutions
MoF	Ministry of Finance
NPSAS	Nepal Public Sector Accounting Standards
OAGN	Office of Auditor General of Nepal
PRAF	Public Audit Restructuring Framework
SoE	Statement of Expenses
SWAp	Sector-wide Approach

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Part - I

Introduction

1. Background

The audit of financial statements is undertaken to express an opinion, whether or not the financial statements are free from material misstatements, due to error and or fraud, and whether the financial statements have been prepared in accordance with the applicable financial reporting framework.

Therefore, consideration of financial reporting framework is paramount in financial audit. However, in the public sector audit, especially financial audit of general government, legal consideration for financial statements carries if not equal higher importance.

1.1. Objective of this audit directives

The objective of this audit directives is to support the public sector auditor in audit of:

- General Purpose Financial Statement:
 - Audit at the financial statement level;
 - Compliance of general-purpose financial reporting framework such as NPSAS; and
 - Compliance with the relevant legal requirements for financial statement.
- Special Purpose Financial Statements (REFER PROJECT AUDIT GUIDE):
 - Audit of project accounts.

1.2. Coverage

The directives generally covers the audit of financial statement preparation and presentation and for the audit of project accounts though can be referred, wherever useful and applicable for audit of other public sector audits.

The directives is prepared principally for the purpose of conduct of financial audits under the Office of Auditor General's Financial Audit Guide. The directives also contains some aspects of testing and examination of compliances and performances within the government offices the aspect that forms the part of the Financial Audit under the Public Audit Restructuring Framework (PARF). Additionally, this directives may also be a handy reference for specific compliance and performance audit for areas related to audit of preparation and presentation of general purpose financial statements.

This directives is a supplement to and should be used in conjunction with Financial Audit Guide (FAG). This directives is designed to confirm with the provisions of INTOSAI Framework of Professional Pronouncements (IFPP).

1.3. Materiality Consideration

Audit is subject to the materiality consideration. Every area of the audit has to be considered for associated risk of misstatements and its impact on the financial statements.

This financial statement audit guide provides the guidance to conduct preparation and presentation of general purpose or special purpose financial statements. However, auditor needs to apply professional judgement in considering the materiality, both quantitative and qualitative aspects of each area of financial statement preparation framework and determine the nature extent and timing of the audit procedure.

This directives contains the guidance for possible audit procedures to be conducted on administrative expenses. It is up to the auditor to apply judgement in determining the nature and extent considering the risk and materiality.

1.4. Definitions

Financial Statements

Financial Statements refer to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework¹

Financial Information

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

Financial Reporting Framework

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

Public Sector

Public sector includes General Government and Public Corporations

¹ ISSAI 2200.13(f)

General Government

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

Entity

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

Office

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

Consolidated Fund

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

Consolidated Financial Statements

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

Nepal Public Sector Accounting Standards (NPSAS)

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

Disclosure

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

Part - II

Audit of Financial Statements prepared under NPSAS

2. Audit of NPSAS financial statements

2.1 General Purpose Financial Statements

General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their particular information needs. Users of general-purpose financial statements include taxpayers and ratepayers, members of the legislature, creditors, suppliers, the media, and employees. General purpose financial statements include those that are presented separately or within another public document, such as an annual report.

2.2 Applicable Financial Reporting Framework

Nepal Public Sector Accounting Standard (NPSAS) is designated as the applicable general purpose framework for public sector in Nepal except for government business enterprises. NPSAS is based on the Cash Based IPSAS (International Public Sector Accounting Standards).

When government revises NPSAS or adopts other general purpose framework this section should be revised to incorporate the impact of such changes.

2.3 Purpose of this section of the audit guide

The purpose of this section of the audit guide is to provide guidance to the public sector auditor while doing audit of the financial statement preparation and presentation including the consolidation of the financial information of the subordinate offices and components.

This guide provides guidance on:

- Audit of compilation and consolidation
 - to ensure that all the offices and components have been included in the financial statements.
- Audit of compliance of financial reporting framework (i.e. NPSAS)
 - to ensure that the financial statements and disclosures are in compliance with NPSAS.
- Audit of consolidated fund
 - to ensure that the consolidated fund of the government is in accordance with the laws.
- Legal requirements for preparation and presentation of financial statements
 - to ensure that the provisions of the acts and rule relevant to financial statement preparation and presentation have been complied.

2.4 Coverage of this section

Financial Procedure and Financial Accountability law requires the Chief Accounting Officer to prepare financial statement including financial information for all subordinate offices and components for each financial year². Financial Procedure and Financial Accountability law further defines financial statements as the financial statements prepared under the financial reporting framework approved by GON³.

Therefore, there is legal requirement to prepare financial statements in accordance with the approved financial reporting framework including transactions and balances of all the subordinate offices and components.

This section of the audit guide intends to cover the audit procedure for the preparation and presentation of the financial statements prepared under the financial reporting framework approved by the government.

The scope of this section covers the financial audit of the general government auditee that is required to prepare and present financial statements, whether consolidated or otherwise), in accordance with NPSAS.

2.5 Legal requirements for financial statement preparation and presentation

2.5.1 Unified financial statement of general government:

- Local level has to prepare unified statements including all transactions within its jurisdictions such as grants received from federal and provincial governments, fiscal transfer receipts, internal revenue, loans, other grants and expenditures and submitted to the related provincial treasury office and DTCO in the format prescribed by FCGO⁴.
- Provincial government has prepared unified statements including all transactions within its jurisdictions such as grants received from federal government, fiscal transfer receipts, internal revenue, loans, other grants and expenditures and also including unified statements received from local levels in the province and submitted to FCGO in the format prescribed by FCGO.⁵ [Note: here the provincial government acts as the carrier of financial information of local level]
- Unified Financial Statement of whole of the government is prepared by FCGO including⁶:
 - Consolidated Funds of the Federal Government, Provincial Governments, Local levels
 - Other government funds

² Sec 29(2) of the Financial Procedure and Financial Accountability Act 2076

³ Sec 29(Ya) of the Financial Procedure and Financial Accountability Act 2076

⁴ Financial Procedure and Financial Accountability Act 2076, Sec 4(1)

⁵ Financial Procedure and Financial Accountability Act 2076, Sec 4(2)

⁶ Financial Procedure and Financial Accountability Act 2076, Sec 5(1)

2.5.2 Financial reporting framework:

Federal, Provincial and Local Level have to prepare financial statements in accordance with the financial reporting framework approved by GoN⁷

2.5.3 Consolidated Financial Statements

- Chief Accounting Officer has to prepare consolidated financial statements including transactions of subordinate offices and components and timely submitted to FCGO and OAGN.⁸ (*Financial Statement means the financial statements prepared in accordance with NPSAS*)
- Chief accounting officer has to maintain and prepared statement of all moveable and non-movable assets and liabilities of the entity and its subordinate offices and components.⁹
- FCGO has to submit to OAGN within stipulated period of time the consolidated financial statement of the federal accounts including consolidated fund, foreign grants, loans received, investments, appropriate, revenue, deposits and other funds.

