

# IMPROVED INTERNAL CONTROL THROUGH INTERNAL AND FINAL AUDIT CLERANCE, EVIDENCED IN AUDIT STATUS REPORT



Ministry of Health and Population  
Administrative Division  
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**Contributors:** Raghu Ram Bista, Muktinath Neupane, Lila Raj Poudel, Diwakar Ghimire, Deepak Maharjan, Chabilal Pandey, Hema Joshi, Dr. Suresh Tiwari, Hema Bhatt, and Bhanu Bhakta Niroula.

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## ACRONYMS

AA	Audit Act
AD	Administrative Division
APR	Audit Primary Report
AQ	Audit Query
ASOSAI	Asian Organization of Supreme Audit Institutions
AWPB	Annual Work Plan and Budget
CAE	Chief Audit Executive
CAO	Chief Accounting Officer
CAPP-MC	Consolidated Annual Procurement Plan Monitoring Committee
COSO	Committee of Sponsoring Organisations of the Treadway Commission
FCDO	Foreign, Commonwealth & Development Office (FCDO)
DHO	District Health Office
DLI	Disbursement-linked Indicator
DoA	Department of Ayurveda
DoDA	Department of Drug Administration
DoHS	Department of Health Services
DTCO	District Treasury Controller Office
e-AWPB	Electronic Annual Work Plan and Budget
EDP	External Development Partner
FCGO	Financial Comptroller General Office
FMIP	Financial Management Improvement Plan
FMR	Financial Monitoring Report
FMSF	Financial Management Strategy Framework
FPA	Financial Procedure Act
FPAA	Financial Procedures and Accountability Act
FPFAA	Financial Procedure and Fiscal Accountability Act
FPR	Financial Procedures Regulations
FY	Fiscal Year
GoN	Government of Nepal
IA	Internal Audit
IAIP	Internal Audit Improvement Plan
IC	Internal Control
IIA	Institute of Internal Auditors
INTOSAI	International Organization of Supreme Audit Institutions
IPPF	International Professional Practices Framework
ISSAI	International Standard of Supreme Audit Institutions
KfW	Kreditanstalt für Wiederaufbau
LC	Letter of Credit
MoF	Ministry of Finance
MoHP	Ministry of Health and Population
MTEF	Medium-term Expenditure Framework
MTR	Mid-term Review

NHSS.....	Nepal Health Sector Strategy
NHSSP.....	Nepal Health Sector Support Programme
NHTC.....	National Health Training Centre
NPC.....	National Planning Commission
NPR.....	Nepalese Rupees
OAG .....	Office of the Auditor General
OBB .....	Output-based Budgeting
OECD .....	Organisation for Economic Co-operation and Development
PACO .....	Provincial Account Controller Office
PFM .....	Public Financial Management
PFMSF.....	Public Financial Management Strategic Framework
PIP.....	Procurement Improvement Plan
PPA .....	Public Procurement Act
PPMD .....	Policy Planning and Monitoring Division
PPR.....	Public Procurement Regulations
PPSF.....	Public Procurement Strategy Framework
SAI.....	Supreme Audit Institution
SEC .....	Securities Exchange Commission
SNG .....	Sub-national Government
SUs .....	Spending Units
TABUCS .....	Transaction Accounting and Budget Control System
TIU.....	TABUCS Implementation Unit

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## CHAPTER 1: INTRODUCTION

### 1.1 BACKGROUND

The Ministry of Health and Population (MoHP) is implementing the Nepal Health System Strategy (NHSS) 2015–2020. The Foreign, Commonwealth & Development Office (FCDO) /Nepal Health Sector Support Programme (NHSSP) is providing technical assistance and capacity-building support to help MoHP deliver against the NHSS Results Framework. The MoHP undertook some important initiatives in the area of Public Financial Management (PFM) during NHSP-2 (2010–2015), and several initiatives were launched to strengthen PFM in Nepal’s health system in the first two years of the NHSS: the development of a Financial Management Improvement Plan (FMIP), including an accountability framework; first steps towards Output-based Budgeting (OBB) through linking budget line-items to NHSS Results Framework indicators; improvements to the expenditure accounting process through the Transactional Accounting and Budget Control System (TABUCS); and the endorsement of the Internal Audit Improvement Plan (IAIP).

Despite progress being made against a number of core indicators, the recent Mid-term Review (MTR) of NHSS highlights the need for further support to strengthen the robustness and effectiveness of the PFM system. This includes the need for continued progress in developing the capacity of MoHP officials in submitting the response to AQs (both internal and final audit); reduction of AQs; strengthened PFM reform governance structures to oversee the implementation of the FMIP; and improved linkages with the Financial Comptroller General Office (FCGO) to strengthen reporting and compliance. The MoHP developed Internal Control Guidelines in 2013, which were revised in July 2018, and for the last two years has been preparing updated Internal Audit (IA) status reports. These reports are used by MoHP to analyse Internal Control (IC) through internal and final audit clearance, as evidenced in audit status reports.

### 1.2 RATIONALE

In order to strengthen the current good practices and implement newer initiatives, the FMIP was revised and endorsed by the MoHP in December 2016. Considering the current context, FCDO/NHSSP is supporting the Administrative Division (AD) of the MoHP to update the existing FMIP. The aim of implementing the FMIP is to improve overall financial accountability and contribute to reducing the fiduciary risk in the health sector across all levels of government. In order to achieve this, the MoHP endorsed the IAIP in May 2017. The IAIP is intended to build the capacity of the MoHP and Department of Health Services (DoHS) in PFM functions. The MoHP has also developed a mechanism in TABUCS to record, respond to and monitor IA and final audit functions. The MoHP produced a first IA status report, for Fiscal Year (FY) 2016/17, in August 2018 and a second IA status report, for FY 2017/18, in May 2019; this was presented at the meeting of the PFM Committee. In order to produce an updated report on the status of IA, including documentation of response times, NHSSP provided technical assistance to the MoHP to facilitate the process of internal and final audit functions within the MoHP.

The independent review of IA and IC in the MoHP took place in a single three-week in-country mission from 4–29 March 2019<sup>1</sup>. A team of two consultants, one national and one international, with expertise in IA and IC, conducted the review. The objective was to review practices, policies and legal/standards frameworks of IA and IC in the MoHP vis-à-vis planned improvements and international standards. The report has provided a set of recommendations to improve the IA and IC functions in the MoHP. This review will provide an update on the status of recommendations made by the independent review.

Additionally, the Government of Nepal (GoN), has endorsed the Financial Procedures and Accountability Act (FPAA), 2019, effective from 13 October 2019. Article no. 31 of the FPAA stated that all the offices functioning under federal, provincial and local levels should prepare and implement an IC system. In this

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<sup>1</sup> A consultative meeting was held with the Office of the Auditor General (OAG) during the week commencing 1 April 2019 owing to time pressure during the review

context, the MoHP has endorsed the Public Financial Management Strategic Framework (PFMSF) in Nepali as a modification of the FMIP. The PFMSF has replaced the current FMIP.

### **1.3 PURPOSE AND OBJECTIVES OF THE WORK**

The main purpose of this task is to analyse improved IC through internal and final audit clearance, as evidenced in audit status report functions, and prepare a progress report. The specific objectives are as follows:

- a. Collect data related to IA and final audit from sampled Spending Units (SUs);
- b. Consolidate and institutionalise IA reporting and clearing practices at the MoHP;
- c. Update the status of Audit Query (AQ) recording, response times and clearance practices;
- d. Review the District Treasury Controller Office's (DTCO's) internal AQs by SUs and provide policy recommendations that will be useful in reducing future observations;
- e. Assess the implementation status of recommendations made by the independent review of IA and IC in the MoHP; and
- f. Identify the risks in IA functions and present technical solutions at the meeting of the PFM Committee.

### **1.4 PROCESS**

The MoHP has utilised the following methods and steps to analyse improved IC through internal and final audit clearance, as evidenced in audit status report functions, and prepare a progress report:

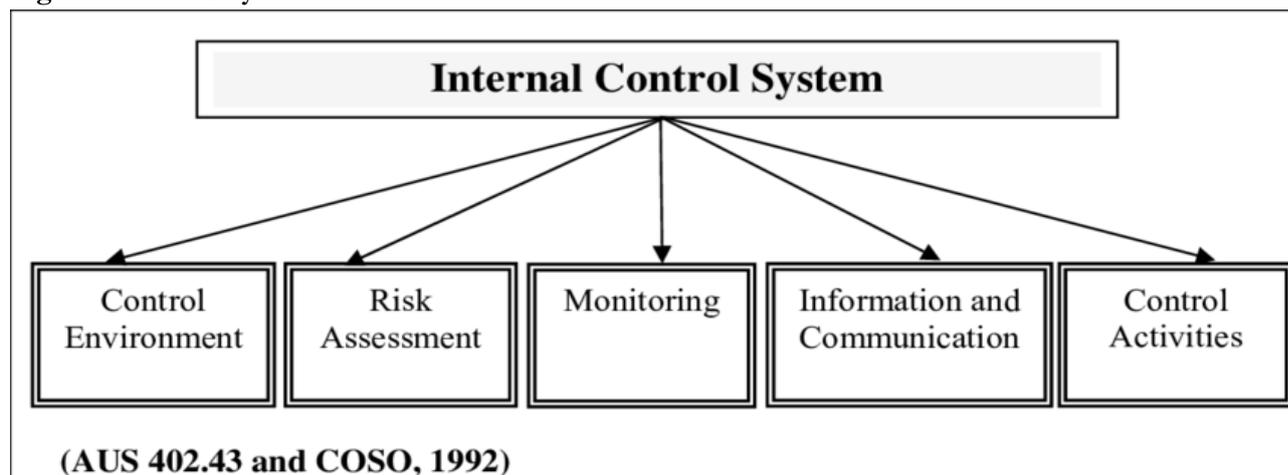
- a. Document review, including Rules, Regulations, and Guidelines of the GoN and recent reports from PPFM (oversight agency);
- b. Collection of IA reports from SUs as well as FCGO/DTCOs on sample basis;
- c. Meeting/discussions with concerned personnel from the MoHP, departments, PPFM and FCGO;
- d. Observation of the system, recent improvements and the audit trail/uses of TABUCS;
- e. Analysis of internal and final audit data on sample basis;
- f. Review of the OAG annual audit report for FY 2018/19, comparing it with IA; and
- g. Sharing findings at the meeting of the PFM Committee and collection of feedback.

## CHAPTER 2: INTERNAL CONTROL SYSTEM

### 2.1 CONCEPT OF IC SYSTEM

This chapter describes international provision and practices of the MoHP on IC. The internal control system has been developed and implemented through the involvement of all levels of personnel and entities. IC is concerned with the functioning of the public body to identify and properly address the operational risk in achieving its mission. The internal control system ensures the credibility of financial reporting and that the operation is economic, efficient and effective with compliance. IC also ensures the safeguarding and mobilisation of properties and the settlement of AQs by its offices or agencies and subordinate offices. IC systems estimate probable risk and provide measures for its mitigation.

**Figure no. 2.1 IC System**



### 2.2 INTERNATIONAL CONCEPT

Internal control as a codified concept originated in the private sector in the United States of America in the 1980s in response to cases of fraudulent financial reporting. The organisation to emerge and lead was the Committee of Sponsoring Organizations of the Treadway Commission – better known worldwide today as COSO. COSO was organised in 1985 to sponsor the National Commission on Fraudulent Financial Reporting, an independent private sector initiative that studied the causal factors that can lead to fraudulent financial reporting. It also developed recommendations for public companies and their independent auditors, for the Securities Exchange Commission (SEC) and other regulators, and for educational institutions<sup>2</sup>.

As COSO was a private sector initiative, a public sector response was developed by the International Organization of Supreme Audit Institutions (INTOSAI), which culminated in the publication of an International Standard of Supreme Audit Institutions (ISSAI) on IC in 1992 and later in 2001. The standard was INTOSAI 9100 – Guidelines for Internal Control Standards for the Public Sector<sup>3</sup>.

As the Office of the Auditor General (OAG) of Nepal is an active member and participant in INTOSAI, the applicable standard for IC is INTOSAI 9100. The INTOSAI Guidelines for Internal Control Standards take into account all relevant and recent evolutions in IC and incorporate the concept of the COSO report “Internal Control – Integrated Framework” into the INTOSAI document.

The 1992 ISSAI defines "Internal Control as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance of the achievement of objectives in the following categories<sup>4</sup>:

- i. Effectiveness and efficiency of operations;
- ii. Reliability of financial reporting; and
- iii. Compliance with regulations.”

<sup>2</sup> <https://www.coso.org/Pages/aboutus.aspx>

<sup>3</sup> <http://www.intosai.org/issai-executive-summaries/detail/intosai-gov-9100-guidelines-for-internal-control-standards-for-the-public-sector.html>

<sup>4</sup> Internal Control Guidelines, 2075, Ministry of Health and Population, Page no. 2

## 2.3 INTOSAI AND ASOSAI

INTOSAI, an umbrella organisation of Supreme Audit Institutions (SAIs), was established in 1953 as a specialised agency of the United Nations. INTOSAI is an autonomous, independent, professional and non-political organisation established as a permanent institution. Its purpose is to:

- provide mutual support to SAIs;
- foster the exchange of ideas, knowledge and experiences;
- act as a recognised global public voice of SAIs within the international community;
- set standards for public sector auditing;
- promote good national governance; and
- support SAI capacity development, cooperation and continuous performance improvement.

The Governing Board of the Asian Organization of Supreme Audit Institutions (ASOSAI), as one of the regional groups of the INTOSAI, was established in 1979 with 11 charter members. ASOSAI primarily aims to promote understanding and cooperation among its members through the exchange of ideas and experiences in the field of public audit. Nepal became a member of INTOSAI in 1968 and a charter member of ASOSAI in 1979.

## 2.4 INTOSAI CONCEPT OF IC

INTOSAI Standard 9100 states that: "Internal control is an integral process that is effected by an entity's management and personnel and is designed to address risks and to provide reasonable assurance that in pursuit of the entity's mission, the following general objectives are being achieved"<sup>5</sup>:

- executing orderly, ethical, economical, efficient and effective operations;
- fulfilling accountability obligations;
- complying with applicable laws and regulations;
- safeguarding resources against loss, misuse and damage.

IC is a dynamic integral process that is continuously adapting to the changes an organisation is facing. Management and personnel at all levels have to be involved in this process to address risks and to provide reasonable assurance of the achievement of the entity's mission and general objectives.

Key points to note from INTOSAI Standard 9100 are<sup>6</sup>:

- The main difference between INTOSAI Standard 9100 and the COSO Framework is the inclusion of safeguarding of resources as a general objective of IC in the INTOSAI standard.
- IC is an inclusive and integral process. Everyone at all levels must be involved and it touches upon all activities of an entity.
- IC is intended to address risks that can compromise the achievement of objectives.
- IC should provide reasonable assurance
- IC should continually adapt to change.

## 2.5 COMPONENTS OF IC

IC is designed to provide reasonable assurance that the entity's general objectives are being achieved. Therefore, clear objectives are a prerequisite for an effective IC process. The control environment is the foundation for the entire IC system: it provides the discipline, structure and climate that influence the overall quality of IC. It has an overall influence on how strategy and objectives are established, and control activities are structured. As set out in the INTOSAI definition, IC consists of five<sup>7</sup> interrelated components:

### Figure 2.2 Components of International Control

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<sup>5</sup> INTOSAI GOV 9100, Guidelines for Internal Control Standards for the Public Sector, Page no. 6

<sup>6</sup> DFID/Nepal Health Sector Programme-3 (NHSP3), Independent Review of Internal Audit and Internal Control in the Federal Ministry of Health and Population, March 2019, Page no. 13 of 44.

