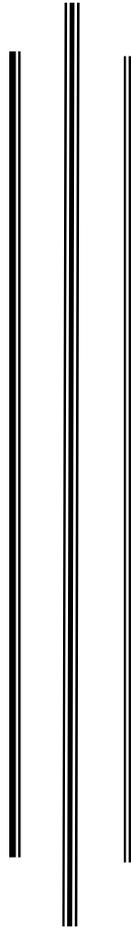


(For Office Purpose)



Action Plan of Auditor General
(2017 – 2023)



Office of the Auditor General
Kathmandu, Nepal

Preface



On appointment in the post of Auditor General in accordance with the Constitution of Nepal, I feel pride to publicize this action plan for my six years' tenure. I have a long period of my civil service career in the field of accounts, audit, financial management and revenue administration of the Government of Nepal. Based on the experiences, I have taken the responsibility of the Auditor General with a determination and great enthusiasm to contribute in improvement of financial administration, fiscal discipline and good governance of Nepal.

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

The leading causes behind such situation are political transition and instability persisting since a long period, government officials' degrading capability to comply with responsibility and accountability

and management weaknesses, non-existence of people's representatives in local level since a long period and lack of working environment in government work procedures, have contributed in weakening of financial administration and declining fiscal discipline. Likewise, the causes such as non-effective of parliamentary committees of legislature-parliament for a longer period of time, non-appointment of Auditor General in past long period with frequent time gap, have proliferated these problems in the absence of effective external scrutiny and monitoring of financial administration.

Now, the scenario has 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 enhance fiscal discipline with the proper management of development works, service delivery, and government expenditure and resources. The works of local level are going to start from zero level. Therefore, utilising this opportunity, everybody should give attention in establishing clean financial management system and culture from very beginning. To grasp this opportunity, my commitment also lies in striving the institution to play a leading role in maintaining fiscal discipline through the promotion of accountability and transparency in public fiscal affairs, and making the audit credible and reliable with adoption of scientific methodologies and processes based on constitutional mandate to carry out audit with due regards to regularity, economy, efficiency, effectiveness and propriety thereof.

In view of the strengths and weaknesses of the existing financial administration, this action plan (2017-2023) has been prepared and made public in order to enhance effectiveness of the Auditor General's function, duties and responsibilities. For the purpose of preparation of this action plan, past strategic plan, work plans and reports have been taken as a basis. New approaches of audit methodology developed in

international arena, changes taking place in political, social and economic circumstances of the country, and extended audit scope for province and local level stipulated in Constitution of Nepal, have also been taken into consideration. This action plan covers the reforms in areas of- organizational structure and working system, audit process and methodology, accounts and audit policy and legal provisions, human resource management and capacity development, enhancement of the audit effectiveness and quality assurance, maintaining financial discipline, constitutional and parliamentary relations, and external relations and communication.

It is expected that implementation of this action plan will assist in - enhancement of responsibility and accountability in public entities; promotion of transparency; ensure value for money from the control of mis-utilization of public funds; improvement in governance indicators with the strengthening of systems' preventive capacity to combat with irregular and wrong practices of the country's governance system; minimization of irregularities with the improvement in fiscal discipline; creation of people's awareness in respect to financial management; and enhancement of credibility and international image of Supreme Audit Institution of Nepal with the improvement in audit quality and effectiveness of standards.

Lastly, I would like to thank all persons including staffs of Office of the Auditor General who have provided suggestions and assisted in the preparation of this action plan. I expect the availability of supports of all concerned in implementation of this action plan.

(Tankamani Sharma, Dangal)
Auditor General of Nepal

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Chapter – One

Background

1. **Constitutional and legal provision:** As per the Article 240 of the Constitution of Nepal, the President appoints Auditor General on the recommendation of Constitutional Council along with approval by Parliamentary Hearing Special Committee of Legislature-Parliament after completing the hearing process. As per 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 Article 294 stipulates that the Auditor General shall submit annual report to the President. Functions, duties and powers of the Auditor General as specified in the Constitution of Nepal are given below:

- Carrying 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,
- Give consultation to auditors' appointment for carrying 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.
- Carry out audits of the Funds, Boards and entities that specified in accordance with laws,
- Examine accounts related documents at all time,

- Approve accounts formats, and
- Submit Annual Report to the President of the works performed.