2.5.4 Consolidated statements of assets and liabilities of Government of Nepal:

FCGO has to prepare¹⁰ consolidated financial statement of GoN (federal government) based on the statements received from the reporting entities including records of Assets and Liabilities.¹¹

2.6 Audit Considerations

Auditors can tailor make these checklists to suit their audit requirements applying their professional judgement suitable to the circumstances. The following are the illustrative checklists:

2.6.1 Audit of financial statement consolidation (if applicable)

When an entity, which is required to prepare financial statements in accordance with the general purpose framework, prepares financial statements it has to prepare consolidated financial statements including its subordinate offices and components. Auditors are required to examine and verify the consolidation process to ensure that the financial statements include all subordinate offices and components. Auditors also consider materiality in preparation and presentation of consolidation FS.

⁷ Financial Procedure and Financial Accountability Act 2076, Sec 5(2)

⁸ Financial Procedure and Financial Accountability Act 2076, Sec 26(3) and 29(2)

⁹ Financial Procedure and Financial Accountability Act 2076, Sec 26(4)

¹⁰ Financial Procedure and Financial Accountability Act 2076, Sec 29(1)

¹¹ Financial Procedure and Financial Accountability Act 2076, Sec 26(5)

Objective of the Audit:

- To ensure that financial statements are faithfully presented.

Associated Risks:

- Material amounts may be omitted and misstated in consolidation of financial statements.

SN	Particulars - Audit considerations	Basis of Checking
1	<p>The audit team needs to obtain the understanding of the entity and consolidation process. Auditor needs to ensure that all transactions and events for the relevant period including that of the subordinate offices and components are included. Auditor needs to verify whether:</p> <ul style="list-style-type: none">• There is adequate system to identify and collate all transaction and events for the preparation of financial statements• All subordinate offices and components are included for preparation of the consolidated financial statements;• Components are given appropriate instructions to supply information relevant to the preparation of financial statements;• All subordinate offices and components have applied same accounting policies for preparation of financial information; and• All subordinate offices and components have applied same cut-off period and reporting dates for the transactions, events and balances.	<p>Preparation process and procedures followed</p> <p>Agrees with underlying statements</p>
2	<p>Auditor should design and perform further audit procedures on the consolidation process to respond to the assessed risks of material misstatement of the consolidated financial statements arising from the consolidation process. Auditor should verify whether:</p> <ul style="list-style-type: none">• Appropriateness, completeness, and accuracy of consolidation adjustments and reclassifications have been ensured;• Any fraud risk factors, or indicators of possible management bias exist;• Significant adjustments reflect actual events and determining if the adjustments were correctly calculated and supported;• Rules of consolidation have been appropriately applied (intra-entity transactions and balances have been nullified.• Intra-entity account balances and transactions have been reconciled.	<p>Consolidation basis, adjustments, classification</p> <p>Agrees with underlying ledgers</p>

SN	Particulars - Audit considerations	Basis of Checking
2	<p>If the financial information of a component has not been prepared in accordance with the same accounting policies applied to the entity financial statements, the auditor should evaluate whether:</p> <ul style="list-style-type: none"> the financial information of that component has been appropriately adjusted for purposes of the preparation and fair presentation of the consolidated financial statements in accordance with the applicable financial reporting framework. 	Agrees with. The underlying records

Note: NPSAS has specific requirements for consolidation of subordinate offices and components. The specific checklists for NPSAS provisions are given in 2.5.2.

2.6.2 Audit of Compliance of NPSAS

Auditors are required to ensure that the financial statements being audited are in compliance with the applicable reporting framework for fair presentation (i.e. for true and fair view). NPSAS is the applicable general purpose framework for general government in Nepal. NPSAS has two parts, Part I covers the Mandatory Provisions and Part II covers the Encouraged Additional Disclosures in preparation and presentation of financial statements.

Objective of the Audit:

- To ensure that the financial statements have been prepared in accordance with NPSAS.

Associated Risks:

- Application and or interpretation of the NPSAS may not be appropriate.

Part I – Mandatory Provisions

SN	Particulars - Audit considerations	Basis of Checking
1	<p>Scope and requirements (1.1)</p> <ul style="list-style-type: none"> An entity which prepares and presents financial statements under the cash basis of accounting, as defined in this Standard, should apply the requirements of Part 1 of this Standard in the presentation of its general purpose annual financial statements (1.1.1) An entity whose financial statements comply with the requirements of Part1 of this Standard should disclose that fact. Financial statements should not be described as complying with this Standard unless they comply with all the requirements in Part 1 of the Standard. (1.1.4) 	Application of NPASA para 1.1

SN	Particulars - Audit considerations	Basis of Checking
	<ul style="list-style-type: none"> This Standard applies to all public sector entities other than Government Business Enterprises. (1.1.5) 	
2	<p>Cash Basis (1.2):</p> <ul style="list-style-type: none"> Entity has applied cash basis of accounting and has recognised transactions and other events only when cash is received or paid. (1.2.1) 	Application of NPASA para 1.2
3	<p>Presentation and Disclosure requirement (1.3)</p> <ul style="list-style-type: none"> Accounting policies are the specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements (1.3.1). Accounting policies have been disclosed. When an entity elects to disclose information prepared on a different basis from the cash basis such information should be disclosed in the notes to the financial statements. (1.3.5) Materiality has been considered in preparation and presentation of financial statements. Financial statement includes controlled and controlling entities. (1.3.1) Reporting period and reporting dates are appropriately disclosed (1.3.1) 	Application of NPASA para 1.3
4	<p>Financial Statements (1.3.4):</p> <ul style="list-style-type: none"> The complete set of financial statements include: <ul style="list-style-type: none"> a statement of cash receipts and payments which: <ol style="list-style-type: none"> recognizes all cash receipts, cash payments and cash balances controlled by the entity; and Separately identifies payments made by third parties on behalf of the entity accounting policies and explanatory notes; and when the entity makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the statement of cash receipts and payments 	Application of NPASA para 1.3
5	<p>Information to be presented in the Statement of Cash Receipt and Payments:</p> <ul style="list-style-type: none"> The statement of cash receipts and payments should present the following amounts for the reporting period (1.3.12): <ul style="list-style-type: none"> total cash receipts of the entity showing separately a sub-classification of total cash receipts using a classification basis appropriate to the entity's operations; total cash payments of the entity showing separately a sub-classification of total cash payments using a 	Application of NPASA para 1.3