<sup>7</sup> INTOSAI GOV 9100, Guidelines for Internal Control Standards for the Public Sector, Page no. 13



IC is a broad and pervasive concept, which should be recognised in guidelines while acknowledging the inherent need to adapt IC to changes over time. COSO and INTOSAI agree on the five overlapping and interrelated components of IC as set out below:

**Table: 1 Components of IC**

	Components of IC	Elements <sup>8</sup>
1.	<b>Control Environment</b>	Control Environment is the foundation for the entire IC system, comprising: <ol style="list-style-type: none"> <li>(1) the personal and professional integrity and ethical values of management and staff, including a supportive attitude toward IC at all times throughout the organisation;</li> <li>(2) commitment to competence;</li> <li>(3) the “tone at the top” (i.e. management’s philosophy and operating style);</li> <li>(4) organisational structure;</li> <li>(5) human resource policies and practices.</li> </ol>
2.	<b>Risk Assessment</b>	Risk assessment involves identifying risks to the achievement of the entity’s objectives and determining the appropriate response: <ol style="list-style-type: none"> <li>(1) risk identification:               <ul style="list-style-type: none"> <li>• related to the objectives of the entity;</li> <li>• comprehensive;</li> <li>• includes risks resulting from both external and internal factors, at both entity and activity levels;</li> </ul> </li> <li>(2) risk evaluation:               <ul style="list-style-type: none"> <li>• estimating the significance of a risk;</li> <li>• assessing the likelihood of a risk occurring;</li> </ul> </li> <li>(3) assessment of the risk appetite of the organisation;</li> <li>(4) development of responses:               <ul style="list-style-type: none"> <li>• four types of responses to risk must be considered: transfer, tolerance, treatment or termination; of these, risk treatment is the most relevant to these guidelines because effective IC is the major mechanism to treat risk;</li> <li>• the appropriate controls involved can be either detective or preventive.</li> </ul> </li> </ol>

<sup>8</sup> INTOSAI GOV 9100, Guidelines for Internal Control Standards for the Public Sector, Page no. 17–40

3.	<b>Control Activities</b>	<p>Control activities occur throughout the organisation, at all levels and in all functions. They include a range of detective and preventive control activities as diverse, for example, as:</p> <ol style="list-style-type: none"> <li>(1) authorisation and approval procedures;</li> <li>(2) segregation of duties (authorising, processing, recording, reviewing);</li> <li>(3) controls over access to resources and records;</li> <li>(4) verifications;</li> <li>(5) reconciliations;</li> <li>(6) reviews of operating performance;</li> <li>(7) reviews of operations, processes and activities;</li> <li>(8) supervision (assigning, reviewing and approving, guidance and training).</li> </ol> <p>Entities should reach an adequate balance between detective and preventive control activities.</p> <p>Corrective actions are a necessary complement to control activities in order to achieve the objectives.</p>
4.	<b>Information and Communication</b>	<p>Information and communication are essential to realising all IC objectives.</p> <p><b>Information:</b> A precondition for reliable and relevant information is the prompt recording and proper classification of transactions and events.</p> <p>Pertinent information should be identified, captured and communicated in a form and timeframe that enables staff to carry out their IC and other responsibilities (timely communication to the right people). Therefore, the IC system as such and all transactions and significant events should be fully documented.</p> <p>Information systems produce reports that contain operational, financial and non-financial, and compliance-related information and that make it possible to run and control the operation. They deal not only with internally generated data, but also information about external events, activities and conditions necessary to enable decision-making and reporting.</p> <p>Management’s ability to make appropriate decisions is affected by the quality of information, which implies that the information should be appropriate, timely, current, accurate and accessible.</p> <p><b>Communication:</b> Effective communication should flow down, across, and up the organisation, throughout all components and the entire structure.</p> <p>All personnel should receive a clear message from top management that control responsibilities should be taken seriously. They should understand their own role in the IC system, as well as how their individual activities relate to the work of others.</p> <p>There also needs to be effective communication with external parties.</p>
5.	<b>Monitoring</b>	<p>IC systems should be monitored to assess the quality of the system’s performance over time. Monitoring is accomplished through routine activities, separate evaluations or a combination of both.</p> <p><b>Ongoing monitoring:</b> Ongoing monitoring of IC is built into the normal, recurring operating activities of an entity. It includes regular management and supervisory activities, and other actions personnel take in performing their duties.</p> <p>Ongoing monitoring activities cover each of the IC components and involve action against irregular, unethical, uneconomical, inefficient and ineffective IC systems.</p> <p><b>Separate evaluations:</b> The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures.</p> <p>Specific separate evaluations cover the evaluation of the effectiveness of the IC system and ensure that IC achieves the desired results based on predefined methods and procedures. IC deficiencies should be reported to the appropriate level of management.</p>

		Monitoring should ensure that audit findings and recommendations are adequately and promptly resolved.
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## 2.6 LEGAL PROVISION ON IC SYSTEMS IN NEPAL

- 1) **Constitution of Nepal, 2015:** The Constitution of Nepal is the main legal source for IC systems in Nepal. The Constitution provisioned financial procedures for all three tiers of government<sup>9</sup> to implement the federal system and specified standards for financial discipline and accountability. To implement fiscal federalism, the Constitution provides a mandate to perform necessary acts to execute the powers assigned to all three tiers of government in the country. The Constitution has separate provision for financial procedures for federal, provincial and local governments and provides a constitutional guarantee in mobilising resources, fund management, public expenditure, accounting, IC, reporting and auditing components of PFM. The Constitution has assigned fiscal authority to the federal, provincial and local levels<sup>10</sup> and sources of revenue shall be shared according to the following criteria<sup>11</sup>. Schedules 5–9 of the Constitution have provisioned the powers and concurrent powers of the federation, provinces and local levels<sup>12</sup>. Each level of government shall enact laws to implement sole power (Annexes 5, 6 and 8) assigned to each respective level. Powers to be considered by both the federation and provinces are declared under the Concurrent List (Schedule 7); those that concern both provinces and the local levels (Schedule 9) shall be enforced in accordance with federal and provincial laws.
- 2) **Financial Procedures Rules, 2007 (2064):** These rules state that each ministry, secretariat, constitutional body and departmental head shall prepare an IC system as per the nature of their respective functions so as to: accomplish the function supposed to be accomplished by themselves and the subordinate agencies in an economical, efficient and effective manner; make the financial reporting system reliable; accomplish their function in accordance with the prevailing law; and implement the same within one year of the commencement of these rules. While preparing the IC system, provision of necessary matters in consonance with the nature of unit-wise functions shall be set forth in which subjects such as the control environment, risk assessment, information and communication and monitoring shall be covered. The concerned ministry, secretariat, constitutional body and departmental head shall, for the purpose of monitoring the IC system, make arrangements for monitoring by specifying a responsible official<sup>13</sup>.
- 3) **Financial Procedure and Fiscal Accountability Act (FPFAA), 2019 (2076):** The GoN has recently enforced the FPFAA, 2019 (2076). This Act ensures that the federal financial management system is transparent and accountable, maintaining macroeconomic stability in the country, and provides guidelines to provincial and local governments in financial management. Some new initiatives of the act are as follows:
  - I. **Umbrella Act:** This Act has been assumed as an umbrella act that will be implemented across all provinces and local governments.
  - II. **Preparation and Dissemination of Integrated Financial Statements:** The FCGO should prepare an integrated financial statement and send to it the Ministry of Finance (MoF). The MoF should disseminate the financial statement within month of Poush (Clause 5 of the Act).
  - III. **Medium Term Expenditure Framework (MTEF):** The act states that all spheres of government are to prepare an annual MTEF covering a three-year period (Clause 6 of the Act).

<sup>9</sup> Chapter 10 of the Constitution of Nepal describes federal financial procedures, chapter 16 describes provincial financial procedures and chapter 19 describes local-level financial procedures

<sup>10</sup> Article no. 59 of the Constitution

<sup>11</sup> Article no. 60 of the Constitution

<sup>12</sup> Schedules 5–9 of the Constitution

<sup>13</sup> Financial Procedures Rules, 2007 (2064), clause no. 91

- IV. **Concept of Project Bank:** There will be a project bank held by the National Planning Commission (NPC). The concerned ministry should enter projects as prescribed by the NPC (Clause 17 of the Act).
- V. **Performance Contract:** The Departmental Chief, or responsible person under the Secretary and Office-Chief, or responsible person under the Departmental Chief, should performance contract with necessary returns indicators for the execution of budget and programmes (Article no. 19(5) of the Act).
- VI. **Surrender of Unspent Budget:** The Chief Responsible Officer (Secretary) should surrender any budget that has not been spent within the second trimester, or will not be spent in the remaining period of the FY, to the MoF before Chitra 15 (near the end of March) (Article no. 21(3) of the Act).
- VII. **Monitoring and Evaluation:** The Minister and Secretary should monitor and evaluate their projects and programmes every trimester and budget execution each month (Article no. 23(1) of the Act).
- VIII. **Economical Spending:** Public (GoN) money should be spent economically, with a high return of means/resources and quality (Article no. 24(2) of the Act).
- IX. **Payment Period:** If documents received fulfil all legal provisions, payment should be made within 15 days under the budget limit (Article no. 24(3) of the Act).
- X. **IC System:** All offices at federal, province and local levels should develop and execute the IC system for their own and subordinate offices (Clause 31(1) of the Act).
- XI. **Supervision of IC System:** The Chief Responsible Officer (Secretary), either him/herself or through the senior officer, should regularly supervise the effectiveness of the execution of the IC system (Clause 31(2) of the Act).
- XII. **Audit and Internal Control Committee:** There shall be a five-member Audit and Internal Control Committee, under the convenorship of the Secretary or designated senior most officer, in each ministry, to implement IC, execute IA and produce a final audit report (Clause 31(2) of the Act).
- XIII. **IA:** Clauses 33 and 34 of the Act detail provision on IA. The new Act defines IA more comprehensively and rationally than its predecessor, expanding its scope to include regularity, economy, efficiency and effectiveness. The internal auditor should comply with the code of conduct of integrity, objectivity, confidentiality and competency while conducting IA. In order to make IA independent, fair and effective, the FPF AA, 2019, authorises the FCGO to depute accounting staff as internal auditors for a minimum timeframe. This Act places an emphasis on IA, stating that the OAG should take reference of the IA report (Clause 35(2)). This was not mentioned in the previous Act.
- XIV. **Final Audit:** There is provision on final audit and its response procedures (Clauses 35–43 of the Act).
- XV. **Focus on Fiscal Accountability and Responsibility:** There is a separate chapter for Fiscal Accountability and Responsibility in the new FPF AA. This Act states that it is the duty of a Minister to: maintain fiscal accountability for the selection of projects/programmes; prepare the Medium-term Expenditure Framework (MTEF), budget proposals, protection and management of public property; and surrender the budget and monitoring of the planning and programmes of the ministry. Similarly, the Account Responsibility Officer (Secretary) is responsible for keeping accounts, expenditure and clearance of AQs (chapter-9, Clause no. 50 of the Act).

- XVI. **Financial Statements Published:** The offices should make financial statements public within 7 days of the time stipulated for the preparation of such statements, either electronically or by other adequate means (Clause 56 of the Act).
  - XVII. **Departmental Action:** Departmental action will be taken on those personnel who fail to achieve as mentation physical progress target percent and spending (Clause 57(4) of the Act).
  - XVIII. **Execution of Financial Administration:** The FCGO will be responsible for the mobilisation and management of human resources in financial administration to related accounts according to this act (Clause 60 of the Act).
  - XIX. **Related to Financial Procedures Guidelines:** While preparing rules related to financial procedures, provincial and local governments should not evade this act (Clause 61 of the Act).
- 4) Other Rules:** There are many other GoN rules that are related to IC. These include:
- I. Audit Act (AA), 2019 (2075);
  - II. Public Procurement Act (PPA), 2007 and Public Procurement Regulations (PPR, 2007);
  - III. Travel Regulations, 2007 (2064);
  - IV. Good Governance Act, 2008 (2064) and Regulations, 2009 (2065);
  - V. Internal Audit Guidelines, 2016 (2073), FCGO;
  - VI. Civil Service Act, 1993 (2049) and Regulations, 1994 (2050);
  - VII. Nepal Health Service Act, 1997 (2053) and Regulations, 1999 (2055);
  - VIII. Anti-Corruption Act, 2002 (2059).

#### **5) Provincial and local government initiatives**

The Constitution has mandated both provincial and local governments to formulate their financial legislation. Some provincial and local governments have enacted the Financial Procedure Act (FPA) to ensure correct financial procedures and financial discipline, compliance and integrity. There are some issues around coherent financial practices, procedures and compliance across federal government and Subnational Governments (SNGs).

### **2.7 IC SYSTEM IN MoHP**

#### **A. Guidelines and Directives:**

##### **1) Internal Control Guidelines:**

The Internal Control Guideline, 2014 (2070) was formulated by the MoHP in January 2014 (Magh 2070), in accordance with the provision of Rule 95(1) of the GoN's Financial Procedure Regulation. Its objective was to ensure good governance in the provision of health facilities to the people of Nepal; this was to be achieved through effective structural organisation, including job descriptions for each authority, citing their rights and accountability, formulation of budget, power of attorney to spend, matters of budget release, financial transaction, procurement process, operation of accounts, and marinating their documents, and proper mobilisation of means and resources under the ministry. The MoHP was the first ministry to formulate such IC guidelines; some other ministries followed. Later, in July 2018 (Asad, 2075), the guideline was updated and implemented.

This guideline was enforced with the purpose of recognising the risks associated with the operational processes of the MoHP and identifying mitigating measures; perform the assigned duties and activities in economic, efficient, result-oriented approach; to reduce fiduciary risk; to prepare credible financial statements, to settle AQs raised in audit; by implementing the IC in the ministry and subordinate offices. In February 2019 (Magh, 2075), the FCGO formulated Internal Control System Directives, 2019 for all ministries, suggesting that they each develop their own IC system in accordance with these directives. In the meantime, on 11 October 2019 (2076/06/24) the GoN rolled out the new Financial

Procedural and Fiscal Accountability Act, 2019. The PFM Committee of the MoHP has taken the initiative to improve and update the Internal Control System Directives for the MoHP and its subordinate offices in light of the FCGO Internal Control System Directives, 2019 and new Financial Procedural and Fiscal Accountability Act, 2019. It is now in the process of being updated.

**2) Audit Clearance Guidelines:**

With the objective of reducing AQs against the audited amount and clearing cumulative AQs, the MoHP developed and implemented the Audit Clearance Guidelines in January 2014 (Magh 2070). After implementation of these guidelines there seems to have been reform in audit and AQ clearance (see Tables 4.1 and 4.3).

**3) Fiscal Supportive Handbook (Training Manual):**

With the objective of ensuring good governance in financial management, the MoHP developed and implemented the Fiscal Supportive Handbook in September 2015 (Bhadra, 2072). It a training manual covering all aspects of financial guidelines for financial transactions.

**4) TABUCS User Manual:** The TABUCS user manual was developed in 2013 for the proper use of TABUCS in financial transactions. It has since been updated.

**B. Committees:**

**5) Audit and Internal Control Committee:**

The MoHP constituted the Audit Committee under the convenorship of the Secretary in April 2012 (Baishak, 2069). Similarly, the Audit Support Committee was formed under the convenorship of the AD Division Chief to implement effectively the external and IA reports, to enhance compliance and to maintain fiscal discipline. All three departments (DoHS, Department of Ayurveda (DoA) and Department of Drug Administration (DoDA)) have Audit Support Committees to implement the audit reports of the departments and subordinate offices. Recently, on 21 June 2020 (7 Ashar, 2077) the MoHP formulated an Audit and Internal Control Committee under the convenorship of the Secretary as per the Financial Procedure and Fiscal Accountability Act, 2019.

**6) PFM Committee:**

MoHP has a PFM Committee (formed in August 2012/Bhadra, 2069) under the convenorship of the Policy, Planning, and Monitoring Division (PPMD) Chief. The committee has representation from External Development Partners (EDPs). The PFM Committee discusses performance in the financial sector and recommends reform guidelines for PFM reform in the MoHP. The committee meetings run every trimester.

**7) Consolidated Annual Procurement Plan Monitoring Committee (CAPP-MC)**

There is a CAPP-MC under the convenorship of the Director General of the DoHS. This committee is responsible for overseeing the effective implementation and monitoring of the CAPP to ensure the timely procurement and distribution of medicine, medical goods/equipment and services in the devolved context. The committee meets every trimester.

**8) TABUCS Implementation Unit (TIU):**

MoHP formed the TIU in October 2013 (Kartik, 2070) under the convenorship of the Finance Chief of the MoHP. All three departments' Finance Chiefs are also members of this unit committee, which is responsible for the proper implementation and monitoring of TABUCS and reports to the PFM Committee and the Secretary of the MoHP.

**C. Financial Plans:**

**9) FMIP/PFMSF:**

The MoHP FMIP was first developed in December 2012 and was last updated in January 2017. The PFMSF replaced the FMIP and was endorsed by the MoHP on 19 July 2020 (2077.04.04). The PFMSF covers overall financial activities, including IC, and has eight outputs/key objectives: (i) improvement

in budget and programme procedure, (ii) performance-based resource allocation, (iii) strengthened IC system, (iv) improved financial and management accounting, (v) improved public procurement, (vi) audit and external scrutiny, (vii) improved asset management, and (viii) improved institutional and HR capacity.

**10) IAIP:**

The MoHP developed the IAIP (2017–2021) in May 2017 to strengthen the MoHP's current practices in planning, accounting procedures, IC system, IA, and financial reporting. The MoHP has developed a platform in TABUCS to record IA reports, action taken on the same and reporting. It further intends to enhance the capacity of human resources working in financial management. The development and implementation of the IAIP has contributed to the process of institutionalising the IA functions at the MoHP.

**11) Procurement Improvement Plan (PIP)/PPSF:**

The MoHP PIP was first developed in April 2014 and was last updated in November 2017. The Public Procurement Strategy Framework (PPSF), which will replace the PIP, has seven strategic outputs: (i) institutionalised/improved pre-bid information system, (ii) improved procurement planning and monitoring, (iii) strengthened standard procurement, (iv) improved contract management (v) strengthened supply chain management (vi) improved quality assurance (vii) enhanced professional capacity.

**12) Consolidated Annual Procurement Plan (CAPP):**

In accordance with the provisions of the PPA, 2007 and PPR, 2007, the MoHP has been developing a CAPP every year; the CAPP is used for implementation and monitoring to ensure timely procurement and distribution of medical goods and services. The Electronic Consolidated Annual Procurement Plan (e-CAPP) was developed to expedite service delivery from the MoHP through fair, transparent and competitive procurement of drugs and medical equipment. The MoHP has developed a mechanism for monitoring the preparation and implementation of procurement through TABUCS. In e-CAPP, there are detailed guidelines on preparing procurement plans, specifications of drugs and medical equipment and procedures of e-procurement.

