

Improved Internal Control Through Internal and Final Audit Clearance, Evidenced in Audit Status Report 2021:

Technical Note

Background: NHSSP-3 has been providing technical support to the Federal Ministry of Health and Population (FMoHP) for effective Public Financial Management Strategic Framework (PFMSF) implementation and reduction in fiduciary risks by strengthening financial accountability. This includes improvements in internal controls, which are the control activities such as authorization, documentation, reconciliation, security, and the separation of duties and is broadly divided into preventative, corrective, and detective activities. The FMoHP has undertaken important initiatives to strengthen public financial management (PFM), including development of a Financial Management Improvement Plan (FMIP). The FMIP was first developed in December 2012 and has been regularly updated. The Ministry subsequently endorsed the PFMSF in July 2020, which explains eight outputs/key objectives in detail. Moreover, the Ministry endorsed an Internal Audit Improvement Plan (IAIP) as a part of the FMIP in May 2017 and developed the Transaction Accounting and Budget Control System (TABUCS) to record, respond to, and monitor internal audit and final audit clearance functions.

The Financial Procedures and Fiscal Accountability Act (FPFAA, 2019) and Financial Procedure and Fiscal Accountability Regulation (FPFAR, 2021) have a mandatory provision for all government offices to prepare and implement internal control system guidelines. In line with this provision, FMoHP has prepared Internal Control System Guidelines (ICSG), which were approved by the Ministry in September 2021. The Ministry has been producing improved internal controls through internal and final audit clearance, evidence of which is seen in audit status reports for the last three years on an annual basis. To make more effective PFM, the Ministry has formed various Committees, namely the Audit and Internal Control Committee chaired by the Secretary; the PFM Committee chaired by the Chief of Policy, Planning and Monitoring Division; and the Audit Supportive Committee chaired by the Chief of Administration Division of FMoHP.

Objectives: The objectives of this report are to support the FMoHP to analyse and sustain improved internal controls through internal and final audit clearance and prepare an audit and clearance progress report for further improvement. It also aims to help FMoHP to identify the risks in audit functions, clear audit queries, and present technical solutions to the PFM Committee within FMoHP.

Methods: Relevant documents were reviewed. Samples of internal and final audit reports from spending units, Financial Comptroller General Office (FCGO), and District Treasury Comptroller Offices (DTCO) were collected and analysed. Similarly, the Audit Report of the Office of the Auditor General (OAG) for FY 2019/20 was reviewed and analysed. Key informant interviews were conducted. Findings were shared with the PFM Committee members for feedback before report finalisation.

Findings: Forty out of 43 spending units (SUs) conducted internal audit. Out of forty, thirty-two SUs did internal audit through DTCO, seven SUs outsourced independent auditors, and one SU did its audit by its own internal audit section. A total NPR 1.58 billion was for “audit queries” of internal audit. Out of NPR 1.58 billion, 97.1% was for “advance queries” in internal audit in FY 2019/20. 55.4% of final audit queries (NPR 1.02 billion) was for “advance queries”. Forty-two out of 43 SUs conducted final audit by OAG. Ninety-two percent of SUs responded to the preliminary OAG audit report as required within 35 days, which was a significant improvement compared to FY 2015/16 (45%). Clearance of cumulative audit queries had decreased, and did not reach the clearance target of 50%. Only 11% and 21% of audit queries were cleared in FY 2019/20 and 2020/21, respectively.

Challenges: The main challenges included failure to audit technical and commodity assistance, failure to observe payment rules and norms, expired medicines kept in stock, duplication of programmes, poor programme monitoring, over- payment, non-deduction of income tax, and late payment of fines. Most of the audit queries have been repeated as in the last year. The concerned officers were not serious to reduce such types of audit queries. The analysis suggests that FMOHP is facing challenges at institutional, system, and transaction levels.

Suggestions: Measures to address these challenges could include development of guidelines related to PPFM, updating existing audit clearance guidelines and training manual, and implementation and strengthened management (improved internal and final audit monitoring, and capacity building of officials working at spending units of FMOHP). Full compliance with prevailing laws, effective procurement contract management, and additional responsibility to concerned officials are required. Similarly, a mechanism for risk identification in public expenditure management should be established. Audit queries records should be maintained in TABUCS and updated.

Conclusions: FMOHP continues to improve the overall PFM and audit system. This has contributed to improved financial discipline. Further policy review and implementation, and strengthened management, is needed to address the challenges and issues identified in this report. Regular monitoring is needed to ensure timely response to audit queries by responsible entities. The findings of this report will support FMOHP to analyse internal controls through internal and final audit clearance.

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