SN	Particulars - Audit considerations	Basis of Checking
	<p>classification appropriate to the entity's operations; and basis</p> <ul style="list-style-type: none"> - beginning and closing cash balances of the entity. • Total cash receipts and total cash payments, and cash receipts and cash payments for each sub-classification of cash receipt and payment, should be reported on a gross basis, except that cash receipts and payments may be reported on a net basis when (1.3.13): <ul style="list-style-type: none"> - they arise from transactions which the entity administers on behalf of other parties and which are recognized in the statement of cash receipts and payments; or - they are for items in which the turnover is quick, the amounts are large, and the maturities are short. • Line items, headings and sub-totals should be presented in the statement of cash receipts and payments when such presentation is necessary to present fairly the entity's cash receipts, cash payments and cash balances (1.3.14). 	
6	<p>Payments by third parties on behalf of the entity: (1.3.24)</p> <ul style="list-style-type: none"> • Where, during a reporting period, a third party directly settles the obligations of an entity or purchases goods and services for the benefit of the entity, the entity should disclose in separate columns on the face of the statement of cash receipts and payments: <ul style="list-style-type: none"> - total payments made by third economic entity to which the parties which reporting entity are part of the belongs, showing separately a sub- classification of the sources and uses of total payments using a classification basis appropriate to the entity's operations; and - total payments made by third parties which are not part of the economic entity to which the reporting entity belongs, showing separately a sub- classification of the sources and uses of total payments using a classification basis appropriate to the entity's operation. • Such disclosure should only be made when during the reporting period the entity has been formally advised by the third party or the recipient that such payment has been made or has otherwise verified the payment. 	Application of NPASA para 1.3
7	<p>Accounting Policies and Explanatory Notes: Structure</p> <ul style="list-style-type: none"> • The notes to the financial statements of an entity should: (1.3.30) 	Application of NPASA para 1.3

SN	Particulars - Audit considerations	Basis of Checking
	<ul style="list-style-type: none"> - present information about the basis of preparation of the financial statements and the specific accounting policies selected and applied for significant transactions and other events; and - provide additional information which is not presented on the face of the financial statements but is necessary for a fair presentation of the entity's cash receipts, cash payments and cash balances. • Notes to the financial statements should be presented in a systematic manner. Each item on the face of the statement of cash receipts and payments and other financial statements should be cross referenced to any related information in the notes. (1.3.31) • General purpose financial statements should present information that is: (1.3.32) <ul style="list-style-type: none"> - understandable; - relevant to the decision-making and accountability needs and of users; - reliable in that it: <ul style="list-style-type: none"> i. represents faithfully the cash receipts, cash payments and cash balances of the entity and the other information disclosed; ii. is neutral, that is, free from bias; and iii. is complete in all material respects. • The accounting policies section of the notes to the financial statements should describe each specific accounting policy that is necessary for a proper understanding of the financial statements, including the extent to which the entity has applied any transitional provisions in this Standard. (1.3.34) • Inappropriate accounting treatments are not rectified either by disclosure of the accounting policies used, or by notes or explanatory material. (1.3.35) 	
8	<p>Reporting Period (1.4.1)</p> <ul style="list-style-type: none"> • The general purpose financial statements should be presented at least annually. When, in exceptional circumstances, an entity's reporting date changes and the annual financial statements are presented for a period longer or shorter than one year, an entity should disclose in addition to the period covered by the financial statements: <ul style="list-style-type: none"> - the reason(s) for a period other than one year being used; and 	Application of NPASA para 1.4

SN	Particulars - Audit considerations	Basis of Checking
	<ul style="list-style-type: none"> - the fact that comparative amounts may not be comparable. 	
9	<p>Authorisation date (1.4.5)</p> <ul style="list-style-type: none"> • An entity should disclose the date when the financial statements were authorized for issue and who gave that authorization. If another body has the power to amend the financial statements after issuance, the entity should disclose that fact. 	Application of NPASA para 1.4
10	<p>Information about the entity (1.4.7)</p> <ul style="list-style-type: none"> • An entity should disclose the following if not disclosed elsewhere in information published with the financial statements: <ul style="list-style-type: none"> - the domicile and legal form of the entity, and the jurisdiction within which it operates; - a description of the nature of the entity's operations and principal activities; - a ref reference to the relevant legislative on governing the e entity's ty' s operations, if any; and - the name of the controlling entity and the ultimate controlling entity of the economic entity (where applicable, if any). 	Application of NPASA para 1.4
11	<p>Restriction on cash balance and access to borrowing (1.4.9)</p> <ul style="list-style-type: none"> • An entity should disclose in the notes to the financial statements together with a commentary, the nature and amount of: <ul style="list-style-type: none"> - significant cash balances that are not available for use by the entity; - significant cash balances that are subject to external restrictions; and - undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities. 	Application of NPASA para 1.4
12	<p>Consistency of Presentation (1.4.13):</p> <ul style="list-style-type: none"> • The presentation and classification of items in the financial statements should be retained from one period to the next unless: <ul style="list-style-type: none"> - a significant change in the nature of the operations of the entity or a review of its financial statements presentation demonstrates that the change will result in a more appropriate presentation of events or transactions; or 	Application of NPASA para 1.4

SN	Particulars - Audit considerations	Basis of Checking
	<ul style="list-style-type: none"> - a change in presentation is required by a future amendment to this Standard. 	
13	<p>Comparative Information</p> <ul style="list-style-type: none"> • Unless a provision of this Standard permits or requires otherwise, comparative information should be disclosed in respect of the previous period for all numerical information required by this Standard to be disclosed in the financial statements, except in respect of the financial statements for the reporting period to which this Standard is first applied. Comparative information should be included in narrative and descriptive information when it is relevant to an understanding of the current period's financial statements. (1.4.16) • When the presentation or classification of items required to be disclosed in the financial statements is amended, comparative amounts should be reclassified, unless it is impracticable to do so, to ensure comparability with the current period, and the nature, amount of, and reason for any reclassification should be disclosed. When it is impracticable to reclassify comparative amounts, an entity should disclose the reason for not reclassifying and the nature of the changes that would have been made if amounts were reclassified. (1.4.19) 	Application of NPASA para 1.4
14	<p>Identification of financial statements</p> <ul style="list-style-type: none"> • The financial statements should be clearly identified and distinguished from other information in the same published document. • Each component of the financial statements should be clearly identified. In addition, the following information should be prominently displayed and repeated when it is necessary for a proper understanding of the information presented: (1.4.23) <ul style="list-style-type: none"> - the name of the reporting entity or other means of identification; - whether the financial statements cover the individual entity or the economic entity; - the reporting date or the period covered by the financial statements, whichever the financial statements; is appropriate to the related component of - the reporting currency; and - the level of precision used in the presentation of figures in the financial statements. 	Application of NPASA para 1.4
15	<p>Correction of Errors</p>	Application of NPASA para 1.5