**D. Other Systems:**

**13) Accounting Application – TABUCS:**

TABUCS was first implemented by the MoHP in October 2013 and has since been updated from time to time. This application captures budgeting and planning, accounting, reporting and monitoring, and the implementation of the internal and external audit reports. It generates all reporting statements automatically once transactions have been entered into TABUCS. The MoHP has provided training on the use of TABUCS through the National Health Training Centre (NHTC) to around 800 staff members, including Office In-charges, over the last seven years. TABUCS is effective in maintaining accounts, preparing financial statements and providing information for timely evidence-based decision-making in the ministry. The FCGO is currently developing integrated accounting software for all government sector offices. After commissioning of this software, TABUCS will be modified to ensure its compatibility.

**14) Monitoring and Reporting:**

The MoHP has been preparing Financial and Monitoring Reports (FMRs) every trimester from TABUCS, which are reconciled with FCGO financial data. The FMRs are then submitted to EDPs, to be used for EDPs' funding reimbursement. Besides this, the MoHP prepares an annual financial statement, which is certified by the Financial Comptroller General and presented to the OAG; this is known as the Audited Financial Statement. The MoHP receives the Audited Financial Statement after certification by the OAG with the audit report; it is then distributed to EDPs.

**15) Record of Unsettled AQs in TABUCS:**

The details of unsettled audit queries for 2003/04 (2060/61) to 2011/12 (2068/069) are uploaded into TABUCS. The process of uploading the details of the audit backlog and uncreated audit queries before FY 2003/04 (060/061) is in its final stage. It is now possible to monitor spending-unit-wise unsettled AQs by the related Office In-charge, department and ministry. The MoHP is now initiating the upload of audit reports and action taken upon the same in TABUCS from FY 2012/13 (2069/70) onwards.

- 16) **Capacity development:** Various types of training and workshop activities are conducted at government level, and technical and financial support is provided by EDPs for building the capacity of office heads and financial administration staff in PFM.

## CHAPTER 3: INTERNAL AUDIT

This chapter describes national and international provisions and MoHP practices on IA functions: recording of internal AQs, reporting, response time, identification of risks and their mitigation measures, and institutionalisation of the entire process at the MoHP.

### 3.1 INTERNATIONAL PROVISION ON IA

INTOSAI<sup>14</sup> and the Institute of Internal Auditors (IIA)<sup>15</sup> define IA as “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes”<sup>16</sup>.

**Independence** can be generally defined as freedom from dependence on, or influence or control by, another person, organisation, or state. Internal auditors work for, and primarily report to, the audited entity. For internal auditors, independence is the freedom from conditions that threaten the ability of the IA activity or the Chief Audit Executive (CAE) to carry out IA responsibilities in an unbiased manner. Independence permits internal auditors to render the impartial and unbiased judgments essential to the proper conduct of engagements.

**Objectivity** is defined in the IIA Standards as an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they have an honest belief in their work product and that the quality of their work is not compromised in any way. The IIA Standards also state that objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity, such as possible conflicts of interests, must be managed at the individual auditor, engagement, functional, and organisational levels, and disclosed as necessary<sup>17</sup>.

The public sector IA function is an element of a strong public sector governance foundation. Most public sector internal auditors also play a role in their entity’s accountability to the public as part of the check-and-balance process.

The IA function can be organised and performed at various levels within an entity, or within a broader framework that covers a set of similar entities. The same principles and rules apply to these different organisational levels of internal auditing.

#### **Models for Resourcing Internal Auditing:**

There are various models for resourcing an IA activity. These include<sup>18</sup>:

- i. **In-house:** IA services are provided exclusively or predominantly by in-house employees of the organisation. The IA activity is managed in-house by an employee of the organisation.
- ii. **Co-sourced:** IA services are provided by a combination of in-house employees and service providers. The IA activity is managed in-house by an employee of the organisation.
- iii. **Outsourced with in-house management:** IA services are provided by service providers contracted to the organisation for this purpose. The IA activity is managed in-house by an employee of the organisation, and
- iv. **Fully outsourced:** All IA services are provided by service providers contracted to the organisation for this purpose. The service provider also manages the IA activity. Project management of the service provider contract is done in-house by an employee of the organisation.

#### **IIA - International Professional Practices Framework (IPPF)**

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<sup>14</sup> <http://www.intosai.org/about-us.html>

<sup>15</sup> <https://global.theiia.org/Pages/globaliiaHome.aspx>

<sup>16</sup> <https://global.theiia.org/standards-guidance/mandatory-guidance/Pages/Definition-of-Internal-Auditing.aspx>

<sup>17</sup> INTOSAI GOV 9140, Internal Audit Independence in the Public Sector, Page no. 3

<sup>18</sup> INTOSAI GOV 9140, Internal Audit Independence in the Public Sector, Page no. 3

The IPPF is the conceptual framework that organises authoritative guidance promulgated by The IIA<sup>19</sup>. The IIA provides IA professionals worldwide with authoritative guidance organised in the IPPF as mandatory guidance and recommended guidance. The updated framework was introduced in July 2015. The IPPF mandatory components are<sup>20</sup>:

- **Core principles** for the professional practice of internal auditing
  - Demonstrates integrity.
  - Demonstrates competence and due professional care.
  - Is objective and free from undue influence (independent).
  - Aligns with the strategies, objectives, and risks of the organisation.
  - Is appropriately positioned and adequately resourced.
  - Demonstrates quality and continuous improvement.
  - Communicates effectively.
  - Provides risk-based assurance.
  - Is insightful, proactive, and future-focused.
  - Promotes organisational improvement.
- **Definition of Internal Auditing** (See page **Error! Bookmark not defined.**, paragraph **Error! Reference source not found.** above)
- **Code of Ethics**<sup>21</sup> – this covers personal and professional standards in respect of ethical behaviour and maintenance of competence. The Code is set in full (one page only) at **Error! Reference source not found.** The code applies to both entities and individuals that perform IA services.
- **International Standards for the Professional Practice**<sup>22</sup> (IPPF) of Internal Auditing (Standards) which comprises:
  - Attribute standards, which address the characteristics of organisations and parties performing IA activities; and
  - Performance standards, which describe the nature of IA activities and provide criteria against which the performance of these services can be evaluated.

### IA – International Standards

In the Public Sector there are two mutually reinforcing international standards for IA. The standards are developed, published and maintained by the IIA and the INTOSAI. The Nepal OAG is a member and active participant in INTOSAI. The applicable international standards on IA are the IPPF<sup>23</sup> of IIA and INTOSAI 9140 (Internal Audit Independence in the Public Sector)<sup>24</sup>.

### IA – INTOSAI 9140

INTOSAI 9140 was developed by the Internal Control Standards Committee of INTOSAI and was approved at the 20th Congress of INTOSAI in Johannesburg, South Africa, in 2010. Its purpose is to serve as a guideline and reference to problems related to independence and objectivity and to give provisions to achieve IA independence.

## 3.2 IA LEGAL PROVISIONS IN NEPAL

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<sup>19</sup> The World Bank and Organisation for Economic Co-operation and Development (OECD) are represented at Board Level in IIA  
<https://global.theiia.org/standards-guidance/mandatory-guidance/Pages/Standards.aspx>

<sup>20</sup> <https://na.theiia.org/standards-guidance/Pages/Standards-and-Guidance-IPPF.aspx>

<sup>21</sup> [https://global.theiia.org/standards-guidance/Public%20Documents/IPPF\\_Code\\_of\\_Ethics\\_01-09.pdf](https://global.theiia.org/standards-guidance/Public%20Documents/IPPF_Code_of_Ethics_01-09.pdf)

<sup>22</sup> Set out over two pages at **Error! Reference source not found.**

<sup>23</sup> <https://global.theiia.org/standards-guidance/Pages/Standards-and-Guidance-IPPF.aspx>

<sup>24</sup> <http://www.intosai.org/issai-executive-summaries/detail/intosai-gov-9140-internal-audit-independence-in-the-public-sector.html>

The FPFAA, 2019 and Financial Procedures Regulations (FPR), 2007 outline the IA functions to be carried out by the FCGO/DTCOs. All SUs functioning under the MoHP are responsible for providing financial documents to the DTCOs for IA. The IA functions that are included in the FPFAA and FPR are as follows:

### A. Responsibility for IA

As per the FPFAA, 2019 and FPR, 2007, the FCGO is responsible for carrying out IA as prescribed:

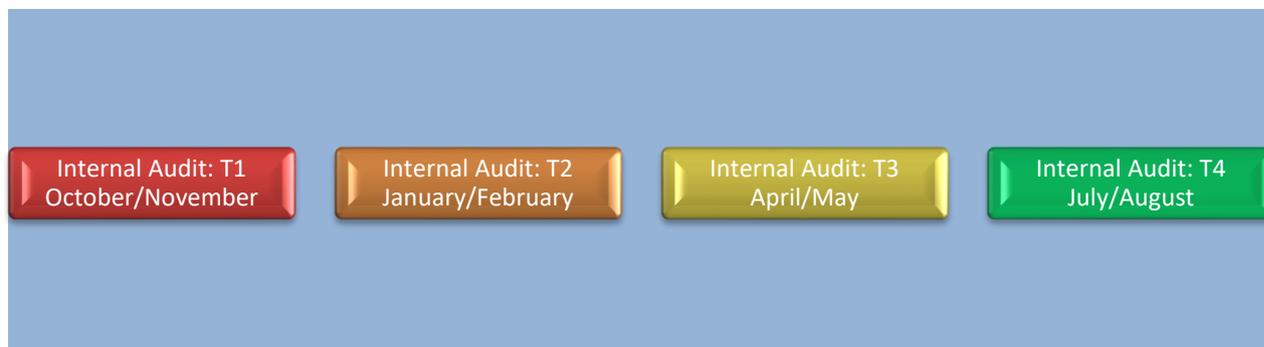
- The Office In-charge is responsible for IA of financial transitions including revenue, deposit, income and expenditure;
- The DTCOs shall conduct the IA of financial transition of the SUs (FPR, 2007, Rule 96[1]);
- The following procedures aligned with the IA directives endorsed and implemented by the FCGO, DTCOs are responsible for carrying out the IA (FPR, 2007, Sub-rule 96[1]). The IA shall determine: whether income and expenditure are maintained; whether financial resources are used in an economical, efficient, and effective manner; whether the targets of the Annual Work Plan and Budget (AWPB) have been achieved; and the effectiveness of IC system (FPR, 2007, Rule 96[2]).

### B. Internal Audit Directives

The Internal Audit Directives provide a detailed framework on objectives, scope, audit planning, procedures, audit checklist and reporting. The internal auditor follows the code of conduct enshrined in these directives (Internal Audit Directives, 2016, Clause 1.6). The details of the directives, which include possible risks, can be accessed at [www.fcgo.gov.np](http://www.fcgo.gov.np).

**I. IA process and timeline:** The DTCO should complete the IA in the field office every three months, within one month of the end of each trimester; the audit report should be submitted to the concerned office within one month of completing IA<sup>25</sup>.

**Figure 3.1: IA timeline**



**Source:** self-created

**II. Code of conduct:** Chapter Two of the Internal Audit Directives explains the code of conduct for internal auditors (FCGO, 2015). It includes the principles of integrity, objectivity, confidentiality and competency. There is a provision of a Monitoring Committee, chaired by the Joint Financial Comptroller General, to monitor compliance with the code of conduct. The code of conduct applies to both entities and individuals that perform IA services. This is consistent with the standards and guidance of the IPPF and IIA (see <https://global.theiia.org/standards-guidance/mandatory-guidance/Pages/Code-of-Ethics.aspx>).

**III. Possible risks:** Chapter Three of the Internal Audit Directives describes possible areas of risk for IA. During the IA plan, internal auditors should analyse possible risks while conducting the audit and provide suggestions to mitigate the risks. Risks includes non-compliance, incompetency and wrong intention. It has to be noted that the main concerns in Nepal are that the FCGO is not independent and that there is a lack of the requisite professional skill mix in IA functions.

<sup>25</sup> FPFAA, 2019, clause no. 33(4)

### **C. Response on IA report**

SUs shall be written off the records of internal AQs pointed out in the IA report before the final audit (FPR, Rule 96[3]).

### **D. Monitoring of IA report**

The Chief Accounting Officer (CAO), the MoHP Secretary, shall monitor SUs as regards whether the IA is conducted on time and whether AQs are being settled on time, and take departmental action against any responsible officer failing to settle AQs (FPR, 2007, Rule 96[4]). The DTCOs shall provide IA reports to concerned offices and forward reference copies to higher entities.

### **E. Settlement of internal AQs**

The Chiefs of SUs are responsible to clear the internal AQs. A written explanation shall be given to the final auditor if the SU fails to settle the internal AQs (FPR, Rule 96[7/8]). After the final audit, the internal AQs are deemed to be written-off automatically.

### **F. IAIP**

The MoHP developed the IAIP (2017–2021) in May, 2017 to strengthen the MoHP's current practices in planning, accounting procedures, IC system, IA, and financial reporting. It further intends to enhance the capacity of human resources working in financial management. The development and implementation of the IAIP has contributed to the process of institutionalising the IA functions at the MoHP.

## **3.3 NEW INITIATIVES IN IA**

**FPFAA, 2019:** The GoN has rolled out a new Financial Procedure and Fiscal Accountability Act, 2019 to regulate and systematise financial procedures at federal, provincial and local government levels. Some of the new initiatives are on IA are as follows:

- I. **IA responsibility:** The FCGO at federal level, Provincial Account Controller Office (PACO) at provincial level and IA section at Palika level are responsible for carrying out IA. Clause 34 of the FPFAA has incorporated the scope of IA at provincial and local government levels. The internal auditor should submit the integrated IA report to finance minister at federal level, concerned minister at provincial level and Mayor/Chair at Palika level. This act has mandated the FCGO to submit an integrated IA report within the first trimester. The provision of an independent CAE is a fundamental component of IA, as required by IIA and INTOSAI standards.
- II. **IA scope:** The FPFAA is more rational and satisfactory than its predecessor. The previous Act defined IA as the audit to be performed by the FCGO. It did not define the scope of IA uniformly. However, the new FPFAA, 2019 is more comprehensive, covering the scope of IA within the overall framework of evaluating the IC system. This act expands the scope of IA, which includes regularity, economy, efficiency and effectiveness. The internal auditor should comply with the code of conduct of integrity, objectivity, confidentiality and competency while conducting IA. The intentional omission of queries by the internal auditor related to regularity and accuracy shall be considered as basis for departmental action.
- III. **Audit and Internal Control Committee:** The FPFAA, 2019 provisions an Audit and Internal Control Committee, with a total of six members, including the Chair, chaired by the Secretary. This committee is responsible for monitoring performance, effectiveness and economy, reducing fiduciary risk, producing reliable financial statements and clearing the AQs. This helps to strengthen and improve the effectiveness of the IC system.
- IV. **Deputation of internal auditor:** In order to make IA independent, fair and effective, the FPFAA, 2019 authorises the FCGO to depute accounting staff as internal auditors for a minimum timeframe.
- V. **Emphasis on IA report:** The FPFAA, 2019 places an emphasis on IA and states that the OAG should take reference of IA report<sup>26</sup>. This was not mentioned in the previous Act.

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<sup>26</sup> Clause no. 35(2) of FPFAA, 2019

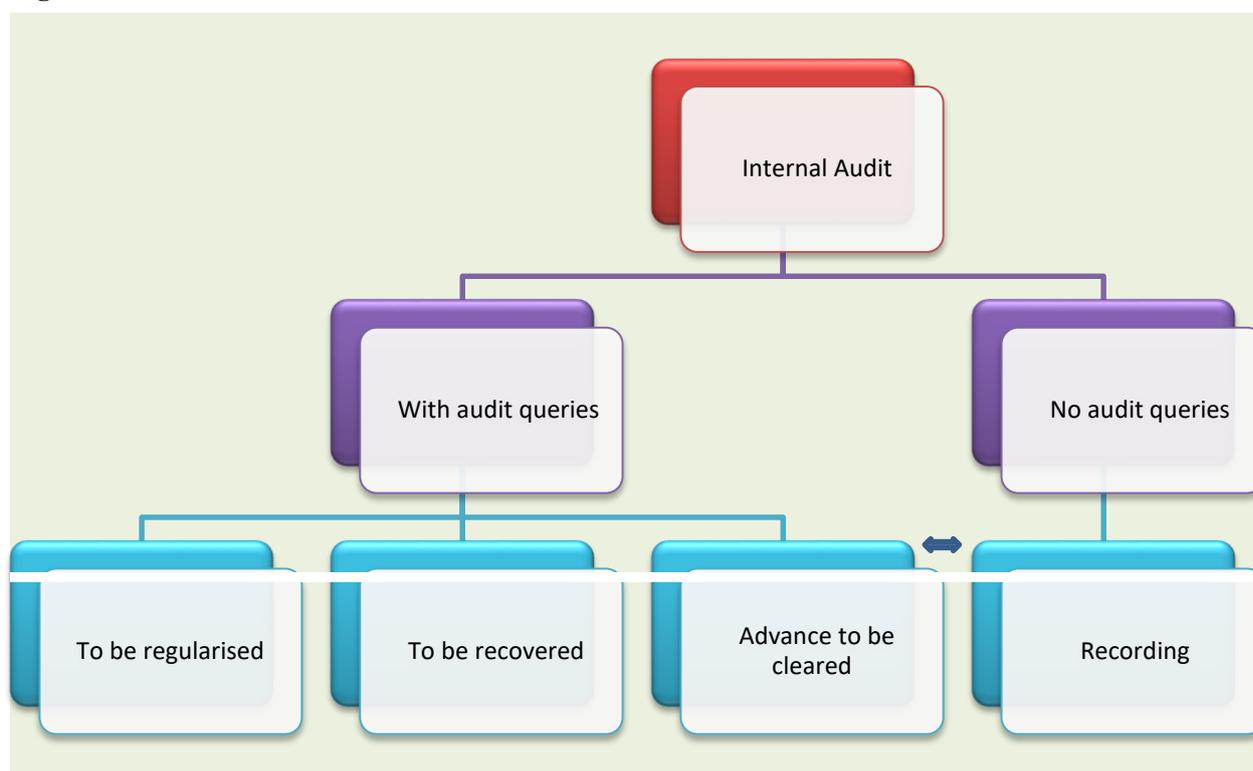
VI. **Record of IA:** The SUs and their central offices should maintain separate records of both internal and final audit<sup>27</sup>.

