

# Internal Audit Improvement Plan

(IAIP)

2017-2021



Ministry of Health  
Ramshahpath, Kathmandu, Nepal  
May, 2017

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## Preface

**Over the years**, the Ministry of Health (MoH) has improved the overall performance of its Public Financial Management (PFM) system. The formulation of a Financial Management Improvement Plan (FMIP); the formation of Audit and PFM Committees; the capacity building of account officers on the PFM system; the development of audit clearance guidelines; and internal control guidelines have all contributed to ensuring better governance at the MoH. More importantly, I am happy to note that the Transaction Accounting and Budget Control System (TABUCS) has promoted a greater financial discipline which will contribute to reducing audit queries routinely pointed out in final audits. We have started to make progress: in the last fiscal year 2015/16, the **Audit clearance has increased from 45% to 52%**. We want to keep this going and make more improvements in service delivery, PFM, and procurement processes.

MoH has taken several steps during the preparation and finalisation of this Internal Audit Improvement Plan (IAIP) 2017- 2021. This plan intends to strengthen the MoH's current practices in planning, accounting procedures, internal control system, internal audit and financial reporting. It further intends to enhance the capacity of human resources working in financial management. I believe, the development and implementation of the Internal Audit Improvement Plan (IAIP) will **contribute to the process of institutionalising the internal audit function at the MoH**. The MoH considers this document as a live document that will be continually revised as the context evolves.

The MoH appreciates the inputs from the officials working at MoH, DFID/NHSSP, and technical experts for their inputs into this plan. We also value the inputs from departments, centres and divisions under the MoH.

Senendra Raj Uprety

Secretary

Ministry of Health

Ramshahpath, Kathmandu, Nepal

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## ACRONYMS

CAO	Chief Accounting Officer
DTCO	District Treasury Controller Office
eAWPB	Electronic Annual Work Plan and Budget
EDP	External Development Partner
FCGO	Financial Comptroller General Office
FMIP	Financial Management Improvement Plan
FMRs	Financial Monitoring Reports
FRA	Fiduciary Risk Assessment
FY	Fiscal Year
GAAP	Governance and Accountability Action Plan (NHSP-2)
GoN	Government of Nepal
HR&FMD	Human Resources and Financial Management Division
ISEMEC	Irregularities Settlement Monitoring and Evaluation Committee
LC	Letter of Credit
MoF	Ministry of Finance
MoH	Ministry of Health
NHSSP	Nepal Health Sector Support Programme
NPSAS	Nepal Public Sector Accounting System
OAG	Office of the Auditor General
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PIP	Procurement Implementation Plan
PPICD	Policy Planning and International Cooperation Division
STS	Service Tracking Survey
SU	Spending Unit
TABUCS	Transaction Accounting and Budget Control System
TSA	Treasury Single Account

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# Internal Audit Improvement Plan (2017-21)

## 1. Background

Ministry of Health (MoH) has made an impressive headway in improving its Public Financial Management (PFM) system. During the Nepal Health Sector Programme-2 (NHSP-2), several initiatives were launched to strengthen PFM functions in Nepal's health systems (MoH, 2015). The progress relating to the Electronic Annual Work Plan and Budget (eAWPB) (Adhikari, et al., 2011) and the Transaction Accounting and Budget Control System (TABUCS) shows that sustainable financial management reform is possible in Nepal's health sector and that these reforms contribute to improving Nepal's health outcomes (Tiwari S et al., 2015). The current Financial Management Improvement Plan (FMIP, 2016-2021) intends to strengthen MoH's capacity in planning, accounting procedures, internal control systems, financial reporting, monitoring and auditing. One of the priority areas of FMIP is to strengthen the internal control system through the revision and proper implementation of the internal control and audit clearance guidelines endorsed in the NHSP-2 period (MoH, 2013). The development and implementation of the Internal Audit Improvement Plan (IAIP) will contribute to the process of institutionalising the internal audit functions at MoH. The Human Resource and Financial Management Division (HRFMD) under the MoH has led the process of developing and endorsing the IAIP. The IAIP is a live document, the implementation of which will start from July 2017. The process is supported by the Nepal Health Sector Support Programme phase 3 (hereafter referred to as NHSSP)<sup>1</sup>.

## 2. Rationale

PFM needs to have an effective internal control system contributing to the management of risks and ensuring value for money of the interventions. One important aspect of an internal control system is an internal audit. Whilst MoH has made significant progress in PFM, the internal audits need to be further strengthened. Development and implementation of an Internal Audit Improvement Plan will contribute in enhancing the capacity of spending units functioning under the MoH to increase the proportion of audit clearance and reduce the proportion of audit queries.