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 government-owned corporate bodies.

2. **Role of the office:** In pursuant to focus on good governance, Office of the Auditor General has set its Vision "*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.

To promote public welfare through audit, the office has been playing the role of a whipper by highlighting the problems related to financial transactions conducted without complying prevailing laws & directives and weaknesses related to service delivery to people by public entities on the basis of purview of regularity, economy, efficiency, effectiveness and propriety thereof. Consequently, it has helped to maximize the output from resource utilization through stopping from misappropriation, misuse and loss & damage of the country's scarce resources. As a response to the matters pointed out by the office, public moneys that misutilized have been recovered and deposited in 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 been playing a great role in establishing fiscal discipline.

- 3. Rationale of Action Plan:** Office of the Auditor General has prepared Strategic Plan (2016-20) and has also framed Operational Plan (2016-21) to implement it effectively. This six-year Action Plan has been prepared by considering the progresses achieved within one year of the implementation of the strategic plan, and incorporating the activities that required additionally to maintain good governance through the promotion of transparency and accountability, and the audit methodology, scope and quality improvements that required in course of implementation of the thrust of federalism in accordance with the Constitution of Nepal. This Action Plan includes the activities of new and very essential organizational restructuring, development of physical infrastructures, capacity development of human resources, legal reform, improvement in work process and methodology. This Action Plan is an integral part of the office's Strategic Plan and Operational Plan.

Chapter – Two

Current situation

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

4.1 **Audited amount and irregularity:** Audited figures in accordance with 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 identified 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
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While comparing the irregularity figure Rs. 97 billion 440 million of the 54th Auditor General's Annual Report with the figure Rs. 56 billion 650 million of the 53rd Auditor General's Annual Report, an increment of 72 percent has been noticed. Irregularities requiring recovery have surged by 8.50 times.

4.2 Cumulative irregularity status: The cumulative recoverable amount to be settled by the audited entities has reached Rs. 396 billion 260 million in the 54th annual report in comparison to Rs. 328 billion 520 million reported in the 53rd annual report. The amount has increased by 20.62 percent.

(Rs. in millions)

Particulars		This year	Particulars		This year
Irregularities of government offices	of	167,490	Outstanding reimbursable Foreign grant		22,520
Irregularities of 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	67,063	255	4,201	3,578	8,034	9.04	11.98

	and local development							
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 conduct special monitoring treating the ministries, entities and responsible persons having significant amount of irregularities as the high risk area.

4.4 Corporate bodies, boards and other institutions: Of the audited corporate bodies, boards and other institutions, 28 institutions, boards and other institutions have been found preparing balance sheets maintaining with business type accounts. Amongst them, 16 institutions, boards and other institutions have generated operating profits of Rs. 50 billion 370 million and 16 institutions have incurred 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 Government of Nepal, the status of improved, deteriorated and unchanged indicators in 2014 compared to 2007 that stipulated, 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, less developed and middle income countries, have been mentioned below. In the report, Nepal's status in 'External Scrutiny and Audit' has appeared 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 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- less 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: Although the government has been generating revenues recovery every year in accordance with revenue estimate, expenditures have been incurred ranging from 73 to 86 percent of the budget estimate, which indicates the government's low capacity to utilize resources. Moreover, the the country's absorbing capacity to utilize foreign resources has remained only 35 percent in 2015/16. Status of the government's revenues and expenditure for the subsequent 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.

Should analysed the status of last 3 years capital expenditure, the expenditure has been found 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 Ashad (last month of fiscal year), which in turn, has resulted low quality of works and improper utilization of

expenditure. Although the recovery of revenues has been found nearer to set targets at present, this recovery should be done on the basis of the total estimation including all feasible revenue sources.