### 3.4 CURRENT PRACTICES

The current practice of conducting IA is included in the FPF AA, FPR, and Internal Audit Directives (FCGO). The MoHP’s Secretary (defined as CAO) is responsible for ensuring the proper utilisation of resources and maintaining financial discipline. Seven PACOs and 77 federal DTCOs are established under the FCGO. These are responsible for timely budget release and for carrying out IAs of government offices, including the MoHP’s SUs. PACOs and DTCOs are responsible for carrying out IAs of provincial and federal budgets respectively.

The record of IAs from the MoHP’s SUs was not available until FY 2015/16. In FY 2016/17, The MoHP began to capture the IA status of all SUs; the first IA status report was prepared in August 2018. The MoHP’s finance section maintains these records in TABUCS. The UK Foreign, Commonwealth & Development Office (FCDO) (/NHSSP is providing technical assistance to MoHP officials in updating IA status, instructing SUs to clear AQs within the stipulated time and uploading data onto TABUCS. This will help the MoHP to track the trends of internal AQs and response times.

**Figure 3.2 Audit Practice Flow**



**Source:** self-created

The FPR require that IA shall be conducted for revenue, deposit, income and expenditure of allocation or other public funds in SUs established in accordance with the prevailing law. The PACOs and DTCOs report to the respective SUs and are responsible for clearing AQs and implementing the recommendations in its report. The gathering of details of IA practices under the provincial treasury is in its initial stage. As prescribed in the FCGO’s Internal Audit Directives, the PACO and DTCO should perform an audit every trimester and issue its audit report regularly to government offices. However, in practice, reports are not issued regularly.

<sup>27</sup> Clause no. 38 of FPF AA, 2019

### 3.5 INFORMATION RELATED TO IA

#### A. IA Status of SUs:

There are a total of 120 SUs (governmental offices and hospitals/committees) in FY 2018/19 functioning under the MoHP for IA. Of these, the majority (117 SUs, 97.5%) completed their IAs for FY 2018/19. It is important to note that the National Trauma Centre, Singhdurbar Vaidhyakhana, Ramraj Prasad Shing Health Sciences Academy also failed to conduct their IA this FY.

B.P. Koirala Health Sciences Academy, Dharan, conducted IA through its own internal section. In accordance with the respective legislations, independent registered auditors conducted the IA at i) Nepal Health Research Council, ii) B.P. Koirala Memorial Cancer Hospital, Chitwan, iii) Shahid Gangalal National Heart Centre, iv) Patan Academy of Health Sciences, v) Karnali Academy of Health Sciences, and vi) National Academy of Health Sciences (Bir Hospital). A total of 120 SUs under the MoHP are required to conduct IA. All authorities that had conducted IAs sent their reports to the concerned authorities.

Figure 3.3: Number of SUs under MoHP

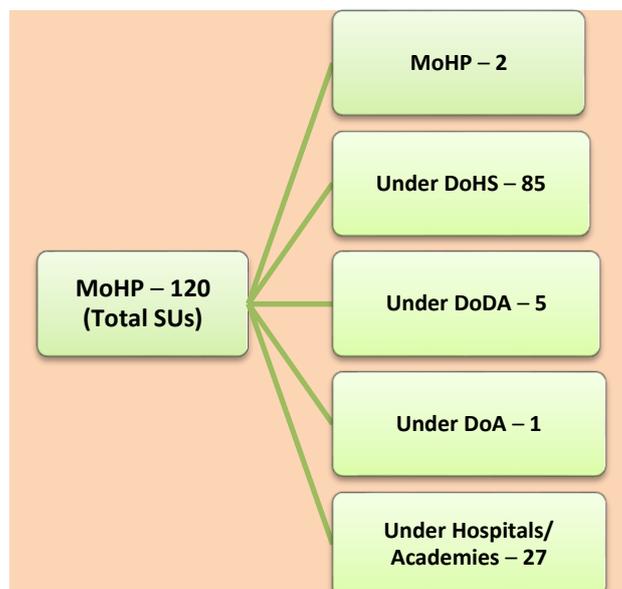


Table 3.1: Status of IA in MoHP SUs in FY 2018/19

SN	SUs Under	SUs	IA conducted by DTCO	IA conducted by independent auditor	IA not conducted
<b>A.</b>	<b>GoN Entities</b>				
<b>1</b>	<b>MoHP</b>	<b>2</b>	<b>2</b>	<b>0</b>	<b>0</b>
1.1	MoHP	1	1	0	0
1.2	Pashupati Homeopathic	1	1	0	0
<b>2</b>	<b>DoHS</b>	<b>85</b>	<b>85</b>	<b>0</b>	<b>0</b>
2.1	DoHS, (with 5 Divisions)	1	1	0	0
2.2	National and Regional Centres	7	7	0	0
2.3	District Health Office (DHO)/DPHO	77	77	0	0
3	DoDA and its entities	5	5	0	0
4	DoA and its entities	1	1	0	0
	<b>Sub Total (GoN)</b>	<b>93</b>	<b>93</b>	<b>0</b>	<b>0</b>
<b>B.</b>	<b>Hospitals/Academies/Boards/Councils</b>	<b>27</b>	<b>17</b>	<b>7</b>	<b>3</b>
	<b>Total</b>	<b>120</b>	<b>110</b>	<b>7</b>	<b>3</b>

Source: MoHP and FCGO, Audit report FY 2018/19

- From FY 2018/19 (2075/76) onwards, the National Academy of Health Science (Bir Hospital) started to conduct IA functions. Before this there was no IA in this hospital but this practice has been reformed.
- From FY 2017/18 onwards, the MoHP has been able to compile IA information by SUs using TABUCS. However, not all SUs are entering their IA data in TABUCS. The MoHP needs to ensure that all SUs enter IA observations into TABUCS. It is important to note that the revised TABUCS classification of observations is updated and linked to a framework based on the INTOSAI 9100 standard on IC in the public sector.

## B. Internal AQs

All SUs should comply with IA norms (FCGO, 2015). IA observations are broadly categorised into three observations, including the amount 'to be regularised', the amount 'to be recovered', and the 'advance' amount. Table 3.2 shows the categories of internal AQs, giving the total number of SUs (110), and SUs with (32) and without queries (78), audit conducted by DTCO.

**Table 3.2: Categories of Internal AQs for FY 2018/19 (2017/16)**

S N	SUs	Total SUs	SUs with audit queries	SUs without AQs	AQs amount (000 NPR)			
					To recover	To regular- ise	Advance	Total audit queries
	<b>Total</b>		<b>32</b>		<b>134,653</b>	<b>137,152</b>	<b>1,030,174</b>	<b>1,301,979</b>
<b>A.</b>	<b>GoN Entitles:</b>							
1)	<b>MoHP</b>	<b>2</b>	<b>2</b>	<b>0</b>	<b>129,968</b>	<b>428</b>	<b>1,592</b>	<b>131,988</b>
	MoHP	1	1	0	129,932	0	1,592	131,524
	Pashupati Homeopathic	1	1	0	36	428	0	464
2)	<b>DoHS</b>	<b>85</b>	<b>17</b>	<b>68</b>	<b>912</b>	<b>100,161</b>	<b>878,876</b>	<b>979,949</b>
	DoHS/Divisions	1	1	0	761	97,724	715,973	814,458
	National and Regional Centres	7	6	1	106	566	162,798	163,470
	DHO/DPHO	77	10	67	45	1871	105	2,021
3)	DoA and its entities	1	1	0	0	0	135	135
4)	DoDA and its entities	5	2	3	12	390	38,872	39,274
	<b>GoN Total</b>	<b>93</b>	<b>22</b>	<b>71</b>	<b>130,891</b>	<b>100,979</b>	<b>919,475</b>	<b>1,151,346</b>
	<b>GoN Percent</b>		<b>23.6%</b>	<b>76.4%</b>	<b>11.3%</b>	<b>8.8%</b>	<b>79.9%</b>	<b>100%</b>
<b>B.</b>	<b>Hospitals/Acade my</b>							
1)	Hospitals/Boards Academies/ Committees/ Councils	17	10	7	3,762	36,171	110,700	150,633
	<b>Hospital Total</b>	<b>17</b>	<b>10</b>	<b>7</b>	<b>3,762</b>	<b>36,171</b>	<b>110,730</b>	<b>150,663</b>
	Percent		<b>58.8%</b>	<b>41.2%</b>	<b>2.5%</b>	<b>24%</b>	<b>73.5%</b>	<b>100%</b>
	<b>Grand Total</b>	<b>110</b>	<b>32</b>	<b>78</b>	<b>134,653</b>	<b>137,152</b>	<b>1,030,174</b>	<b>1,301,979</b>
	<b>Total Percent</b>		<b>29%</b>	<b>71%</b>	<b>10.4%</b>	<b>10.5%</b>	<b>79.1%</b>	<b>100%</b>

**Source:** MoHP and FCGO, 2018/2019

- Table 3.2 indicates that 29 percent of SUs had internal AQs in FY 2017/18, while 71 percent did not.
- In total (GoN and hospitals), the proportion of the audited amount 'to be recovered' is 10.4 percent (0.1346 billion NPR). Table 3.2 demonstrates that about 10.5 percent (0.1371 billion NPR) of the audited amount comes under the amount 'to be regularised'. A significant portion of AQs against the audited amount falls under 'advance' (79.1%, 1.03 billion NPR).
- Importantly, 85.3 percent (0.8788 billion NPR) of total advance queries fall under the DoHS and its SUs. This is mainly due to Letters of Credit (LCs) to suppliers for the procurement of drugs and equipment. The details of status of IA queries are included in Annex 1.

## C. Response Practices

SUs are responsible for completing IA within the stipulated time, providing timely responses to the auditors' reports and recording in TABUCS. In the case of internal AQs, all SUs are required to clear their internal AQs before the final audit. But this has not happened in the past. As advance queries make up 79.1 percent of the total queries, the MoHP has prioritised clearing these advance queries. Table 3.3 provides a quick

glimpse of practices related to advance clearance. Out of 110 SUs, 32 had internal AQs, of which 16 had advance queries. The details of IA advance queries are included in Annex 1. Table 3.3 provides evidence on the practices related to advance queries and responses/clearances on sample base.

**Table 3.3: Internal AQs on Advances and their Responses (in FY 2018/19 (2075/76) Audit)**

SN	Entities	IA advance queries (Amount in 000 NPR)	Advance queries in final audit	Response/clearance before final audit
1.	MoHP	1,592	0	<b>1,592</b>
2.	National Tuberculosis Centre	47,821	306	<b>47,515</b>
3.	WR Tuberculosis Centre, Kaski	32	0	<b>32</b>
4.	National Aids and Sexual Disease Control Centre	113,715	10,8073	<b>5,642</b>
5.	Department of Ayurveda, Kathmandu	135	0	<b>135</b>
6.	Vector-born Disease Research Training Centre	30	0	<b>30</b>
7.	Kanti Child Hospital	2,980	0	<b>2,980</b>
8.	Bharatpur Hospital	27,625	0	<b>27,625</b>
	<b>Total</b>	<b>193,930</b>	<b>108,379</b>	<b>85,551</b>

Source: FCGO report, 2019 and OAG audit reports, 2020

Table 3.3 shows that out of 16 SUs with advance queries, only eight responded to or cleared queries before the final audit (external audit). These 8 SUs cleared about 44 percent (0.855 billion NPR) of such queries. It is important to note that all SUs should clear all AQs before the final audit. Out of eight SUs, a total of six (75%) have been able to provide a response rate of 100 percent (advances cleared) before the final audit.

### 3.6 INSTITUTIONALISATION

The MoHP has taken several reform initiatives to institutionalise IA practices in the health sector. The major initiatives include the formulation of the Audit Committee and PFM Committee, implementation of the IAIP, and electronic recoding of AQs in TABUCS. These have contributed to improving the indicators of financial discipline and compliance.

#### Recording of IA, Monitoring and Capacity Building:

The MoHP has made important arrangements to monitor the progress of IA in TABUCS. The requirements are included in the TABUCS user manual, which has been endorsed by the MoHP/TIU. The picture demonstrates that IA is now included in TABUCS. SUs enter internal AQs in the template below (Figure 3.4). The MoHP retrieves consolidated reports from SUs that have entered data into TABUCS. Importantly, TABUCS also provides trends of IA data. This will help the MoHP to analyse the nature of AQs and provide feedback to the concerned SUs. This is an effective tool, which will contribute to reducing practices related to cash advances and final AQs. The TIU needs to be proactive in taking action to ensure that all SUs enter their internal AQs into TABUCS. The current provision captures information from SUs functioning under the federal government.

Figure 3.4 is a screenshot showing the AQs entered by various SUs in TABUCS. This is one of the best options of for federal-level entities to monitor the progress made in IA.

**Figure 3.4: Internal AQs Entry Template in TABUCS**

Source: TABUCS screen shot.

**Figure 3.5: Internal AQs Report (Monitoring) Template in TABUCS**



Government Of Nepal  
Ministry of Health  
Internal Audit Completion report

Phone: 4223190  
: 4262106  
Fax: 4262468  
Email: info@mohip.gov.np

S. No.	Code	Office	Fiscal Year	First Trimester			Second Trimester			Third Trimester			Total Amount	REPORT SUBMIT DATE BY IA	Remarks					
				Audit Date	Report received Date	Regularize beruju	Recoverable beruju	Advance Amount	Audit Date	Report received Date	Regularize beruju	Recoverable beruju				Advance Amount	Regularize beruju	Recoverable beruju	Advance Amount	
1	01-370-01	District Health Office, Taplejung	2074/75											2075/04/18	2075/02/05	90.00			90.00	expenditure against budget head
2	01-370-02	District Ayurveda Health Center, Taplejung	2074/75											2075/05/04	2075/05/09					
3	02-370-01	District Health Office, Panchthar	2074/75											2075/04/22	2075/04/22					
4	02-370-02	District Ayurved Health Center, Panchthar	2074/75											2075/05/04	2075/05/09					
5	03-370-01	District Health Office, Ilam	2074/75											2075/04/06	2075/04/12					
6	03-370-04	Mechi Zonal Aurved Aushadhalaya, Ilam	2074/75											2075/04/04	2075/04/14					
7	04-370-01	District Public Health Office, Jhapa	2074/75											2075/04/23	2075/05/20		4.00	15.00	19.00	tax not deducted, advance
8	04-370-02	District Ayurbeda Aushadhalaya Centre, Jhapa	2074/75											2075/04/22	2075/05/10					
9	05-370-01	District Health Office, Sankhuwasava	2074/75											2075/04/02	2075/05/13			388.00	388.00	advance

Source: TABUCS screen shot

The MoHP can now review the status of IA and provide necessary support electronically. This will directly contribute to reducing audit observations during the final audit.