SN	Particulars - Audit considerations	Basis of Checking
	<ul style="list-style-type: none"> • When an error arises in relation to a cash balance reported in the financial statements, the amount of the error that relates to prior periods should be reported by adjusting the cash at the beginning of the period. Comparative information should be restated, unless it is impracticable to do so. (1.5.1) • An entity should disclose in the notes to the financial statements the following: (1.5.2) <ul style="list-style-type: none"> - the nature of the error; - the amount of the correction; and - the fact that comparative information has been restated or that it is impracticable to do so. 	
16	<p>Consolidated Financial Statements: Scope (1.6.5)</p> <ul style="list-style-type: none"> • A controlling entity should issue consolidated financial statements which consolidates all controlled entities, foreign and domestic, other than <ul style="list-style-type: none"> - when it operates under severe external long-term restrictions which prevent the controlling entity from benefiting from its activities. - a wholly owned controlled entity need not present consolidated financial statements provided users of such financial statements are unlikely to exist or their information needs are met by the controlling entity's consolidated financial statements. 	Application of NPASA para 1.6
17	<p>Consolidation procedures (1.6.16)</p> <ul style="list-style-type: none"> • The following consolidation procedures apply: <ul style="list-style-type: none"> - cash balances and cash transactions between entities within the economic entity should be eliminated in full; - when the financial statements used in a consolidation are drawn up to different reporting dates, adjustments should be made for the effects of significant cash transactions that have occurred between those dates and the date of the controlling entity's financial statements. In any case, the difference between the reporting dates should be no more than three months; and - consolidated financial statements should be prepared using uniform accounting policies for like cash transactions. If it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied. 	Application of NPASA para 1.6

SN	Particulars - Audit considerations	Basis of Checking
18	<p>Consolidation disclosures (1.6.20)</p> <ul style="list-style-type: none"> • The following disclosures should be made in consolidated financial statements: <ul style="list-style-type: none"> - a listing of significant controlled entities including the name, the jurisdiction in which the controlled entity operates (when it is different from that of the controlling entity); and - the reasons for not consolidating a controlled entity. 	Application of NPASA para 1.6
19	<p>Foreign currency (1.7): Treatment of foreign currency Cash Receipts, Cash Payments and Balances</p> <ul style="list-style-type: none"> • Cash receipts and payments arising from transactions in a foreign currency should be recorded in an entity's reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the receipts and payments. (1.7.2) • Cash balances held in a foreign currency should be reported using the closing rate. (1.7.3) • The cash receipts and cash payments of a foreign controlled entity should be translated at the exchange rates between the reporting currency and the foreign currency at the dates of the receipts and payments. (1.7.4) • An entity should disclose the amount of exchange differences included as reconciling items between opening and closing cash balances for the period. (1.7.5) • When the reporting currency is different from the currency of the country in which the entity is domiciled, the reason for using a different currency should be disclosed. The reason for any change in the reporting currency should also be disclosed. (1.7.6) 	Application of NPASA para 1.7
20	<p>Presentation of Comparison of Budget and Actual amounts (1.9.8)</p> <ul style="list-style-type: none"> • An entity that makes publicly available its approved budget(s) shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the statement of cash receipts and payments currently presented in accordance with this Standard. The comparison of budget and actual amounts shall present separately for each level of legislative oversight: <ul style="list-style-type: none"> - The original and final budget amounts; - The actual amounts on a comparable basis; and 	Application of NPASA para 1.9

SN	Particulars - Audit considerations	Basis of Checking
	<ul style="list-style-type: none"> - By way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes. 	
21	<p>Presentation of budget (1.9.17)</p> <ul style="list-style-type: none"> • An entity shall present a comparison of budget and actual amounts as additional budget columns in the statement of cash receipts and payments only where the financial statements and the budget are prepared on a comparable basis. 	Application of NPASA para 1.9
22	<p>Changes from original to final budget (1.9.23)</p> <ul style="list-style-type: none"> • An entity shall present an explanation of whether changes between the original and final budget are, a consequence of reallocations within the budget, or of other factors, either: <ul style="list-style-type: none"> - by way of note disclosure in the financial statements; or - in a report issued before, at the same time as, or in conjunction with the financial statements, and shall include a cross reference to the report in the notes to the financial statements. 	Application of NPASA para 1.9
24	<p>Comparable basis (of budget) (1.9.25)</p> <ul style="list-style-type: none"> • All comparisons of budget and actual amounts shall be presented on a comparable basis to the budget. 	Application of NPASA para 1.9
25	<p>Note disclosure of Budgetary Basis, Period and Scope</p> <ul style="list-style-type: none"> • An entity shall explain in notes to the financial statements the budgetary basis and classification basis adopted in the approved budget. (1.9.33) • An entity shall disclose in notes to the financial statements the period of the approved budget. (1.9.37) • An entity shall identify in notes to the financial statements the entities included in the approved budget. (1.9.39) • The actual amounts presented on a comparable basis to the budget, where the financial statements and the budget are not prepared on a comparable basis, be reconciled to total cash receipts and total cash payments, identifying separately any basis, timing and entity differences. The reconciliation shall be disclosed on the face of the statement of comparison of budget and actual amounts or in the notes to the financial statements. (1.9.41) 	9

SN	Particulars - Audit considerations	Basis of Checking
	<ul style="list-style-type: none"> The disclosure of comparative information in respect of the previous period in accordance with the requirements of this Standard is not required. (1.9.45) 	
26	<p>External assistance received</p> <ul style="list-style-type: none"> The entity should disclose separately on the face of the Statement of Cash Receipts and Payments, total external assistance received in cash during the period. (1.10.8) The entity should disclose separately, either on the face of the Statement of Cash Receipts and Payments or in the notes to the financial statements, total external assistance paid by third parties during the period to directly settle obligations of the entity or purchase goods and services on behalf of the entity, showing separately: (1.10.9) <ul style="list-style-type: none"> Total payments made by third parties which are part of the economic entity to which the reporting entity belongs; and Total payments made by third parties which are not part of the economic entity to which the reporting entity belongs. <p>These disclosures should only be made when, during the reporting period, the entity has been formally advised by the third party or the recipient that such payment has been made or has otherwise verified the payment.</p> Where external assistance is received from more than one provider, the significant classes of providers of assistance should be disclosed separately, either on the face of the Statement of Cash Receipts and Payments or in the notes to the financial statements. (1.10.10) Where external assistance is received in the form of loans and grants, the total amount received during the period as loans and the total amount received as grants should be shown separately, either on the face of the Statement of Cash Receipts and Payments or in the notes to the financial statements. (1.10.11) 	Application of NPASA para 1.10
27	<p>Undrawn External Assistance (1.10.18)</p> <ul style="list-style-type: none"> The entity should disclose in the notes to the financial statements the balance of undrawn external assistance loans and grants available at reporting date to fund future operations when, and only when, the amount of the loans or grants available to the recipient is specified in a binding agreement and the satisfaction of any substantial terms and conditions that determine, or affect access to, that amount is highly likely, showing separately in the reporting currency: 	Application of NPASA para 1.10