4.7 **Governance status of Nepal:** Nepal's governance comparative status as mentioned in survey report of 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 specially in later 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 last 4 years period. Nepal's position, that ranked 116th in 2013, has started to decline and has reached 126th, 130th and 131th positions in the years 2014, 2015 and 2016 respectively.

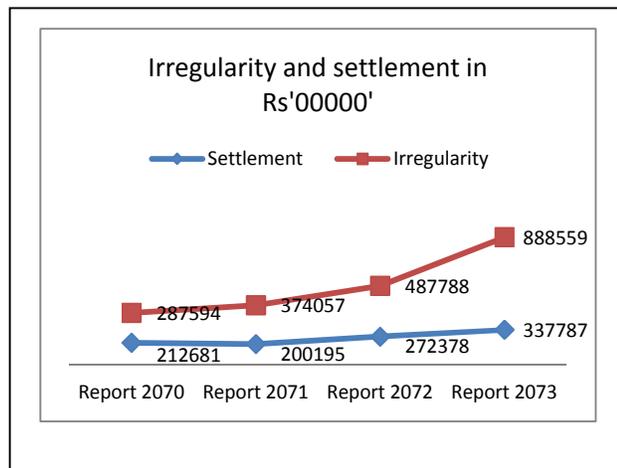
4.8 **Fiscal discipline and irregularities clearance status:** Weaknesses have been observed in the area of planning and budgeting, expenditure management, public procurement, project management and public enterprise management. In public entities, the status of internal control system has been found 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 last 3 years:

(Rs in millions)

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

Irregularity amount in comparison to audited amount, which figured 4.67 percent in 53rd report, has increased to reach 6.86 percent in 54th report.

Likewise, if analysed the status of irregularity clearance of last 4 years, it is observed that irregularity figures have surged every year, but irregularity clearance figures through follow up



of 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 in weak condition.

Political, administrative & managerial and external & social circumstance are responsible for absence of fiscal discipline. 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 2 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 .

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

5.1 **Independency of Auditor General:** Lima and Mexico declaration of 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 management of financial resources.

There has been a situation that the Audit Act, Rule and Audit Service Operation Rule are to be framed in order to maintain the administrative and financial independency as per the Constitution of Nepal; and necessary legal provisions as well as fiscal accountability laws are to be formulated and other relevant laws are to be amended in order to implement the thrust of Mexico Declaration.

5.2 **Human resource and facilities:** The approved positions of 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 position fulfilled is given below:

S.No.	Name of Post	Approved position	Position fulfilled
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 employees of civil service, no additional facility has been provided to employees of Office of the Auditor General. The manpower management of the office has been done in accordance with 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 specialized 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 abroad trainings are to be provided for the capacity development of employees and auditors need to comply strictly their code of ethics becoming free from pressure, influence and allurements. Necessary Legal provisions are to be framed to make review and give continuity to the office employees' incentive system.

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 changed substantially. For carrying out the audit of local level in accordance with new constitution, additional works need to be performed. As mentioned in 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 Rs. 1 trillion 798 billion of corporate bodies.

5.4 **Federal, Province and local level workload:** 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 conducting the organization and method (O & M) survey.

5.5 **Physical infrastructure:** The office has been run in rented building of Pulchowk due to in-serviceability of the office's old building caused by earthquake damage. Operational problems have been faced as some of divisions are in Babarmahal and majority of divisions are run in Pulchowk building. Difficulties have been encountered in conducting trainings and meetings caused by absence of training hall. Work environment has been affected due to lack of 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 to 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 independent evaluation teams, 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; and special audits should be conducted pertaining to subjects like, 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, strength the effectiveness of quality control & quality assurance procedures, and make full compliance with all audit standards and guidelines. There exists a situation that the audit directives of 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, auditing during the time of operation of transactions prior to end of fiscal year as practiced by other countries, are to be still adopted in respect to the matters of public concerns and special type of works.