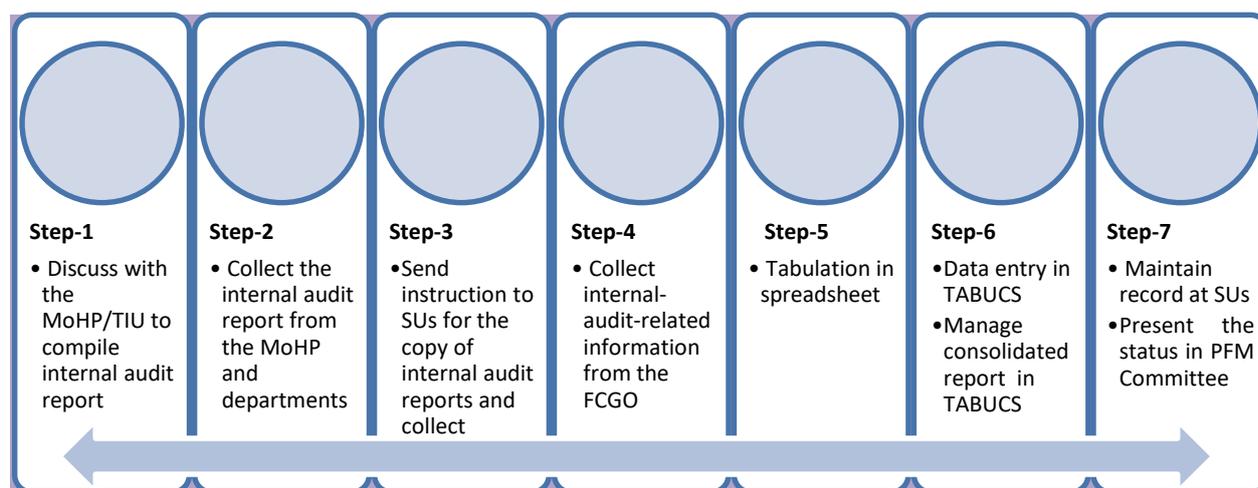
The MoHP/NHSSP has oriented officials on the IA function in TABUCS. MoHP officials can access the IA status report as and when required. The content of this menu is now also included in regular TABUCS training to account officers. In FY 2019/20, the MoHP/NHTC provided TABUCS training to 18 account officers from related SUs. This menu can be expanded to institutions, such as the Ministry of Urban Development, and provincial and local governments. The registration of observations is a definite benefit –

but only if these are analysed to help support PREVENTIVE strategies to stop the same issues arising again and again. There is a ‘detect and correct’ culture that should be changed.

### 3.7 CONSOLIDATION OF IA REPORT

The consolidation of IA reports from 120 SUs is one of the important tasks for the MoHP’s finance section. In FY 2018/19, the NHSSP provided technical support to MoHP to capture IA reports from all SUs. The details of the consolidated reports and data are presented in **Annex 1**. In order to receive and consolidate the internal AQ report from its SUs, the MoHP has defined the standard steps. These steps support those joining MoHP to receive and compile the IA report. The following picture shows the steps:

**Figure 3.6: Flow of Collecting IA Information**



Source: Self-created

### 3.8 ANALYSIS OF INDEPENDENT REVIEW ON IA AND IC

FCDO/NHSSP conducted an independent review of IA and IC in the MoHP from 4–29 March 2019<sup>28</sup>. This review highlighted some positives and strengths and presented recommendations on IA and IC in the MoHP.

#### A. Positives in IA:

A number of strengths are in place for the FCGO and MoHP to build a better approach to the implementation of IA<sup>29</sup>.

- 1) There is a strong, common and consistent consensus established over many studies and many years by a range of substantial stakeholders that reform of IA is needed.
- 2) The Financial Comptroller General and the Auditor General recognise and have reported the need for a system of licensing or professionalisation of IA.
- 3) Audit irregularities identified in the MoHP IA Report are rich in detail and if aggregated and analysed would potentially provide a partially scoped but substantial basis for the proposed MoHP IC Strengthening Strategy<sup>30</sup>.
- 4) This approach has potential for wider application in the Federal Government. The MoHP consolidated IA Report (August 2018) is a very good first step in this regard and with refinement of focus would serve this purpose very well.
- 5) Legal recognition of internal auditing is in place, thus change is not a matter of starting from scratch, but of evolution and development in line with modern requirements in Federal Nepal.
- 6) Core Principles as set out in the FCGO Internal Audit Guidelines are the same as set out in the IIA core principles. This is a mandatory part of meeting the IIA standards.

<sup>28</sup> FCDO/Nepal Health Sector Programme-3 (NHSP3) Independent Review of Internal Audit and Internal Control in the Federal Ministry of Health and Population, March 2019. Page no. 5

<sup>29</sup> FCDO/Nepal Health Sector Programme-3 (NHSP3) Independent Review of Internal Audit and Internal Control in the Federal Ministry of Health and Population, March 2019. Page no 8-9

<sup>30</sup> FCDO/Nepal Health Sector Programme – 3 (NHSP3) Independent Review of Internal Audit and Internal Control in the Federal Ministry of Health and Population, March 2019. Page no 11, Figure 1.

- 7) IA reports to SUs and findings are compiled at MoHP level on TABUCS and at federal level in the national report. This suggests substantial and operating procedures are in place for compliance with reporting and communication standards of the IIA.
- 8) The Auditor General in 2013 reported that IA’s access to information and records is good in practical terms – the legal and regulatory framework at present does not give this as a right but the IIA standards do (this should be part of the IA Charter). This would suggest that framing a right of access to records should be straightforward.
- 9) Monitoring arrangements are in place in the MoHP in the form of the Joint Executive Committee.
- 10) This scope of IA work set out in Financial Procedures (part 96.2) is largely consistent with IIA expectations with the exception of safeguarding of assets. This can be built upon in future iterations of rules and procedures.
- 11) Some evidence of good (albeit basic) audit practices were found:
  - The Internal Audit Guidelines contain a range of tests in IC questionnaire formats, although these are applied at transaction rather than control activity level.
  - Supervisory review practices are evident within reporting of IA irregularities but they are discursive rather than documented.

**B. Review of Field Practice – Strengths on IC:**

It was encouraging that at operational level some good practices, mainly mechanical, were noted in respect of aspects of the control environment, control activity and information and communication. These are set out below<sup>31</sup>:

- 1) Evidence of IA of the appropriation is in place (albeit with limitations as set out in Section Internal Audit on page no 21 onwards).
- 2) Attention to aspects of the control environment is in place, including organograms and allocation of governance responsibilities.
- 3) Control activities, such as documented decision making and supervision through the *tippani* file system. This system also records and documents reviews.
- 4) Pro-forma documents with evidence of systemic separation of duties (although the precise control activity is not always stated or dated).
- 5) Job descriptions have been developed but are not reviewed in line with changing MoHP needs.
- 6) Disaster response and preparedness skills were in evidence in health institutions – these skills could be applied to risk assessment for IC strengthening purposes.
- 7) Electronic attendance controls are in place but not yet linked to payroll, which is manually calculated in spreadsheets in a relatively uncontrolled environment.
- 8) All-staff meetings held on a monthly basis that would fit within the information and communication component of IC.
- 9) Asset registers are in place but are not used effectively as a tool to safeguard assets (see below). However, the sales of obsolete assets (but not stocks) was found to take place in a welcome contribution to income streams. It was reported that registration is comprehensive (e.g. instruments, equipment, land and buildings) but the review team was unable to verify this in the time available.

**C. Status of Recommendations on Independent Review of IA and IC in MoHP:**

The independent review made some recommendations for IA and IC in the MoHP. The status of these recommendations are as follows:

**Table 3.4: Recommendation and Status of Independent Review**

Recommendations <sup>32</sup>	Status/Improvements

<sup>31</sup> FCDO / Nepal Health Sector Programme – 3 (NHSP3) Independent Review of Internal Audit and Internal Control in the Federal Ministry of Health and Population, March 2019. Page no 18.

<sup>32</sup> FCDO/Nepal Health Sector Programme-3 (NHSP3) Independent Review of Internal Audit and Internal Control in the Federal Ministry of Health and Population, March 2019. Pages no 16–18 and 23–26.

1.	The definition of IC should be amended to be stated consistently with INTOSAI 9100	The FCGO Internal Control System Directives, 2019 clearly defines internal control as the “means to address risks in the working aspect and to provide reasonable assurance that in pursuit of the public entity’s mission.” The FPFA Act, 2019 also clearly mentions the role of Audit and Internal Control Committee to address risks.
2.	This should be formally incorporated into a definition of components and objectives of IC that is consistent with INTOSAI 9100	As for No. 1
3.	The responsibility to establish and lead on IC should be with the Secretary (as set out elsewhere in the rules) and it should recognise the inclusive nature and wider responsibilities to be communicated to all officials.	The FPFAA, 2019 states that an Audit and Internal Control Committee, chaired by the Secretary, should be formulated and describes its scope and duties (clause no. 32 of the Act).
4.	Internal Control Guidelines should formalise periodic reviews of organograms and establish approaches and standards for constructive supervision.	The MoHP has taken the initiative to improve/update the Internal Control System Directives for the MoHP and its subordinate offices in light of the FCGO Internal Control System Directives, 2019 and the FPFAA, 2019. They are now in the process of being updated.
5.	IA and External Audit should have separate and independent legislative bases.	There are separate laws for IA and External Audit. The scope of the IA process is guided by Financial Procedural and Fiscal Accountability Act, and Regulations and Internal Audit Directives (FCGO). The Constitution of Nepal has described the mandate and scope of external audit. The AA, 2075 is the fundamental law for external audit.
6.	A specialist and organisationally independent institutional arrangement for Internal Audit should be established. Standards require independence as a fundamental point.	The FPFAA, 2019 stated that to depute the internal auditors with a minimum period and not depute same personnel to perform maintaining account and internal auditing function (Clause no. 33(10)).
7.	The Act (FPA, 2055) should be revised to enable a broader, modern, risk-based, internal-control-led and standards-oriented approach to be adopted for IA.	The FPFAA, 2019 has addressed this recommendation.
8.	An IA Charter (mandatory under IPPF and set out in Attribute Standard 1000) should be established to clarify rights, roles, responsibilities and authorities for IA in the FGON	The FPFAA, 2019 and FCGO Internal Audit Directives have addressed this recommendation.
9.	A separate code of ethics for IA should be developed.	The FPFAA, 2019 and FCGO Internal Audit Directives have addressed the issue of a code of ethics for IA.

#### CHAPTER 4: EXTERNAL/FINAL AUDIT

This chapter concerns for external/final audit, describing the legal framework, audit practices, status of audit, trends of AQs and clearance, response to Audit Primary Reports (APRs) audit status of the MoHP for the recent FY.

The Constitution of Nepal has mandated<sup>33</sup> the Auditor General to carry out the audit of public entities (at federal, provincial and local level) in accordance with law, having regard to, inter alia, the regularity, economy, efficiency, effectiveness and the propriety thereof and to submit its annual report to the President (in case of federal) and Province Chief (in case of province level) after the completion of audit. These reports will be

<sup>33</sup> The Constitution of Nepal, Article no. 241

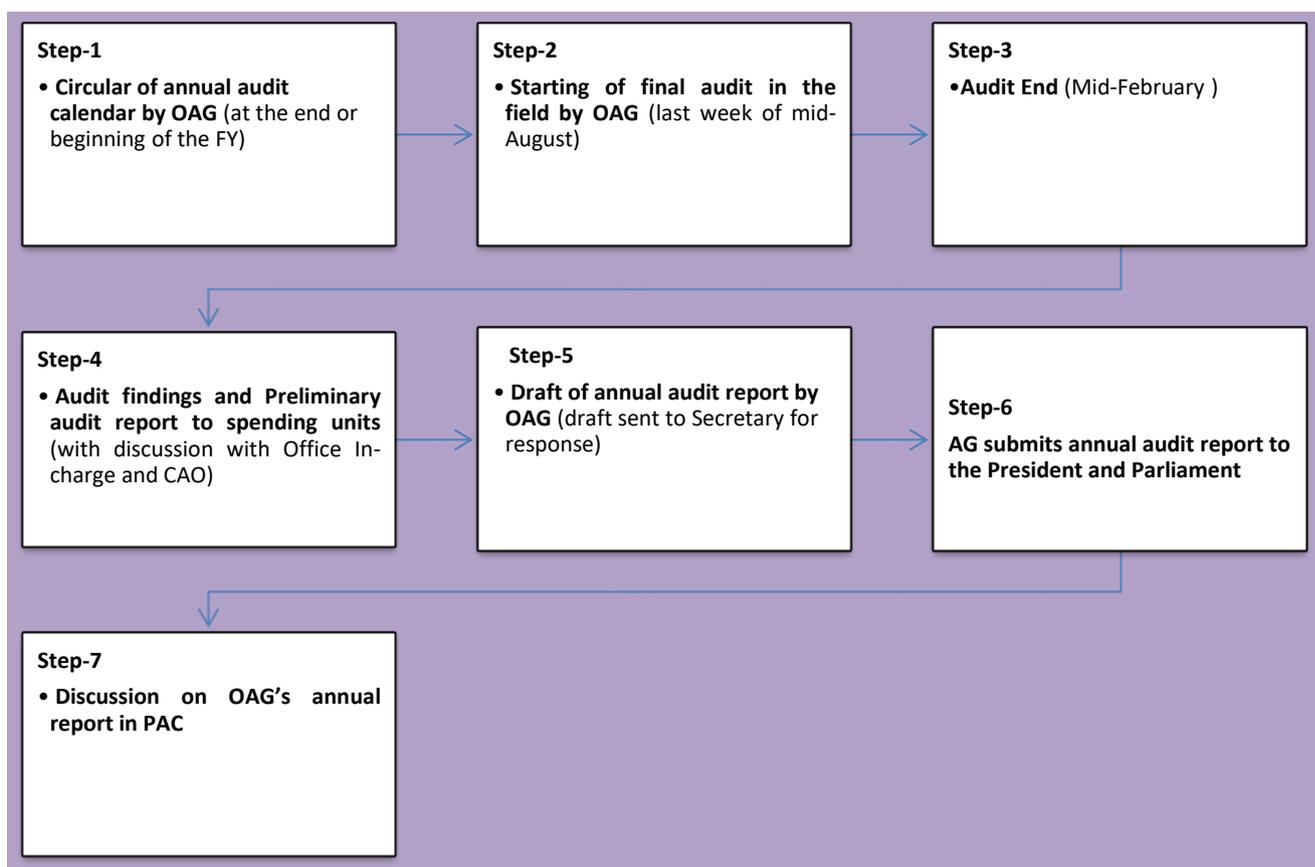
presented in the respective parliaments (federal, provincial) through the Prime Minister or Chief Minister respectively. After completing the FY as per the calendar of audit issued by the OAG, the final audit normally starts from mid-August (Bhadra) in the field offices. After completing the audit in field, the auditor provides, generally, an APR. The copies of the audit report are sent to DTCOs and departments/ministries.

The AA, 2019 (2075) describes the process of audit, fiscal-related audit, audit of grants and assistance, area of audit (subject), audit by propriety and audit of GoN corporate, and practically GoN corporate, organisations.

#### 4.1 FINAL AUDIT PROCESS, TIMELINE AND RESPONSE

- **Circular of annual audit calendar:** The OAG circular, to all ministries, presents the annual calendar of audit at the end or beginning of the FY.
- **Starting of final audit:** After completing the FY, as per the OAG calendar, external or final audit normally starts in the SUs in the last week of Bhadra (mid-August).
- **Audit ends:** The final audit runs continuously up to mid-February (end of month of Magh) as per the OAG calendar.
- **Audit findings and preliminary audit report:** After completing the audit in the field the auditor discusses the audit observations with the Office In-charge and CAO.
- **Preliminary audit report:** After discussions, the auditor provides, generally, a preliminary audit report, requesting a response within 35 days of the letter. The copy of such letter is forwarded to the departments under the MoHP and the concerned DTCO.
- **Draft of annual report:** The OAG provides a draft annual report to the Health Secretary by 24 April (10 Chaitra) each year as per the OAG calendar. The MoHP can respond to the audit observations. However, the OAG provides a week or less for responses at this stage.
- **Annual report to the President and Parliament:** The Auditor General submits its annual report to the President/Province Chief within the month of Chaitra (mid-April). The President/Province Chief takes necessary actions to submit the report to the Legislature Parliament, through the Prime Minister/Chief Minister. This report is a final report and uploaded onto the OAG's webpage: [www.oag.gov.np](http://www.oag.gov.np).
- **Discussion of OAG's annual report in the Public Accounts Committee (PAC):** The OAG's report will be discussed in the PAC of the Parliament: the PAC holds discussions on the audit observations of all ministries.
- The respective PAC (Federal/Provincial) is the final authority to settle the audit observation.

**Figure 4.1: Final Audit Process, Timeline and Response**



Source: Self-Created

#### 4.2 FINAL AUDIT STATUS

Table 4.1: Audited Amount and Audit Queries against Audited Amount  
in 000)

(Amount NPR

FY	Audited amount	AQs against audited amount	
		Amount	%
2012/13 (2069/70)	17,874,272	2,464,659	13.79
2013/14 (2070/71)	20,833,612	2,397,137	11.51
2014/15 (2071/72)	23,683,400	2,236,386	9.44
2015/16 (2072/73)	30,324,700	1,183,108	3.90
2016/17 (2073/74)	37,674,000	2,642,206	7.01
2017/18 (2074/75)	31,323,000	1,494,412	4.77
2018/19 (2075/76)	19,637,600	1,321,766	6.73

Source: OAG annual reports of respective years

- Table 4.1 shows the trend of AQs against audited amount: audit queries against audited amount is in reducing/decreasing trend.
- In FY 2012/13, AQs made up 13.79 percent of the audited amount, while in FY 2018/19 they constituted 6.73 percent. Comparing FY 2015/16 (3.9%) to FY 2016/17, the proportion increased (7.01%) but in FY 2017/18 it had reduced or improved (4.77%). However, in FY 2018/19, the proportion increased (6.73%). Overall, AQs as a proportion of audited amount is in decreasing trend.