SN	Particulars - Audit considerations	Basis of Checking
	<ul style="list-style-type: none"> - total external assistance loans; and - total external assistance grants. <p>Significant terms and conditions that determine, or affect access to, the amount of the undrawn assistance should also be disclosed.</p>	
28	<p>Receipts of goods and services (1.10.21)</p> <ul style="list-style-type: none"> • Where an entity elects to disclose the value of external assistance received in the form of goods or services, it should also disclose in the notes to the financial statements the basis on which that value is determined. 	Application of NPASA para 1.10
29	<p>Disclosure of debt received or cancelled (1.10.23)</p> <ul style="list-style-type: none"> • An entity should disclose in the notes to the financial statements the amount of external assistance debt rescheduled or cancelled during the period, together with any related terms and conditions. 	Application of NPASA para 1.10
30	<p>Disclosure of non-compliance with the significant terms and conditions (1.10.25)</p> <ul style="list-style-type: none"> • An entity should disclose, in notes to the financial statements, significant terms and conditions of external assistance loan or grant agreements or guarantees that have not been complied with during the period when non-compliance resulted in cancellation of the assistance or has given rise to an obligation to return assistance previously provided. The amount of external assistance cancelled or to be returned should also be disclosed. 	Application of NPASA para 1.10

Part II – Encouraged Additional Disclosures

SN	Particulars - Audit considerations	Basis of Checking
1	<p>Going concern (2.1.3)</p> <ul style="list-style-type: none"> • When preparing the financial statements of an entity, those responsible for the preparation of the financial statements are encouraged to make an assessment of the entity's ability to continue as a going concern. When those responsible for the preparation of the financial statements are aware, in making their assessment, of material uncertainties related to events or conditions which may cast significant doubt upon the entity's ability to continue as a going concern, the disclosure of those uncertainties is encouraged. 	Application of NPASA para 2.1

SN	Particulars - Audit considerations	Basis of Checking
2	<p>Extraordinary items (2.1.6)</p> <ul style="list-style-type: none"> An entity is encouraged to separately disclose the nature and amount of each extraordinary item. The disclosure may be made on the face of the statement of cash receipts and payments, or in other financial statements or in the notes to the financial statements. 	Application of NPASA para 2.1
3	<p>Administered Transactions (2.1.15)</p> <ul style="list-style-type: none"> An entity is encouraged to disclose in the notes to the financial statements, the amount and nature of cash flows and cash balances resulting from transactions administered by the entity as an agent on behalf of others where those amounts are outside the control of the entity. 	Application of NPASA para 2.1
4	<p>Disclosure of major classes of cash flows (2.1.23)</p> <ul style="list-style-type: none"> An entity is encouraged to disclose, either on the face of the statement of cash receipts and payments or other financial statements or in the notes to those statements: <ul style="list-style-type: none"> - an analysis of total cash payments and payments by third parties using a classification based on either the nature of the payments or their function within the entity, as appropriate; and - proceeds from borrowings. In addition, the amount of borrowings may be further classified into type and source. 	Application of NPASA para 2.1
5	<p>Related Party disclosures (2.1.31)</p> <ul style="list-style-type: none"> An entity is encouraged to disclose in the notes to the financial statements information required by International Public Sector Accounting Standard IPSAS 20 Related Party Disclosures. 	Application of NPASA para 2.1
6	<p>Disclosure of assets, liabilities and comparison with budgets</p> <ul style="list-style-type: none"> An entity is encouraged to disclose in the notes to the financial statements: (2.1.33) <ul style="list-style-type: none"> - information about the assets and liabilities of the entity; and - if the entity does not make publicly available its approved budget, a comparison with budgets Entities which disclose in their financial statements a comparison of actual with budgeted amounts are encouraged to include in the financial statements a cross reference to reports which include information about service achievements. (2.1.37) Entities which adopt multi-period budgets are encouraged to provide additional note disclosures about the relationship 	Application of NPASA para 2.1

SN	Particulars - Audit considerations	Basis of Checking
	between budget and actual amounts during the budget period. (2.1.38)	
7	<p>Consolidated financial statements</p> <ul style="list-style-type: none"> • An entity is encouraged to disclose in the notes to the financial statements: (2.1.41) <ul style="list-style-type: none"> - the proportion of ownership interest in controlled entities and, where that interest is in the form of shares, the proportion of voting power held (only where this is different from the proportionate ownership interest); - where applicable: <ul style="list-style-type: none"> i. the name of any controlled entity in which the controlling entity holds an ownership interest and/or voting rights of 50% or less, together with an explanation of how control exists; and ii. the name of any entity in which an ownership interest of more than 50% is held but which is not a controlled entity, together with an explanation of why control does not exist; and iii. in the controlling entity's separate financial statements, a description of the method used to account for controlled entities. • A controlling entity which does not present a consolidated statement of cash receipts and payments is encouraged to disclose the reasons why the consolidated financial statements have not been presented together with the bases on which controlled entities are accounted for in its separate financial statements. It is also encouraged to disclose the name and the principal address of its controlling entity that publishes consolidated financial statements. (2.1.42) 	Application of NPASA para 2.1
8	<p>Acquisition and disposal of controlled entities and other operating units</p> <ul style="list-style-type: none"> • An entity is encouraged to disclose and present separately the aggregate cash flows arising from acquisitions and from disposals of controlled entities or other operating units. (2.1.44) • An entity is encouraged to disclose in the notes to the financial statements, in aggregate in respect of both acquisitions and disposals of controlled entities or other operating units during the period, each of the following: (2.1.45) <ul style="list-style-type: none"> - the total purchase or disposal consideration (including cash or other assets); 	Application of NPASA para 2.1