5.7 Institutional relation and communication: Stakeholder relationship plays important role in enhancing the effectiveness of audit. To give due importance to this fact, interactions with committees of legislation-parliament, members of public accounts committee, government offices, and high level officials of the Government of Nepal, are 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 acknowledged 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 acknowledged to mass 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 resource development and relations with stakeholders. Pursuant to the preparation of this action plan, special consideration is also given to incorporate the suggestions given in 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 and implemented this action plan of 6 years incorporating the subjects mentioned below:

1. Organizational structure & working system reform,
2. Policy and legal system reform,
3. Audit processes reform,
4. Enhance audit quality and its effectiveness,
5. Maintain 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 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 and the like within the office,
- (D) Establish an Audit Training Center and an Audit Excellence Center within the office equipped with required logistic facilities,
- (E) Establish and make effective Audit Follow-up and Irregularities Clearance Unit for implementation of audit report and clearance of irregularities.
- (F) Strengthen and make 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 initiating the works immediately. Arrange government residence for the Auditor General in co-ordination with the Government of Nepal,
- (C) Make office buildings in at central and Provinces equipped with modern physical facilities and disabled-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' in every central level audited entity, and an 'audit field office' in every district level.

1.3 Human Resource Management and Capacity Development

- (A) Formulate and implement a long-term human resource plan for mobilizing 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 consultating service from subject-based experts as per the requirements of audits,
- (D) Make arrangements of career development and special facilities for the retention of professional employees,

- (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 course and providing training to impart the multi-dimensional knowledge and skills that necessary for auditing,
- (H) Arrange the long term course study opportunity to employees to ensure long-term service of professionally expertized employees, and
- (I) Conduct capacity development programme 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) Evaluate the results on the basis of the employees' job description by entering performance-based agreement; and make an appropriate arrangement for the employees' facilities conducting studies time to time in co-ordination with the Government of Nepal,
- (C) Operate Employees' Welfare Fund co-ordinating with Government of Nepal to solve employees' unforeseen personal and family 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 to 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 changed work culture establishing good relationship between management and the trade union,
- (I) Give attention to basic subject matters of employees' behaviour such as- obedience of office time, regularity and use of specified dress codes, identity card etc.,
- (J) Encourage to utilize the personal capabilities of employees, such as- new thinking, creativity and new concepts, and
- (K) Develop an appropriate monitoring mechanism to maintain employees' discipline, post-related ethics and compliance with auditors' code of ethics.

1.5 Improve Working Procedure

- (A) Develop work culture of objectivity, credibility, professional dignity and professionalism on the basis of professional values and norms of audit institution,
- (B) Implement 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 delegating power to each level on the basis of specified standard; and involve subject-related officers in decision making process,
- (E) Prepare Annual Plan on timely basis and inform all public entities about the plan,

- (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 of the projects implemented with support of development partners,
- (H) Inform the audited entities in advance about the audit timetable, major statements that required for audits, and auditors involved 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 publishing notices prior to departure of audit teams at district level; and make arrangements for reviews of every audit performed at field level taking reports and monitoring them,
- (K) Undertake discussion and interaction with the responsible persons 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 identified in 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 let the responsible person for immediate improvement or settlement of observations and sensitive subject matters pointed 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 immediately the subjects (including irregularities and follow-up of audit) that are received from public entities,
- (P) Improve the office's work procedures through carrying out client surveys,
- (Q) Develop an internal work operations procedure and implement the methodology to settle works in a scientific manner,

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 accordance with the Constitution of Nepal,
- (B) Adopt auditing standards and good practices issued by international audit institutions
- (C) Formulate an Audit Act in accordance with the requirements of present time,
- (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 formulate 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) Give 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) Give 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. Auditing Process Reform

- (A) Update and implement the financial, performance, compliance and specialized audit related auditing standards, directives in accordance with international standards to ensure transparency and accountability as per the Constitution of Nepal and prevalent laws,
- (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 prepared and presented in accordance with Nepal Public Sector Accounting Standards,

- (D) Issue entity-wise audit report after the completion of each audit and make necessary arrangements for 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 through the office's manpower; and make arrangements to evaluate the 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 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 to regularity,

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

- (B) Carry out financial, performance, compliance and specialised audits, identifying the irregularities, manipulation and loss and 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) Focus 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 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,

- (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 conducting external peer review,