Table 4.2: Categories of Audit Queries  
NPR in 000)

(Amount

FY	To be recovered		To be regularised		Advance		Total queries
	Amount	%	Amount	%	Amount	%	Amount
2012/13 (2069/70)	122,320	4.96	1,426,173	57.86	916,166	37.17	2,464,659
2013/14 (2070/71)	128,046	5.34	1,713,118	71.47	555,973	23.19	2,397,137
2014/15 (2071/72)	398,849	17.83	1,308,348	58.50	529,189	23.66	2,236,386
2015/16 (2072/73)	52,295	4.42	604,843	51.12	525,970	44.46	1,183,108
2016/17 (2073/74)	113,210	4.28	1,337,067	50.60	1,191,929	45.11	2,642,206
2017/18 (2074/75)	23,970	1.60	545,907	36.53	924,535	61.87	1,494,412
2018/19 (2075/76)	33,153	2.51	342,547	25.92	946,066	71.58	1,321,766

**Source:** OAG annual reports of respective years.

- Table 4.2 shows the trends of AQ categories: advance queries are in increasing trend.
- In FY 2012/13, the proportion of AOs that were advance queries was 37.17 percent, while in FY 2018/19 it was 71.58 percent. However, the amounts (figure) were relatively similar in FY 2012/13 (916,666,000 NPR) and FY 2017/18 (946,066,000 NPR). In FYs 2013/14 and 2014/15, the proportion of advance queries was lower than in other FYs.
- The proportion of AOs that are to be recovered is in decreasing trend. In FY 2014/15 it was 17.83 percent, but in FY 2018/19 it was 2.51 percent.
- Similarly, the proportion of AOs that are to be regularised is also in decreasing trend. In FY 2013/14 it was 71.47%, but in FY 2018/19 it was 25.92%.

**Table 4.3: AQ Clearance:**

**(Amount NPR in 000)**

Clearance FY	Cumulative AOs	Clearance	
	Amount	Amount	%
2012/13 (2069/70)	2,498,288	921,253	36.88
2013/14 (2070/71)	3,077,463	1,203,114	39.09
2014/15 (2071/72)	4,339,008	1,960,272	45.18
2015/16 (2072/73)	4,775,873	2,460,141	51.51
2016/17 (2073/74)	4,552,118	2,095,538	46.03
2017/18 (2074/75)	3,639,688	1,508,562	41.45
2018/19 (2075/76)	4,773,332	1,985,658	41.6
2019/20 (2076/77)	4,28,2086		

**Source:** Audit Query Clearance Evaluation and Monitoring Committee annual reports and MoHP reports of respective years.

- Table 4.3 shows the AQ clearance trends: the clearance of AOs had been in improving trend from FY 2012/13 (36.88%) to FY 2015/16 (51.51%) but in decreasing trend from FY 2016/17. This can be explained by the transfer of the structuring of SUs to provincial and local levels in FY 2017/18 and 2018/19. AOs that were handed over were less likely to be cleared.
- In FY 2019/20 the clearance of AOs is very low because of the impact of COVID-19. Historically, the greatest number of queries are cleared from May to mid-July. COVID-19, however, led to lockdown, during which most offices were closed, greatly reducing the audit clearances for FY 2019/20.

**Table 4.4: Response to APR by SUs within 35 Days**

FY	Total SUs	SUs without AQs	SUs with AQs	SUs responding within 35 days
2015/16 (2072/73)	308	119	189	85 (44.97%)
2016/17 (2073/74)	312	81	231	129 (55.84%)
2017/18 (2074/75)	313	131	182	111 (60.99%)
2018/19 (2075/76) (Annex 2)	43	5	38	37 (97.4%)

**Source:** MoHP Disbursement-linked Indicator (DLI) Reports of respective years.

- This audit response report was prepared by the MoHP for the first time in FY 2015/16 (2072/72) for the purpose of detailing the achievement of DLIs.
- FY 2015/16 served as the baseline for DLIs. In this FY, 44.97 percent of SUs responded to the primary audit report within 35 days. Thus 44.99 percent became the DLI baseline.
- The target for the second year (FY 2016/17) was targeted 55% (44.97% + 10% = 55%). This year 55.84 percent of SUs responded within 35 days, and the DLI target was achieved.
- The target for the third year (FY 2017/18) was revised to 60%. This year 60.99 percent SUs responded within 35 days, and the DLI target was achieved.
- There is was great improvement in the fourth year (FY 2018/19). In this year, 37 of the 38 SUs with AQs (97.4%) responded to the APR within 35 days.

**Table 4.5: Status of Audit Clearance against APR within 35 days: (Amount NPR in 000)**

FY	GoN Entities					Hospitals/Academies				
	As Audit Primary Report (APR)		Cleared against PA		Actual queried amount	As APR		Cleared against APR		Actual queried amount
	SUs No.	Queried amount	SU	Cleared amount		SUs	Queried amount	SU	Cleared amount	
2015/16 (2072/73)	128	1,246,553	21	63,445 (5.1%)	1,183,108	80	768,616	10	72,738 (9.5%)	695,878
2016/17 (2073/74)	154	2,691,180	39	48,974 (1.8%)	2,642,206	124	3,772,229	14	64,618 (1.7%)	3,707,610
2017/18 (2074/75)	113	14,96,883	14	2,471 (0.2%)	1,494,412	72	1,210,781	18	17,435 (1.4%)	1,183,346
2018/19 (2075/76)	15	1,394,119	12	72,353 5.2%	1,321,766	27	4,434,612	4	1,989,237 44.8%	2,445,375

**Source:** OAG annual reports of respective years.

- Table 4.5 shows that over the past four FYs, few SUs had cleared within 35 days against APR and that the amount cleared was very small. However, in FY 2018/19, hospitals/academies showed an improvement in clearance of AQs within 35 days(44.8%).

#### 4.3 e-RECORDING OF FINAL AUDIT RESPONSE

The MoHP has made an important arrangement to monitor final audit response. All SUs should enter the audit response data in TABUCS and must attach a scanned copy of the audit report and response letter in the e-recording system. SUs enter final audit response data in the template shown in Figure 4.2.

Figure 4.2 Final Audit Response Entry Table in TABUCS

Source: TABUCS screen shot.

### 4.3 FINAL AUDIT RESPONSE MONITORING TEMPLATE

The MoHP obtains consolidated audit response data from SUs that enter data into TABUCS. This is an effective tool, which will contribute to monitoring audit response. The TIU needs to be proactive in taking action to ensure that all SUs enter their final audit response. The current provision captures the information from SUs functioning under the federal government. Figure 4.3 shows the AQs entered by various SUs in TABUCS. This is one of the best options of for federal-level entities to monitor progress made in final audit response.

Figure 4.3 Final Audit Response Monitoring Template in TABUCS

S. No.	Code	Office	OAG Preliminary report										OAG Report Office Reg. No and date	Description of office response						Document		
			Fiscal Year	Ref No.	Date	No of Page	Audit Amount Rs.	No of theoretical Article	No of recorded Article	Beruju amount				Chalani No	Date	days taking	Within Date	Date Expire	requested Amount for clearance		Remarks	
										Recoverable beruju	Regularize beruju	Advance beruju										Total
1	01-370-01	District Health Office, Taplejung	2073/74	89	2/18/2018	6	10,570,000.00	11	1		1,632,000.00		1,632,000.00	-	1103	3/22/2018	32	1	0			Preliminary Report Office Response
2	01-370-01	District Health Office, Taplejung	2073/74	99	2/20/2018	14	188,518,000.00	24	22	135,000.00	5,904,000.00		6,039,000.00	0 - 2/20/2018	1102	3/22/2018	30	1	0			Preliminary Report Office Response
3	01-370-02	District Ayurveda Health Center, Taplejung	2073/74	98	2/20/2018	5	5,504,000.00	4	8	29,000.00	607,000.00		636,000.00	-			0	0	0			Preliminary Report
4	02-370-01	District Health Office, Panchthar	2073/74	72	11/15/2017	7	202,498,000.00	8	2		85,000.00	623,000.00	708,000.00	- 11/15/2017	694	12/11/2017	26	1	0			Preliminary Report Office Response
5	02-370-01	District Health Office, Panchthar	2073/74	72	11/15/2017	3	8,683,000.00	3	0					- 11/22/2017	694	12/11/2017	26	1	0		बेरुजु नभएको	Preliminary Report Office Response
6	02-370-02	District Ayurved Health Center, Panchthar	2073/74	69	11/16/2017	2	9,684,000.00	0	0					-			0	0	0		बेरुजु नभएको	Preliminary Report
7	03-370-01	District Health Office, Ilam	2073/74	97	11/25/2017	11	177,201,216.24	12	8	165,850.00	4,294,834.00		4,460,684.00	317 - 11/25/2017	468	12/10/2017	15	1	0	4,452,334.00		Preliminary Report Office Response
8	03-370-03	District Hospital, Ilam	2073/74	70	11/22/2017	8	47,780,000.00	14	6	372,000.00	275,000.00		647,000.00	-	156	12/15/2017	23	1	0			Preliminary Report Office Response
9	03-370-04	Mechi Zonal Aurved Aushadhalaya, Ilam	2073/74	66	11/20/2017	4	10,340,000.00	5	0					-			0	0	0		बेरुजु नभएको	Preliminary Report

Source: TABUCS screenshot.

#### 4.4 CURRENT YEAR AUDIT STATUS

Table 4.6: OAG Audit Report FY 2018/19 (2075/76) of MoHP

S N	SUs	Total SUs	SUs with audit queries	SUs without AQs	Audit queries amount (000 NPR)			
					To recover	To regularise	Advance	Total audit queries
<b>A.</b>	<b>GoN Entities:</b>							
1)	<b>MoHP</b>	<b>2</b>	<b>2</b>	<b>0</b>	<b>10,944</b>	<b>163,889</b>	<b>0</b>	<b>174,833</b>
	MoHP	1	1	0	10,901	163,889	0	174,790
	Pashupati Homeopathic	1	1	0	43	0	0	43
2)	<b>DoHS</b>	<b>8</b>	<b>8</b>	<b>0</b>	<b>22,045</b>	<b>173,442</b>	<b>907,194</b>	<b>1,102,681</b>
	DoHS/Divisions -5	1	1	0	20,226	109,718	797,522	927,466
	National and Regional Centres	7	7	0	1,819	63,724	109,672	175,215
3)	DoA and its entities	1	1	0	46	4,181	0	4,227
4)	DoDA and its entities	5	2	3	118	1,035	38,872	40,025
	<b>GoN Total</b>	<b>16</b>	<b>13</b>	<b>3</b>	<b>33,153</b>	<b>342,547</b>	<b>946,066</b>	<b>1,321,766</b>
	<b>GoN Percent</b>		<b>81.25%</b>	<b>18.75%</b>	<b>2.5%</b>	<b>25.9%</b>	<b>71.6%</b>	<b>100%</b>
<b>B.</b>	<b>Hospitals/Academies</b>							
1)	Hospitals/Academies/ Committees/Boards/ Councils	27	25	2	320860	1909619	214896	2,445,375
	<b>Percent</b>		<b>92.6</b>	<b>7.4%</b>	<b>13.1%</b>	<b>78.1%</b>	<b>8.8%</b>	<b>100%</b>
	<b>Grand Total</b>	<b>43</b>	<b>38</b>	<b>5</b>	<b>35,4013</b>	<b>2,252,166</b>	<b>1,160,962</b>	<b>3,767,141</b>
	<b>Grand Total Percent</b>		<b>88.4%</b>	<b>11.6%</b>	<b>9.4%</b>	<b>59.8%</b>	<b>30.8%</b>	<b>100%</b>

Source: OAG annual Reports of FY 2018/19 (2075/76).

Note: B.P. Koirala Health Science Academy and Trauma Centre performed the backlogged final audit for FY 2017/18 (2074/75) in FY 2019/20 (2076/77).

- Table 4.6 indicates that in FY 2018/19, 88.4 percent of SUs had final AQs and 11.6 percent did not.
- In totality (GoN and hospitals) 9.4 percent (0.35 billion NPR) of the audited amount comes under the amount to be recovered. Table 4.6 shows that about 31 percent (1.16 billion NPR) of the audited amount comes under advances. A significant portion of AQs (59.8%, 2.25 billion NPR) comes under the amount to be regularised.
- When examining GoN entities (without hospitals), a different picture is presented: 2.5 percent (0.03 billion NPR) of the audited amount comes under the amount to be recovered, 25.9 percent (0.34 billion NPR) under the amount to be regularised, and 71.6 percent (0.94 billion NPR) under advances.
- Importantly, of the 0.94 billion NPR under advances, 95.9 percent (0.907 billion NPR) fall under the DoHS the and its SUs. This is mainly due to LCs (59.4%, 0.538 billion NPR) to suppliers for the procurement of drugs and equipment. This analysis suggests that the IAIP needs to be fully implemented in the DoHS and its SUs. The details of the final AQ status are included in **Annex 2**.

- Similarly, the hospitals hold a big quire, with 87.8 percent (3.88 billion) under the amount to be regularised.

**Note:** It is noted that the numbers of SUs differ between internal and final audit: there are 120 SUs in IA and 43 SUs in final audit. The DTCO covered all entities (whether under provinces or not) in IA, but the OAG but did not included entities under provinces in final audit.

#### **4.5 KEY MESSAGES FROM THE FINAL AUDIT REPORT (OAG) FOR FY 2017/18 AND 2018/19**

Key messages from the OAG annual report for FY 2017/18 and 2018/19 include:

- There is a lack of effective execution of health policies and programmes;
- Health delivery service is affected by the failure to fulfil posts for doctors, paramedics and nurses in the most health institutions;
- Less progress on the periodic plan;
- Financial statements are not submitted for audit of technical assistance;
- Financial documents are not submitted for audit of direct payment and goods assistance;
- The monitoring system is not executed properly;
- Financial and physical progress had not presented of the grant amount for community hospitals;
- Hospitals under construction are not included in the annual programme and budget (Bir Hospital and Paropakar Maternity Hospital);
- No execution of some annual programmes;
- Some available medical equipment is not being utilised because of a lack of expertise and infrastructure in some hospitals;
- Stock management and supply of medicine is weak;
- Waste management in the hospitals is not properly performed;
- LC accounts are not closed after the completion of the contract;
- Consultancy services were hired to perform training that could have been led by officials;
- Some health institutions have no control of advance transactions;
- The National Health Laboratory requires improvement to achieve high-quality services;
- Duplication of programmes;
- No audit of Trauma Centre and B.P. Koirala Health Sciences Academy for FY 2017/18 (but it was completed in FY 2019/20);
- Cost estimates should be reliable;
- Liquidity amount should be recovered;
- Payment against rules and norms;
- Payment of last year's expenditure with appropriate documents of proof;
- Payment without procurement plan;
- Payment without competitive bidding, made direct payment should be control;
- Lack of proper monitoring of private hospitals;
- Date-expired medicines are in stock;
- Repetition of previous years' audit observations.

#### **CHAPTER 5: RISK, MITIGATION, CHALLENGES AND WAY FORWARD**

This chapter describes the risk, mitigation, challenges and way forward for the improvement of financial management in view of the MoHP IC system. It is to be noted that not all SUs have entered their IA and

final AOs in TABUCS. The MoHP needs to instruct its SUs to comply with the AO entry requirements in TABUCS. The MoHP has captured the internal and final AO reports from each SU and presented them in a standard format prepared by the TIU/MoHP. Similarly, the Internal Control Guidelines should be followed properly.

## 5.1 RISK IN AUDIT

There are number of risks at system, institutional, and transactional levels. Timely identification of these risks and appropriate solutions and follow-up will help to reduce the risks related to both internal and final audit functions. Major system-related risks include the non-use of directives, weak data entry, and lack of timely response on internal and final audit.