SN	Particulars - Audit considerations	Basis of Checking
	<ul style="list-style-type: none"> - the portion of the purchase or disposal consideration discharged by means of cash; and - the amount of cash in the controlled entity or operating unit acquired or disposed of. 	
9	<p>Joint Venture (2.1.49)</p> <ul style="list-style-type: none"> • An entity is encouraged to make disclosures about joint ventures which are necessary for a fair presentation of the cash receipts and payments of the entity during the period and the balances of cash as at reporting date. 	Application of NPASA para 2.1
10	<p>Restatement of financial statements</p> <ul style="list-style-type: none"> • An entity that reports in the currency of a hyperinflationary economy is encouraged to: (2.1.53) <ul style="list-style-type: none"> - restate its statement of cash receipts and payments and other financial statements in terms of the measuring unit current at the reporting date; - restate the comparative information for the previous period, and any information in respect of earlier periods in terms of the measuring unit current at the reporting date; and - use a general price index that reflects changes in general purchasing power. It is preferable that all entities that report in the currency of the same economy use the same index. • The entity is encouraged to make the following disclosures: (2.1.54) <ul style="list-style-type: none"> - the fact that the statement of cash receipts and payments and other financial statements, and the corresponding figures for previous periods, have been restated for the changes in the general purchasing power of the reporting currency and, as a result, are stated in terms of the measuring unit current at the reporting date; and - the identity and level of the price index at the reporting date and the movement in the index during the current and the previous reporting period. 	Application of NPASA para 2.1
11	<p>Assistance received from Non-Governmental Organisations (2.1.64)</p> <ul style="list-style-type: none"> • Where practicable, an entity is encouraged to apply to assistance received from non- governmental organizations (NGOs) the required disclosures identified in of this Standard including in the encouraged disclosures 	Application of NPASA para 2.1

SN	Particulars - Audit considerations	Basis of Checking
12	<p>Receipt of External Assistance</p> <ul style="list-style-type: none"> • An entity is encouraged to disclose by significant class in notes to the financial statements: (2.1.66) <ul style="list-style-type: none"> - the purposes for which external assistance was received during the reporting period, showing separately amounts provided by way of loans and grants; and - the purposes for which external assistance payments were made during the reporting period. • An entity is encouraged to identify in notes to the financial statements each provider of external assistance during the reporting period and the amount provided, excluding any undrawn amounts, showing separately amounts provided by way of loans and grants in the currency provided. (2.1.70) • In respect of external assistance that is undrawn at reporting date an entity is encouraged to disclose in notes to the financial statements: (2.1.72) <ul style="list-style-type: none"> - each provider of loan assistance and grant assistance and the amount provided by each; - the purposes for which the undrawn loan assistance and undrawn grant assistance may be used; - the currency in which the undrawn assistance is held or will be made available; and - changes in the amount of undrawn loan assistance and undrawn grant assistance during the period. • An entity is encouraged to disclose in notes to the financial statements the terms and conditions of external assistance agreements that determine or affect access to, or limit the use of, external assistance. (2.1.76) • An entity is encouraged to disclose in notes to the financial statements: (2.1.80) <ul style="list-style-type: none"> - the outstanding balance of any external assistance loans for which principal and/or interest payments have been guaranteed by third parties, any terms and conditions related to those loans, and any additional terms and conditions arising from the guarantee; and - the amount and terms and conditions of external assistance loans and grants for which performance of related terms and conditions have been guaranteed by third parties, and any additional terms and conditions arising from the guarantee. • An entity is encouraged to disclose in notes to the financial statements other significant terms and conditions associated 	Application of NPASA para 2.1

SN	Particulars - Audit considerations	Basis of Checking
	<p>with external assistance loans, grants or guarantees that have not been complied with, together with the consequence of the non-compliance. (2.1.83)</p> <ul style="list-style-type: none"> • An entity is encouraged to disclose in the notes to the financial statements, a summary of the repayment terms and conditions of outstanding external assistance debt. Where disclosures of future debt service payments denominated in a foreign currency are made, the entity is encouraged to report them in the entity's reporting currency by applying to the foreign currency amount of those payments the closing rate. (2.1.86) • An entity is encouraged to disclose separately in the notes to the financial statements the value of external assistance received in the form of goods or services. (2.1.90) 	
13	<p>Entities intending to migrate to accrual basis of accounting (2.2.1): Presentation of Statement of Cash Receipt and Payments</p> <ul style="list-style-type: none"> • An entity which intends to migrate to the accrual basis of accounting is encouraged to present a statement of cash receipts and payments in the same format as that required by International Public Sector Accounting Standard IPSAS 2 Cash Flow Statements. 	Application of NPASA para 2.2

2.6.3 Audit of Consolidated Fund

Constitution of Nepal requires each level of government to maintain a consolidated fund. The statute explicitly describes what has to be included in the fund and what can be expensed from the consolidated fund.¹²

Special purpose financial statements are financial statements prepared under special purpose framework. Financial reporting provisions established under the law is special purpose framework. Therefore, consolidated fund is the special purpose financial statement.¹³

However, law required consolidated fund to be prepared as financial statements and made public. Therefore, under law the consolidated fund has to also comply with the government approved financial reporting framework, namely NPSAS, to the extent it is not contrary to the legal provisions.¹⁴

¹² Constitution of Nepal, Article 116, 204 and 229

¹³ ISSAI 2800.6, A1-A2

¹⁴ Financial Procedure and Financial Accountability Act 2076, Sec 3, Sec 2(Ya) and Sec 56

Objective of the Audit:

- Ensure that consolidated fund is prepared and presented according to the statute.

Associated Risks:

- Legal requirements may not be complied, and consolidated fund may not present information as it legally should report.

A. Federal Consolidated Fund

SN	Particulars - Audit considerations	Basis of Checking
1	Federal Consolidated Fund¹⁵: Auditor needs to verify whether: <ul style="list-style-type: none">• All receipts of the federal government (all kinds of revenue, loan receipts and any other moneys received by the federal government) should be credited to the federal consolidated fund except for:<ul style="list-style-type: none">- receipts from <i>Guthi</i> (s)- specifically provided by the federal act.	Article 116 of. Constitution of Nepal
2	Expenditure from Federal Consolidated fund and Federal Government Fund¹⁶: Auditor needs to verify whether: <ul style="list-style-type: none">• Only the below specified amounts have been expended from the Federal Consolidated Fund and Federal Government Fund;<ul style="list-style-type: none">- Expenses chargeable to federal consolidated fund- Expenses under federal appropriation act- Advances in case the appropriation bill is under consideration- expenditures to be incurred in extraordinary circumstances under a federal credit act	Article 117 of. Constitution of Nepal
3	Expenses chargeable to federal consolidated fund¹⁷: Auditor needs to verify that only the following amounts are charged to the federal consolidated fund: <ul style="list-style-type: none">• remuneration and benefits<ul style="list-style-type: none">- the President and Vice President- the Chief Justice, the Supreme Court justices and members of Judicial Committee- Speaker and Deputy speaker of House of Representative, Chairperson and Deputy chairperson of the National Assembly	Article 118 of. Constitution of Nepal