5. Financial Discipline and Accountability

- (A) Establish internal control system and adopt preventive measures for maintenance of responsibility and accountability to promote fiscal 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 as far as possible.
- (C) Take initiative for timely settlement of irregularities through establishing a separate institutional unit within public entities for settlement of audit observations; and run campaign to make effective the irregularities clearance,
- (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 having the higher irregularities 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 by preparing a record of the officials who are indifferent or apathetic to obedience of fiscal discipline and settlement of irregularities,
- (I) Evaluate the status of financial accountability grading offices and responsible persons and make public the status through annual reports, and
- (J) Take initiative to fix special responsibility of the officers serving in public posts on the basis his/her performance on compliance with fiscal discipline and financial accountability.

6. Institutional Relations and Communication

6.1 Constitutional and Parliamentary Relations

- (A) Submit annual report to the President completing audit works on timely basis,
- (B) Make arrangements to submit report completing timely audits of provinces and local levels,
- (C) Make effective the relations with Legislature-Parliament and its Parliamentary Committees,
- (D) Take initiative to hold discussions and implement audit findings of annual audit reports through the support of Public Accounts Committee of the Legislature-Parliament,
- (E) Take initiative to hold discussions and implement the findings of Province and local level audit reports,
- (F) Make arrangements to acknowledge the Public Accounts Committee about the topics of Auditor General's report's to be discussed prior to such discussions,
- (G) Implement directives and recommendations 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 effects, and
- (J) Activate and make effective the Audit Advisory Committee.

6.2 External Relations and Communication

- (A) Revise and implement Communication Strategy of the office,
- (B) Enhance relationship with public media and civil society to enhance mass 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 from radios and television channels; and organize press meets with media-person at 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) Acknowledge mass people about the public income, expenditure, development works and their audits,
- (G) Provide intern service to students in the office coordinating with the educational institutions, that offering financial management, account, audit courses, and
- (H) Enhance the presence of the office in international field extending relations with other international Supreme Audit Institutions (SAIs), and regional and international community of public sector auditing.

Chapter – Four

Implementation and outputs

- 7. Implementation strategy:** In course 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 the 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 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 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:** Pursuant to implementation of this action plan, an assessment has also been undertaken to identify risks that may appear. Budgets are imperative for the execution of some of 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 is required for making improvements in laws. Hence, prime risks identified are- 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. To mitigate these risks, strategies the 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 output:** The following outputs will be achieved during the period 2017 - 2023 after the implementation of this action plan:-
- Strengthening of organizational efficiency with improvement in organizational structure, work system, capacity development of human resources, and improvement in audit methodologies and establishment of efficient & effective organizational set-up for conducting the audits of Federal, Provinces and local levels.
 - Strengthening of Auditor General's independence from the improvement of audit related policies and laws; and increment in credibility and image of Supreme Audit Institution, Nepal with the enhancement of standard of Nepalese public sector auditing as per international standard.

- Improvement in area of financial administration through exchange of suggestions, information, supports between Legislature-Parliament & its parliamentary committees and constitutional bodies.
- Acceptance of value for money concept through control on misuse of expenditure incurred from government treasury.
- Attainment of expected outputs through the enhancement of transparency and efficiency in development works, revenue collection, expenditure management and delivery of services.
- Support in development of healthy and competitive economy from the enhancement of effectiveness of regulating agencies working in diverse sectors of the economy.
- Improvement in governance indicators from strengthened preventive capacity to fight with irregularities and bad practices of governance system of the country.
- Maintenance of fiscal discipline from acceptance of responsibility and accountability by the officials of public entities; Minimization of irregularities in operations of financial transactions; and Establishment of healthy financial administration from clearance of irregularities that existed at present.
- Improvement in exchange of information and assistance through enhancement in public's access on the activities undertaken and reports produced by the office, and 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 is come 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 acknowledge 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 hearty requested to acknowledge in the address given below and assist in making our audits more objective-oriented, credible and qualitative.

Correspondence or contact address

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- Website: www.oagnep.gov.np
- Office's complaint Box
- Audit team or supervisor