- i) Institutional risk includes failure to perform audits and weak institutional capacity to conduct IA. This report revealed that tertiary-level health institutions such as the Trauma Centre, Shinghdurbar Vidhayakhana and RamRaj Prasad Shingh had not performed their IA in FY 2018/19 or before (see Table 3.1).
- ii) Similarly, in accordance with the respective legislation, independent registered auditors were employed to perform annual IAs at the Nepal Health Research Council, B.P. Koirala Memorial Cancer Hospital, Chitwan, Shahid Gangalal National Heart Centre, Patan Academy of Health Sciences, Karnali Academy of Health Sciences, and National Academy of Health Sciences (Bir Hospital) (see Table 3.1). This is not good practice. IA should be performed independently within the organisation to help it accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. Such hospitals/academies should have established their own IA division or section to fulfil the objectives of IA. B.P. Koirala Health Sciences Academy, Dharan conducts IA through its own internal section, which is best practice (see Table 3.1).
- iii) Advance transactions present a further risk. In FY 2018/19, 79.9 percent (0.9194 billion NPR) of total IA queries (GoN) are made up by advance queries; the proportion is 71.6 percent (0.9460 billion NPR) for GoN entities in final audit (see Tables 3.2 and 4.4 respectively).
- iv) Another risk is clearance of internal and final AOs. There are no records of the proportion of internal AOs cleared before final audit. Table 3.3 shows that out of 16 SUs with advance queries, only eight responded to or cleared queries before the final audit (external audit). These 8 SUs cleared about 44 percent (0.855 billion NPR) of such queries. It is important to note that all SUs should clear all AOs before the final audit. Out of eight SUs, a total of six (75%) were able to provide a response rate of 100 percent (advances cleared) before the final audit. There is no any national integrated documentation that show the total internal AOs and settlement before final audit.
- v) **Submitting transactions:** Another risk is a failure to submit all income and expenditure in financial statements. The OAG stated that "As per the Financial Procedural Act, 1998 article 16(2), the Project should include all income and expenditure financial statements and submit for audit. As per information received from Development Partners, the direct payment including material assistance made to National TB Centre, Epidemiology and Disease Control Division and National AIDS and Sexually Transmitted Diseases Centre amounting NPR 933.7 million and the vaccine worth NPR 1 .93 billion received to Department of Health Services are not included in financial statement and also not submitted for audit as well"<sup>34</sup>.
- vi) **Direct payment:** The OAG stated that "As per the Financial Statement, the Ministry of Health and Population has spent NPR 99.3 million out of received NPR 1 billion from KFW, Germany as direct payment which was not submitted the books of account and statement of expenditure for audit."<sup>35</sup>
- vii) **Outside the GoN budgetary framework:** The OAG stated that "The tripartite agreement between MoHP, Global Fund and Save the Children, MoHP has received cash grants for programmes under

<sup>34</sup> OAG, 57<sup>th</sup> Annual Audit Report, 2077 (2020), point no. 7 Page no. 436

<sup>35</sup> OAG, 57<sup>th</sup> Annual Audit Report, 2077 (2020), point no. 5, Page no. 435

HIV AIDS Control, TB Control and Malaria Control Against the tripartite agreement, NPR 4.739 billion has been spent through Save the Children outside the GoN budgetary frame work and financial procedures regulations. We have not audited such amount."<sup>36</sup>

- viii) **Audit of Technical Assistance:** In its 57th report, the OAG noted that "a technical assistance of NPR 7.45 billion from 5 development partners is to be provided to MoHP as mentioned in the White Book of Technical Assistance submitted to the Parliament by the Finance Minister. Since books of account are not submitted for audit, we have not conducted any audit for such assistance"<sup>37</sup>.
- ix) Another risk is **non-inclusion of funds in the annual programme and budget.** In its 57th report, the OAG mentioned that: "The Turn-Key agreement between Paropakar Maternity Hospital, Bir Hospital and JICA for the reconstruction of quake-destroyed building worth NPR 2.286 billion has not been included in the annual program and the annual budget and not also submitted for audit"<sup>38</sup>.
- x) **Budget speech execution:** Several health service programmes that were mentioned in the budget speech were not implemented or only partially implemented. Examples include the non-development of a master plan to make Bir Hospital of international standard and the failure to finalise the location of the establishment of the High-Technology Diseases Diagnostic Centre and Kidney Treatment Centre in Kathmandu. Likewise, in collaboration with the local level, the establishment of primary health institutions in each local level ward has not been taken in place and the availability of a medical doctor in each local level has not been practically implemented. The provisions included in the budget speech should be implemented<sup>39</sup>.
- xi) **Liquidated damage:** Rule 121 of the Public Procurement Rules, 2064 stipulates that liquated damage is to be charged if not completed within the time limit stipulated in the procurement agreement due to delay by construction company, suppliers, consultants or service providers. This year, the National Academy of Health Sciences, Sahid Dharmabhakta National Transplant Centre, Bharatpur Hospital and seven other entities have not charged the liquidated damage of NPR 7.52 million against the contractors/suppliers for delays in completion of tasks. The amount should be recovered as per the terms of the agreement<sup>40</sup>.
- xii) **Remuneration Tax:** Article 87 of the Income Tax Act, 2058 stipulates that the remuneration tax is to be deducted at source of remuneration. This year, 10 entities, including the Said Dharmbhakta National Transplant Centre and Paropakar Maternity Hospital have failed to charge remuneration tax amounting to NPR 2.55 million at the source of payment of remuneration. The amount should be recovered<sup>41</sup>.
- xiii) **Overpayment:** As per Rule 36 of the Financial Procedure Rules, 2064 sufficient documents for payment should be attached; these need to be checked for their legality. This year, 14 entities, including Said Dharma Bhakta National Transplant Centre, Koshi Zonal Hospital and Bhagalpur Hospital have overpaid NPR 3.46 million. The amount overpaid against the rules should be recovered<sup>42</sup>.

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<sup>36</sup> OAG, Independent Auditors Report, Ref. No. 358 dated 10 June, 2020 – point no. 3

<sup>37</sup> OAG 57<sup>th</sup> Annual Report, point no. 4, Page no. 435

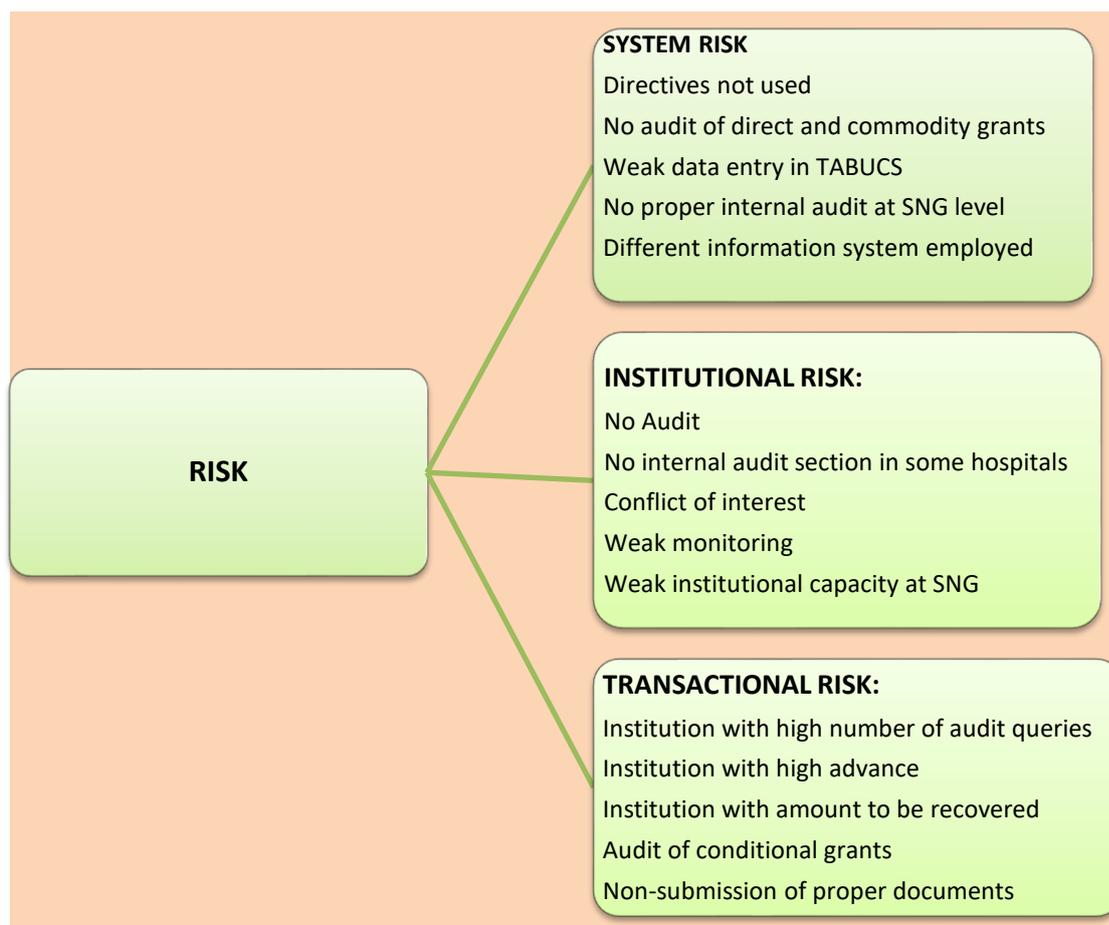
<sup>38</sup> OAG 57<sup>th</sup> Annual Report, point no. 6, Page no. 435

<sup>39</sup> OAG 57<sup>th</sup> Annual Report, point no. 12, Page no. 438

<sup>40</sup> OAG, Independent Auditors Report, Ref. No. 358 dated 10 June, 2020 – point no. 35

<sup>41</sup> OAG, Independent Auditors Report, Ref. No. 358 dated 10 June, 2020 – point no. 36

<sup>42</sup> OAG, Independent Auditors Report, Ref. No. 358 dated 10 June, 2020 – point no. 37



: Self-generated.

## 5.2 SUGGESTION FOR RISK MITIGATION

- i) In order to address evolving requirements in IA among all spheres of governments, a national IA framework needs to be formulated.
- ii) In order to mitigate the above-mentioned risks, the MoHP is required to fully implement the PFMSF and PPSF. The MoHP needs to improve the effective monitoring and performance system to ensure maximum compliance in terms of conducting IAs in all SUs. Data entry into TABUCS must be performed by all
- iii) SUs will help to track major risks, including institutions having more AQs and volume of both internal and final AQs.
- iv) This report identified that the MoHP has a higher volume of both internal and final AQs related to cash advances. This requires a strong action to discourage SUs from providing cash advances. However, advances given in the form of LCs and mobilisation advances are exceptional.
- v) A series of technical discussions is required to understand the problem and find the best solutions through the PFMSF and PPSF and Internal Control Guidelines.
- vi) The MoHP should provide to clear all internal AQs before final audit. Similarly, the MoHP should strictly clear final AQ targets for all SUs, in particular the DoHS.
- vii) There should be a discussion held and consensus reached between the FCGO/MoHP and EDPs to provide a timely IA report of direct and commodity grants.

viii) The MoHP needs to make it mandatory to enter internal and final AQs into TABUCS. An instruction letter to all SUs will help to obtain consolidated internal and final AQ data.

### 5.3 CHALLENGES AND WAY FORWARD

The analysis of internal- and final-audit-related information suggests that the MoHP has been facing different challenges at system, institution and transaction levels. These are challenges that can be addressed through policy-level discussions, management decisions, committee meetings, updates to the FMIP, effective internal and final audit monitoring, and capacity building of officials working in the MoHP's SUs. Additionally, it is important to initiate a dialogue with SNGs to address common challenges. The following are the major challenges and ways forward.

Major challenges faced include high AQs on advances, high AQs at the DoHS, tax deduction in salary, payment without proper documents, double payments, salary payment without approving salary reports and policy issues. The following are the key challenges related to the audit system at SUs:

Challenges	Way forward	Responsibility
<b>System</b>		
Budget releasing, accounting and monitoring agency conducting IA (conflict of interest)	<ul style="list-style-type: none"> <li>GoN may need to have structural changes for independent IA functions</li> <li>FCGO should depute separate 'account sub-group' for IA (The new FPFAA has stated that FCGO should depute accounting staff as internal auditors for minimum timeframe.)</li> </ul>	GoN/MoF/FCGO  MoF/FCGO
Absence of linkage between annual performance evaluation and audit functions	<ul style="list-style-type: none"> <li>Revise the performance evaluation indicator and link to audit</li> </ul>	MoHP/AD
Lack of national integrated IA report	<ul style="list-style-type: none"> <li>Following international best practice, develop a system to have integrated report</li> <li>Continuous reporting together with an annual statement on IC (MoHP has been preparing a consolidated IA since FY 2018.)</li> </ul>	MoF/FCGO/MoHP
Partial implementation of Internal Audit Directives	<ul style="list-style-type: none"> <li>Digitise the Internal Audit Directives and monitor their use through information and communications technology</li> </ul>	FCGO/MoHP
Auditing of direct and commodity grants	<ul style="list-style-type: none"> <li>Include in the FMSF and monitor through PFM Committee</li> </ul>	MoHP/EDPs/FCGO
Auditing of technical assistance	<ul style="list-style-type: none"> <li>Discussion with OAG/ MoF and EDPs</li> </ul>	MoF/ MoHP/EDPs
Unclear IA procedures at SNG level	<ul style="list-style-type: none"> <li>Support SNG to develop Internal Audit Directives</li> </ul>	FCGO/MoHP/PG/LG
Audit of the different forms of grants with specific focus on conditional grants	<ul style="list-style-type: none"> <li>Harmonise international good practices in developing grant releasing and auditing procedures</li> </ul>	FCGO/MoHP/PG/LG
<b>Institutional</b>	<ul style="list-style-type: none"> <li></li> </ul>	
MoHP not receiving timely internal audit report from DTCO	<ul style="list-style-type: none"> <li>Establish a functional linkage between TSA and TABUCS for IA</li> </ul>	FCGO/DTCO/MoHP
Some autonomous hospitals not implementing IA	<ul style="list-style-type: none"> <li>Link the non-compliance of IA with grant through the PBGA</li> </ul>	MoHP/Hospital Management

Challenges	Way forward	Responsibility
	<ul style="list-style-type: none"> <li>IA section should be established with central hospitals/academies</li> </ul>	
Auto writes off provision of internal AQs is affecting the timely response	<ul style="list-style-type: none"> <li>Introduce performance indicators for office and finance chiefs in their performance evaluation and incentives</li> <li>Internal AQs should be cleared within current FY</li> </ul>	MoHP
Heavy workload of auditors working at DTCO	<ul style="list-style-type: none"> <li>There should be reform on organisational structure through an O&amp;M survey of FCGO/PACO/DTCO/IA section</li> </ul>	GoN/MoF/FCGO/PG/LG
Weak institutional capacity to conduct IA	<ul style="list-style-type: none"> <li>IA functions should be separated from operational and managerial accountability. The professionalisation and creation of a cadre of IIA-qualified auditors would be a sustainable solution</li> </ul>	
Weak supervision, monitoring and feedback mechanisms at MoHP	<ul style="list-style-type: none"> <li>Monitoring practices should be emphasised by high-level authorities on IA and the response to the IA report should be made on time as prescribed. Regular PFM Committee meetings must be organised and progress made in the implementation of the IAIP presented. The IAIP must also be updated so that it falls in line with the changed governance structures</li> </ul>	MoHP/departments/EDPs
<b>Transaction</b>		
Weak performance measures for the institution with high internal AQs	<ul style="list-style-type: none"> <li>Link with the institutional grant and personal incentive. Solve the problem either by training or disciplinary action – not by manipulating the budget for services</li> </ul>	MoHP
Higher proportion of advance queries	<ul style="list-style-type: none"> <li>The MoHP must send instruction letters to discourage practices related to cash advances. Policy that settlement should be bank-to-bank in all cases – to promote financial and digital inclusion</li> </ul>	FCGO/MoHP
Amount to be regularised	<ul style="list-style-type: none"> <li>Fully comply with Internal Audit Directives and ensure timely regularisation</li> </ul>	FCGO/MoHP
Amount to be recovered	<ul style="list-style-type: none"> <li>Timely recovery. Link strictly with compensation and performance evaluation</li> </ul>	MoHP
Weak data entry in TABUCS	<ul style="list-style-type: none"> <li>The MoHP must send instruction letters to all SUs to enter data in TABUCS</li> </ul>	MoHP
Insufficient professional competency in conducting IA	<ul style="list-style-type: none"> <li>The capacity of finance officials working at all levels should be built. For this, regular meetings,</li> </ul>	MoHP

Challenges	Way forward	Responsibility
	interactions, workshops, training and exposure should be conducted	

It needs to be acknowledged that the MoHP has taken several innovative initiatives to improve the overall PFM and audit system. This has contributed to improving financial discipline and increasing absorptive capacity. A policy- and management-level discussion is required to address the above-mentioned challenges.