¹⁵ Constitution of Nepal, Article 116

¹⁶ Constitution of Nepal, Article 117

¹⁷ Constitution of Nepal, Article 118

SN	Particulars - Audit considerations	Basis of Checking
	<ul style="list-style-type: none"> - Chiefs and Officials of Constitutional bodies - Chief of Provinces • administrative expenditure of the President, Vice President, Supreme Court, Judicial Council, Constitutional Bodies, Offices of Provincial Chiefs • payment of debt where the GoN is liable • sum payable under the judicial decree against the GoN • Expenditure chargeable to federal consolidated fund under a federal law. 	
4	<p>Operation of Federal Consolidated Fund¹⁸: Auditor needs to verify whether:</p> <ul style="list-style-type: none"> • FCGO maintains federal consolidated fund in accordance with the laws • Annual financial statement of consolidated financial statement prepared or not • Operation of federal consolidated fund and federal government fund is as provided by laws. 	Sec 3 of Financial Procedure and Financial Accountability Act 2076

B. Provincial Consolidated Fund

SN	Particulars - Audit considerations	Basis of Checking
1	<p>Provincial Consolidated Fund¹⁹: Auditor needs to verify whether:</p> <ul style="list-style-type: none"> • All receipts of the provincial government (all kinds of revenue, loan receipts and any other moneys received by the provincial government) should be credited to the provincial consolidated fund except <ul style="list-style-type: none"> - receipts from <i>Guthi</i> (s) - specifically provided by any provincial act. 	Article 204 of. Constitution of Nepal
2	<p>Expenditure from Provincial Consolidated fund and Provincial Government Fund²⁰: Auditor needs to verify whether:</p> <ul style="list-style-type: none"> • Only the below specified amounts have been expended from the Provincial Consolidated Fund and Provincial Government Fund; <ul style="list-style-type: none"> - Expenses chargeable to provincial consolidated fund - Expenses under provincial appropriation act - Advances in case the appropriation bill is under consideration 	Article 205 of. Constitution of Nepal

¹⁸ Financial Procedure and Financial Accountability Act Sec 3

¹⁹ Constitution of Nepal, Article 204

²⁰ Constitution of Nepal, Article 205

SN	Particulars - Audit considerations	Basis of Checking
	- expenditures to be incurred in extraordinary circumstances under a provincial credit act	
3	<p>Expenses chargeable to provincial consolidated fund²¹: Auditor needs to verify that only the following amounts are charged to the provincial consolidated fund:</p> <ul style="list-style-type: none"> • remuneration and benefits <ul style="list-style-type: none"> - Province Speaker and Deputy speaker - Chairperson and members of Province Public service commission • payment of debt where the provincial government is liable • sum payable under the judicial decree against the provincial government • expenditure chargeable to federal consolidated fund under a provincial law. 	Article 206 of Constitution of Nepal

C. Local Consolidated Fund

SN	Particulars - Audit considerations	Basis of Checking
1	<p>Local Consolidated Fund²²: Auditor needs to verify whether:</p> <ul style="list-style-type: none"> • All receipts of the local level (all kinds of revenue, grants received from the federal and provincial governments, loan receipts and any other moneys received by the local level) should be credited to the local consolidated fund 	Article 229 of Constitution of Nepal
2	<p>Expenditure from local consolidated fund²³: Auditor needs to verify whether expenditures from the Local Consolidated Fund has be as provided for in the Local law.</p>	Article 229 of Constitution of Nepal

2.6.4 Opinion on Financial Statements

Auditor need to express opinion on financial statements under provisions of auditing standards.

Objective of the Audit:

- To ensure that appropriate audit opinion is expressed.

Associated Risks:

²¹ Constitution of Nepal, Article 206

²² Constitution of Nepal, Article 229(1)

²³ Constitution of Nepal Article 229(2)

- Inappropriate auditor opinion being expressed

SN	Particulars - Audit considerations	Basis of Checking
1	<p>Based on the findings, the auditor exercises professional judgement to reach a conclusion on the subject matter or subject matter information²⁴.</p> <ul style="list-style-type: none"> • Based on the audit evidence, the auditor should form an opinion as to whether the financial statements have been prepared in accordance with the applicable financial reporting framework, and if they are free from material misstatement. • In order to form an opinion, the auditor should first conclude whether they have reasonable assurance on whether the financial statements as a whole are free from material misstatement²⁵. 	Financial Audit Manual Chapter 6
2	<p>Unmodified Opinion: The auditor expresses an unmodified opinion if the audit evidence shows that the financial statements have been prepared, in all material respects, in accordance with the applicable financial framework²⁶.</p> <ul style="list-style-type: none"> • In addition to the opinion on the financial statements, the auditor may be required by law or regulation to report observations and findings which have not affected the opinion, and any recommendations made as a result thereof. These elements should be clearly distinguished from the opinion²⁷. • Unmodified opinion: unmodified report shall contain follows²⁸: <ul style="list-style-type: none"> ○ Reference to the financial statements that have been audited <ul style="list-style-type: none"> - Identify the entity whose financial statements have been audited - State that financial statements have been audited - Identify title of each statement comprising the financial statements including notes and significant accounting policies - Specify date of or period covered by each of those financial statements ○ Opinion <ul style="list-style-type: none"> - “presents fairly, in all material respects” or “give true and fair view” OR 	Financial Audit Manual Chapter 6