**ANNEX 1: CONSOLIDATED IA STATUS FY 2075/76 (2018/19) OF GON ENTITIES**

SN	SUs		Budget Code	IA Date	Report received date	AQs category (Amount in 000 NPR)				Remarks
	District Code	Name				To be recovered	To be regularised	Advance	Total	
1.	27-370-16	MoHP	3700113			2	0	1592	1594	
	27-370-16	MoHP	3701343			129930	0	0	129930	
2.	28-370-04	Pashupati Homeopathic	3700303			2	428	0	430	
	28-370-04	Pashupati Homeopathic	3700304			34	0	0	34	
		<b>Sub-total</b>				<b>129968</b>	<b>428</b>	<b>1592</b>	<b>131988</b>	
3.	27-370-11	DoHS, Current	3700123			0	95206	0	95206	
	27-370-11	DoHS, Capital	3700124			0	0	0	0	
	27-370-11	DoHS, Integrated women health, Family Health Division, Current	3701153			0	0	257519	257519	
	27-370-11	DoHS, Integrated women health, Family Health Division, Capital	3701154			0	0	0	0	
	27-370-11	DoHS, Child Health Division, Current	3701163			0	0	311928	311928	
	27-370-11	DoHS, Child Health Division, Capital	3701164			0	0	0	0	
	27-370-11	DoHS, Epidemiology Division	3701193			640	0	86515	87155	
	27-370-11	DoHS, Disable & Leprosy	3701203			0	0	0	0	
	27-370-11	DoHS, Medicine & Equipment, Management Division, Current	3701213			0	0	1450	1450	
	27-370-11	DoHS, Medicine & Equipment, Management Division, Capital	3701214			0	0	56553	56553	
	27-370-11	DoHS, Hospital Construction & Management Information System	3701223			121	9	0	130	
	27-370-11	DoHS, Primary Health, Primary Health Division	3701363			0	2509	2008	4517	
		<b>Sub-total</b>				<b>761</b>	<b>97724</b>	<b>715973</b>	<b>814458</b>	

SN	SUs		Budget Code	IA Date	Report received date	AQs category (Amount in 000 NPR)				Remarks
	District Code	Name				To be recovered	To be regularised	Advance	Total	
4	27-370-10	Department of Ayurveda Kathmandu	3700253			0	0	135	135	
		<b>Sub-total</b>	<b>3700253</b>			<b>0</b>	<b>0</b>	<b>135</b>	<b>135</b>	
5.	27-370-15	DoDA	3700244			0	0	38872	38872	
6.	27-370-36	National Medicine Laboratory	3700243			12	390	0	402	
		<b>Sub-total</b>				<b>12</b>	<b>390</b>	<b>38872</b>	<b>39274</b>	
7.	27-370-17	National AIDS and Sexual Diseases Control Centre	3701143			0	0	113715	113715	
8.	27-370-18	National Health Education & Information Centre	3701233			37	0	1200	1237	
9.	27-370-20	National Public Health Laboratory	3701263			31	481	0	512	
10.	29-370-06	National Tuberculosis Centre	3701133			33	85	29036	29154	
	29-370-06	National Tuberculosis Centre	3701134			0	0	18785	18785	
11	47-370-03	WR Tuberculosis Centre, Kaski	3701343			5	0	32	37	
12.	31-370-03	Vector-born Disease Research Training Centre, Kitganya Roga Makawapur	3701253			0	0	30	30	
		<b>Sub-total</b>				<b>106</b>	<b>566</b>	<b>162798</b>	<b>163470</b>	
13.	06-370-01	DHO Terathum	3700143			0	0	5	5	
14.	11-370-01	DHO Solu	3700143			0	124	0	124	
15.	14-370-01	DHO Okhaladhunga	3700143			10	0	0	10	
16.	30-370-01	DHO Kavre	3700143			0	43	0	44	
17.	32-370-01	DHO Rautahat	3700143			0	1607	0	1607	
18.	38-370-01	DHO Kapilvistu	3700143			25	0	0	25	
19.	46-370-01	DHO Lamjung	3700143			5	27	100	132	
20.	48-370-01	DHO Parbat	3700143			2	0	0	2	

SN	SUs		Budget Code	IA Date	Report received date	AQs category (Amount in 000 NPR)				Remarks
	District Code	Name				To be recovered	To be regularised	Advance	Total	
21.	56-370-01	DHO Kalikot	3700143			0	70	0	70	
22.	70-370-01	DHO Bajura	3700143			2	0	0	2	
		<b>Sub-total</b>				<b>45</b>	<b>1872</b>	<b>105</b>	<b>2021</b>	
		<b>Hospitals/Academies/Committees/Councils</b>								
23.	27-370-14	Kanti Child Hospital	3701033			97	0	2980	3077	
24.	27-370-21	Paropakar Maternity Hospital	3701343			0	0	90	90	
25.	27-370-39	Health Insurance Board	3701433			523	345	454	1322	
26.	28-370-03	Mental Hospital, Lalitpur	3700153			83	0	0	83	
27.	29-370-07	Human Organ Transplant Centre Bhaktapur	3701413			13	0	0	13	
28.	35-370-02	Bharatpur Hospital	3700143			2419	43	27626	30088	
29.	37-370-04	Lumbani Zonal Hospital Rupandhei	3701343			586	15229	0	15815	
30.	47-370-06	WR Hospital Pokhara Kaskai	3701343			0	5500	0	5500	
31.	62-370-03	Bheri Zonal Hospital Banke	3701343			41	3200	0	3241	
32.	62-370-09	Susil Koirala Prakhar Cancer Hospital, Banka	3701343			0	11854	79550	91404	
		<b>Sub-total</b>				<b>3762</b>	<b>36171</b>	<b>110700</b>	<b>150633</b>	
		<b>Grand Total</b>				<b>134653</b>	<b>137152</b>	<b>1030174</b>	<b>1301979</b>	

**Note:** Where not mentioned, internal audit date and report received date, those entities' data are collected from the FCGO.

**IA done by 'own IA section' and Audit done by 'a registered auditor' through consultancy (hired). Those two types of IA report are not specific format as GoN.**

1.	09-370-04	B.P. Koirala Health Science Academy, Dharan Sunsari								IA done by own internal audit section
2.	27-370-37	National Academy of Health Science (Bir Hospital)								IA done by registered auditor

3.	27-370-40	Nepal Health Research Council								IA done by registered auditor
4.	27-370-41	Gangalal National Heart Centre								IA done by registered auditor
5.	28-370-06	Patan Academy of Health Science								IA done by registered auditor
6.	35-370-06	B.P. Koirala Cancer Hospital, Chitawan								IA done by registered auditor
7.	55-370-04	Karnali Health Science Academy Jumla								IA done by registered auditor

**IA not conducted:**

8.	15-370-	Ramraja Prasad Shing Academy of Health Science								
9.	27-370-35	Shingh Durbar Vidhayakhana								
10.	27-370-38	Trauma Centre								

**ANNEX 2: CONSOLIDATED EXTERNAL OR FINAL AUDIT STATUS FY 2075/76 (2018/19) – AS OAG REPORTS (LIST)**

SN	SUs		OAG report received date	Response date	Response taking days	AQs category (Amount in 000 NPR)				Remarks
	Code	Name				To be recovered	To be regularised	Advance	Total	
		<b>GoN and Hospitals TOTAL</b>				<b>356762</b>	<b>4226369</b>	<b>1160962</b>	<b>5744093</b>	
		<b>GoN TOTAL</b>				<b>33153</b>	<b>342547</b>	<b>946066</b>	<b>1321766</b>	
1	27-370-16	MoHP	2076.11.29	2076.12.09	11	10901	<b>163889</b>		<b>174790</b>	
2	28-370-04	Pashupati Homeopathic	2076.09.25	2076.10.06	11	<b>43</b>			<b>43</b>	
		<b>Sub Total</b>				<b>10944</b>	<b>163889</b>	<b>0</b>	<b>174833</b>	
3	27-370-11	DoHS Child and Family Health Division	2077.01.12	2077.02.14	34	16234	32252	571618	<b>620104</b>	
	27-370-11	DoHS Epidemiology Division				545	36955	86515	<b>124015</b>	
	27-370-11	DoHS Management, Supply Division				3447	40511	139389	<b>183347</b>	
		<b>Sub Total</b>				<b>20226</b>	<b>109718</b>	<b>797522</b>	<b>927466</b>	
		<b>National Centres:</b>								
4	27-370-17	National Centre for AIDS & Venereal Diseases Control, Kathmandu 2076.12.03	2076.12.07	2077.01.08	32	<b>177</b>	<b>18856</b>	<b>108073</b>	<b>127106</b>	
5	27-370-18	National Health Education & Information Centre	2076.11.20	2076.12.20	31	844	<b>360</b>	<b>1200</b>	<b>2404</b>	
6	27-370-19	National Health Training Centre	2077.01.21	2077.02.21	32	481	<b>169</b>	<b>0</b>	<b>650</b>	
7	27-370-20	National Public Health Laboratory	2076.09.27	2076.11.01	33	0	<b>19405</b>	<b>93</b>	<b>19498</b>	
8	29-370-06	National Tuberculosis Centre	2076.12.03	2077.01.05	33	312	<b>24547</b>	<b>306</b>	<b>25165</b>	
9	31-370-03	Vector-born disease Research Training Centre, Makawapur	2076.09.08	2076.10.02	24	<b>0</b>	<b>387</b>	<b>0</b>	<b>387</b>	
10	47-370-03	Regional Tuberculosis Centre, Kaski	2076.10.10	2076.11.08	28	<b>5</b>	<b>0</b>	<b>0</b>	<b>5</b>	
		<b>Sub Total</b>				<b>1819</b>	<b>63724</b>	<b>109672</b>	<b>175215</b>	
11	<b>27-370-10</b>	<b>Department of Ayurveda</b>	<b>2076.11.11</b>	<b>2076.12.10</b>	<b>30</b>	<b>46</b>	<b>4181</b>		<b>4227</b>	
						<b>0</b>			<b>0</b>	
		<b>Sub Total</b>				<b>46</b>	<b>4181</b>	<b>0</b>	<b>4227</b>	

SN	SUs		OAG report received date	Response date	Response taking days	AQs category (Amount in 000 NPR)				Remarks
	Code	Name				To be recovered	To be regularised	Advance	Total	
		<b>Under DoDA:</b>							<b>0</b>	
12	27-370-15	DoDA 2076.10.20	2076.11.11	2076.11.28	18	0	487	38872	<b>39359</b>	
13	27-370-36	National Medicine Laboratory 2076.10.20	2076.11.11	2076.11.27	17	118	548	0	<b>666</b>	
14	10-370-06	DoDA, Morang	2076.09.06			0	0	0	<b>0</b>	No AQs
15	34-370-02	DoDA, Parsa	2076.08.13			0	0	0	<b>0</b>	No AQs
16	62-370-04	DoDA, Banke				0	0	0	<b>0</b>	No AQs
		<b>Sub Total</b>				<b>118</b>	<b>1035</b>	<b>38872</b>	<b>40025</b>	
		<b>Hospitals:</b>								
17	09-370-04	B.P. Koirala Health Science Academy, Dharan Sunsari	2076.12.03	2077.01.07	35	15731	<b>439927</b>	0	<b>455658</b>	
	09-370-04	B.P. Koirala Health Science Academy, Dharan Sunsari	2076.12.04	2077.01.07	34	60914	<b>548741</b>	0	<b>609655</b>	
18	10-370-04	Koshi Zonal Hospital	2076.09.07	2076.10.12	35	533	<b>2734</b>	<b>75</b>	<b>3342</b>	
19	15-370-00	Ramraja Prasad Shing Health Science Academy					<b>0</b>	0	<b>0</b>	No AQs
20	27-370-06	Ayurveda Clinic, Nardevi	2076.11.22	2076.12.18	27	359	<b>276</b>	0	<b>635</b>	
21	27-370-14	Kanti Child Hospital	2077.02.06	2077.02.28	23	677	1891	0	<b>2568</b>	
22	27-370-21	Paropakar Maternity Hospital	2076.11.18	2076.12.10	23	1082	8326	51307	<b>60715</b>	
23	27-370-27	Sukraraj Tropical Hospital	2076.12.10	2077.01.09	30	1157	2794	0	<b>3951</b>	
24	27-370-35	Shingh Durbar Vidhayakhana				294	204	0	<b>498</b>	
25	27-370-37	BIr Hospital 2072/73	2077.01.21	2077.02.23	34	89288	326122	2869	<b>418279</b>	
26	27-370-38	Trauma Centre 2074/75	2077.01.21	2077.02.24	<b>35</b>	15331	3691	11010	<b>30032</b>	
	27-370-38	Trauma Centre 2075/76	2077.01.21	2077.02.24	<b>35</b>	3116	14888	0	<b>18004</b>	
27	27-370-39	Health Insurance Board	2077.01.12	2077.02.11	31	1550	21057	0	<b>22607</b>	
28	27-370-40	Nepal Health Research Council	2077.01.21	2077.01.24	3	0	0	0	<b>0</b>	No AQs
29	27-370-41	Gangalal National Heart Centre	2076.12.03	2077.01.05	33	1073	18553	0	<b>19626</b>	

SN	SUs		OAG report received date	Response date	Response taking days	AQs category (Amount in 000 NPR)				Remarks
	Code	Name				To be recovered	To be regularised	Advance	Total	
30	27-370-48	National Ayurved Research and Training Centre	2076.11.11	2076.11.21	11	19	1147	0	<b>1166</b>	
31	28-370-03	Mental Hospital, Lalitpur	2076.11.22	2076.12.06	15	571	2107	0	<b>2678</b>	
32	28-370-06	Patan Health Science Academy	2076.01.21	2077.02.08	19	3615	101536	0	<b>105151</b>	
33	29-370-07	Sahid Dharma Bhakta Transplant Centre Bhaktapur	2076.11.06	2076.12.09	34	3062	42060	6000	<b>51122</b>	
34	34-370-04	Narayani Hospital, Parsa	2076.09.04	2076.10.06	32	695	100	48290	<b>49085</b>	
35	35-370-02	Bharatpur Hospital	2076.09.10	2076.10.10	30	24467	11098	0	<b>35565</b>	
36	35-370-06	B.P. Koirala Cancer Hospital Chitawan	2076.09.04	2076.09.28	25	2624	72	3841	<b>6537</b>	
37	43-370-05	G.P. Koirala National Respiration Centre, Tanhu	2076.08.20	2076.09.20	31	39	1303	0	<b>1342</b>	
38	47-370-06	Pokhara Health Science Academy, Kaski	2076.10.26	2077.11.12	17	48635	80823	0	<b>129458</b>	
39	55-370-04	Karnali Health Science Academy Jumla	2076.06.27	2076.07.27	31	13185	8998	0	<b>22183</b>	
40	60-370-14	Rapti Health Science Academy, Dang	2076.07.14	2076.08.17	34	22252	31684	0	<b>53936</b>	
41	62-370-03	Bheri Hospital, Banke <b>(4 Years audit)</b>	2076.09.19	2076.10.19	30	7721	198223	11954	<b>217898</b>	
42	62-370-09	Susil Koirala Prakhar Cancer Hospital, Banke	2076.09.19	2076.10.08	19	2870	31616	79550	<b>114036</b>	
43	64-370-03	Dadeldhura Hospital	2076.06.04	2076.06.12	8	0	9648	0	<b>9648</b>	
		<b>Sub Total (Hospitals)</b>				<b>320860</b>	<b>1909619</b>	<b>214896</b>	<b>2445375</b>	

**Note:** Data are collected from OAG 57<sup>th</sup> Annual report, 2020 and list of OAG. Data were verified from SUs APRs.

## **ANNEX 3: AUDIT OBSERVATION CATEGORY**

### **1. To be recovered**

#### **a) Salary and Allowances related to**

- excess payment on acting allowances, clinical allowances
- payment of festival expenditure without record
- payment of salary to those personnel who had already retired and transferred
- payment of local allowances during deputation period

#### **b) Tax related to**

- salary tax not deducted from salary
- tax not deducted on transportation rent; lease tax not deducted
- payment without tax deduction, deducted tax amount not deposited at bank

#### **c) Double payment and excess payment related to**

- double payment on salary, allowances, airplane ticket, TADA
- excess payment on salary, more than approved salary report
- excess payment more than approved budget on salary budget head expenditure
- excess payment more than bills

### **2. To be regularised**

#### **a. Procurement related to**

- procured without cost estimate, direct procured in a small piece
- goods procured from unauthorised forms, payment more than contract amount
- contracted procurement without complete documents, payment without completion report

#### **b. Against budget head expenditure**

#### **c. Inventory records related to**

- payment without purchase order and inventory records
- payment without submitting document

#### **d. Against regulations and norms related to**

- payment of TADA against regulation
- payment of meeting allowances against guidelines

#### **e. Documents related to**

- allowance distribution without receipt, no logbook of vehicle on fuel payment
- payment of last year's expenditure without OAG form no. 18, payment without airplane ticket
- payment without bills and receipt
- payment of meeting allowances without approved documents, payment of M&E expenses without the approval of authority
- no adjustment evidence on VAT payment, payment without tax/VAT invoice
- payment to those forms who are not registered on VAT,
- salary payment without approved salary report

#### **f. Deposit amount related to**

- cash balance is not deposited in bank, payment without deposit deduction
- deducted deposit amount is not deposited on revenue account

#### **g. Others related to**

- payment penalty on electricity bill
- amount transferred from freeze account to non-freeze account
- TADA payment in the same period of attending office

### **3. Advances**

- Mobilisation advance
- Personal advances
- LC advance
- Advance did not clear on time

**ANNEX 4: PERSONS INVOLVED IN DRAFTING THIS REPORT**

1.	Dr. Guna Raj Lohani, Chief, Policy, Planning and Monitoring Division, MoHP
2.	Mr. Ragu Ram Bista, Joint Secretary, Administration Division, MoHP
3.	Muktinath Neupane, Under-Secretary (Finance Chief), MoHP
4.	Lila Raj Poudel, Under-Secretary, Planning Section, MoHP
5.	Deepak Maharjan, Account Officer, MoHP
6.	Diwakar Ghimire, Chief Account Controller, Finance Section, DoHS
7.	Chabilal Pandey, Account Officer, MoHP
8.	Surya Bahadur Khadaka, Statistics Officer, Planning Section, MoHP
9.	Fadindra Giri, Computer Officer, Planning Section, MoHP
10.	Udaya Pandak, Accountant, MoHP
11.	Hema Joshi, Accountant, MoHP
12.	Dr. Suresh Tiwari, Lead Advisor, PPFM/NHSSP
13.	Mr. Ramesh Kumar Sharma, Senior Public Procurement Advisor/NHSSP
14.	Ms. Hema Bhatt, RBFA/NHSSP
15.	Dr. Devendra Prasad Gnawali, PFM Expert/NHSSP
16.	Mr. Shiv Prasad Pandit, TABUCS Advisor/NHSSP
17.	Mr. Bhanu Bhakta Niroula, PFM Advisor/NHSSP

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