²⁴ ISSAI 100.50

²⁵ ISSAI 200.58-59; ISSAI 2700.10-11

²⁶ ISSAI 200.60; ISSAI 2700.16

²⁷ ISSAI 200.62; ISSAI 2700.43-45, A58-A60

²⁸ ISSAI 2700.23-27, A22-31

SN	Particulars - Audit considerations	Basis of Checking
	<ul style="list-style-type: none"> ○ Description of the applicable financial reporting framework 	
2	<p>Modified Opinion: If the financial information of a component has not been prepared in accordance with the same accounting policies applied to the entity financial statements, the auditor should evaluate whether:</p> <ul style="list-style-type: none"> • the financial information of that component has been appropriately adjusted for purposes of the preparation and fair presentation of the consolidated financial statements in accordance with the applicable financial reporting framework. 	Financial Audit Manual Chapter 6
3	<p>Modified Opinion (Qualified Opinion): In following two circumstances</p> <ul style="list-style-type: none"> • Misstatements (individually or in aggregate) are material but not pervasive • Unable to obtain evidences: effects could be material but not pervasive <p>Qualified Opinion²⁹: When the auditor expresses a qualified opinion due to a material misstatement in the financial statements or for material limitation of scope, the auditor shall state that, in the auditor’s opinion, except for the effects of the matter(s) described in the Basis for Qualified opinion section in the auditor’s report.</p>	Financial Audit Manual Chapter 6
4	<p>Modified Opinion (Adverse Opinion): Is expressed in following circumstances</p> <ul style="list-style-type: none"> • Misstatements (individually or in aggregate) are pervasive <p>Adverse Opinion³⁰</p> <p>When the auditor expresses an adverse opinion, the auditor shall state that, in the auditor’s opinion, because of the significance of the matter(s) described in the Basis for Adverse opinion section financial statements:</p> <ul style="list-style-type: none"> • EITHER do not present fairly (or give a true and fair view of); • OR have not been prepared in all material aspects; <p>in accordance with applicable financial reporting framework.</p>	Financial Audit Manual Chapter 6
5	<p>Modified Opinion (Disclaimer Opinion): In following two circumstances</p> <ul style="list-style-type: none"> • Unable to obtain evidences: effects could be pervasive • In rare circumstances: effect of multiple uncertainties <p>Disclaimer of opinion³¹</p>	Financial Audit Manual Chapter 6

²⁹ ISSAI 2705.17

³⁰ ISSAI 2705.18

³¹ ISSAI 2700.19

SN	Particulars - Audit considerations	Basis of Checking
	<p>When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence, the auditor shall state that:</p> <ul style="list-style-type: none"> • the auditor does not express an opinion on the accompanying financial statements; • because of the significance of the matter(s) described in the Basis for Disclaimer of opinion section, the auditor has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements; and • ‘the auditor was engaged to audit the financial statements’ in place of financial statement has been audited. 	

Part - III

Audit of Financial Information for Offices

3. Audit of Financial Information

3.1 Introduction to Financial Information

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

Financial Information or accounting information means records maintained under the law to depict transactions including accounting entries, ledger and records including the documentations supporting the transactions and reports and statements prepared in accordance with the underlying information. Financial information also includes those processed and maintained in electronic form.³²

3.2 Legal Background

Responsible Officer is obligated to submit financial information and related documents of the transactions of office to the Chief Accounting Officer in the prescribed form and format.³³

3.3 Purpose of this section of the audit guide

Is to support the auditor to verify the preparation and presentation of financial information at the individual office level.

3.4 Coverage of this section

This section of the audit guide covers the audit of the offices, subordinate to the entity which are the components of the entity.

This also includes the entity which is to be audited as an Office but does not include the audit of the entity as a consolidated entity including all of its subordinate offices and components.

3.5 Audit Considerations

Auditors can tailor make these checklists to suit their audit requirements applying their professional judgement suitable to the circumstances. The following are the illustrative checklists:

³² Financial Procedure and Financial Accountability Act 2076, Sec 2 (Ba)

³³ Financial Procedure and Financial Accountability Act 2076, Sec 29(3)

3.5.1 Audit matters

Objective of the Audit:

- Financial information is correctly prepared under the legal requirements.

Associated Risks:

- Incomplete, inaccurate and unapproved financial information.

SN	Particulars - Audit considerations	Observation
	<p>Accounting Principles, basis and accounting formats³⁴: Auditor needs to verify whether:</p> <ul style="list-style-type: none"> • Accounting is maintained using double entry system; • The basis of accounting is as designated by the law; • Approved public sector accounting standards have been followed included generally accepted accounting principles; • Accounting and reporting formats shall be as prepared by FCGO and as approved by OAGN. and • Provincial and local level may maintain accounts with approval from FCGO. 	Requirement of Financial Procedure and Financial Accountability laws
	<p>Accounting records and documents: Auditor needs to verify whether</p> <ul style="list-style-type: none"> • Responsible person should prepare accounting records and documents and submit to OAGN and the office designated by the Chief Accounting Officer within the stipulated period of time³⁵. <p><i>[Note: Offices are required to furnish financial information (accounting records) not the financial statements.]</i></p>	Requirement of Financial Procedure and Financial Accountability laws
	<p>Auditor needs to verify whether all individual financial information are correctly prepared and presented for:</p> <ul style="list-style-type: none"> • Revenue; • Appropriation; • Deposits; and • Funds. 	Requirement of Financial Procedure and Financial Accountability laws
	<p>Auditor need to verify whether budget, appropriation received and expenditure have been prepared in accordance with the applicable laws and regulations.</p>	Requirement of Financial Procedure and Financial Accountability laws

³⁴ Financial Procedure and Financial Accountability Act 2076, Sec 25

³⁵ Financial Procedure and Financial Accountability Act 2076, Sec 29(3)

SN	Particulars - Audit considerations	Observation
	<p>Auditor needs to verify whether all financial information for revenue, appropriation, deposits and funds are:</p> <ul style="list-style-type: none"> • appropriately presented; • arithmetically accurate; and • in conformity with the underlying records (such as ledgers and supporting documents) 	
	<p>Auditor needs to verify whether all required OAGN forms have been completed</p> <ul style="list-style-type: none"> • 100 Revenue Related • 200 Expenditure related • 300 Budget related • 400 Goods and Assets • 500 Civil works • 600 Deposits • 700 Loans Management • 750 Investments • 800 Audit Related • 800 Internal Control 	<p>Requirement of Financial Procedure and Financial Accountability laws</p> <p>OAG Forms compliances</p>
	<p>Auditor needs to verify whether financial statements have been approved and attested by</p> <ul style="list-style-type: none"> • The preparer • By the approver 	<p>Requirement of Financial Procedure and Financial Accountability laws</p>
	<p>Auditor needs to verify whether the financial information has been verified and reconciled by appropriate treasury office (such as DTCO)s</p>	<p>Requirement of Financial Procedure and Financial Accountability laws</p>
	<p>All financial information has been subject to internal audit and internal audit has examined and reported on the financial information.</p>	<p>Requirement of Financial Procedure and Financial Accountability laws</p>

Annexures

Annex A: Audit Opinion

In accordance with Financial Audit Guide



महालेखापरीक्षकको कार्यालय Office of the Auditor General

बबरमहल, काठमाडौं, नेपाल
Babar Mahal, Kathmandu, Nepal

नीति योजना तथा जनशक्ति विकास महानिर्देशनालय



पत्र संख्या २०७७।७८ च नं ०३

मिति २०७७।४।१६



विषय नेपाल सरकारी लेखापरीक्षण मानकको कार्यान्वयन सम्बन्धमा

नेपाल
२०१६

श्री सबै विभागहरु

श्री सबै महानिर्देशनालयहरु

श्री सबै निर्देशनालयहरु

महालेखापरीक्षकको कार्यालय ।

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

तपसिल

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

जानकारीको लागि

माननीय महालेखापरीक्षकज्यू ।

भवदीय

(घनश्याम पराजुली)

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