A functioning financial control system will be essential to support Government's Nepal Health Sector Strategy 2015-2020 (NHSS), particularly the core strategy of addressing inequities to achieve Universal Health Coverage (UHC) and offer services that leave no one behind (LNOB). Strong financial management systems are essential to support the achievement of these objectives and the FMIP is a key tool in the process as it guides effective annual planning and budgeting, and monitoring of the sector as per the NHSS Results Framework (RF)<sup>2</sup>. The MoH endorsed the FMIP in February 2017. One of the outputs of the FMIP is to prepare and implement Internal Audit Improvement Plan (IAIP) for maintaining financial discipline at MoH and its spending units (MoH, 2015). It will be guided by audit good practice standards, as well as the Public Expenditure and Financial Accountability (PEFA) report (2015/16) and the Office of Auditor General (OAG) report (2014/15).

In addition, recent changes in the governance structure of Nepal will require the PFM structures, including internal audit, to be reviewed and adapted. The unitary system of governance is being replaced with a devolved federal form of governance (Government of Nepal, 2015). The Constitution of Nepal has enshrined the provision of three tier governance including federal, provincial, and local levels. The constitution makes a provision for 7 provinces and more recently, the Government of Nepal (GoN) has

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<sup>1</sup> NHSSP3 is funded by the UK Department for International Development, supporting the MoH in the implementation of its Nepal Health Sector Strategy 2015-2020

<sup>2</sup> The NHSS (2015-2020) result framework (RF) covers "strengthened decentralized planning and budgeting" and "improved sector management and governance" which aims to reduce the audit queries.

decided to devolve local governance authority to 744 municipal/village councils. The provision of basic health services becomes the responsibility of provincial and local governments. In this context, the MoH acknowledges the importance of strengthening internal audit functions to ensure that they fit the changed context of more localised decision-making. HRFMD will take a lead role in updating this IAIP once the legal and administrative functions are clear.

### **3. Objectives**

The overall objective of the IAIP is to contribute to the process of institutionalising the internal audit function at the MoH. It also aims to improve the internal control function which will promote good governance in Nepal's health care delivery system by enabling a system of checks and balances. Specific objectives of the IAIP are to:

1. Maintain financial discipline through increased audit clearance and improved policy level discussion on the status of internal audit;
2. Improve compliance against guidelines related to internal control;
3. Establish the institutional practice in budget authorisation and implementation;
4. Regularise the payroll system in line with the approved positions and availability of staffs;
5. Harmonise the programme expenditure norms across the spending units;
6. Improve the advance settlement system through compliance and instructions;
7. Initiate informed decision making through the use of financial reports;
8. Update and upgrade TABUCS to improve reporting mechanisms;
9. Improve the internal audit function through tracking and progress review system; and
10. Institutionalise the internal audit functions through capacity development.

### **4. Methodology**

The NHSSP team has reviewed relevant documents, including: the Financial Act and Regulations (FAR); the Procurement Act and Regulations (PAR); the Audit Act and Regulations (AAR); the audit clearance guidelines; the internal control guidelines; the FMIP; and the MoH's audit status report. In addition, the OAG audit observation records available at MoH were reviewed to assess the audit status for the period FY 2010/11 to FY 2015/16 (MoH, 2010-2016). The Transaction Accounting and Budget Control System (TABUCS) has provided information on cash advances taken under various programmes in FY 2015/16 (Tiwari S et al., 2015) to provide information to guide development of the IAIP.

Using abovementioned information and analysis, key components of internal audit have been agreed and put into a framework that has been captured in the FMIP. A draft IAIP was shared with concerned officials and experts<sup>3</sup> for peer review. After the peer review, IAIP was presented in a workshop with MoH officials as well as PFM and procurement experts whose suggestions have been subsequently incorporated into the plan. A draft IAIP was also discussed with account officers from Kathmandu, Bhaktapur, Banke, Kalikot, and Mugu districts. The final draft has been prepared and submitted to the chief of HRFMD. Following the consent of HRFMD, the IAIP will be implemented. Both Audit and PFM Committees will monitor the progress made in IAIP.

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<sup>3</sup> Concerned officials includes: Chief of HRFMD, chief of MoH finance section, chief of DoHS finance section, finance officers, retired officials from FCGO, procurement experts and PFM experts.

## 5. Current Practices

Existing practice of conducting internal and final audits are captured in the Financial Procedural Act (1998) and Rules (2007), FCGO's internal audit guidelines 2016 and frameworks. This act places the MoH's secretary (defined as Chief Accounting Officer (CAO)) accountable to ensure proper utilization of the resources and maintaining the financial discipline. In the changing scenario of federalization, the role and power of the federal ministry will change, and the structure of this may need to be adapted accordingly. In this context, the MoH will need to further update this IAIP once respective legal provisions are enacted. Below is an overview of the existing practices based on which the IAIP has been developed.

### 5.1 Budget formulation and implementation

The MoH receives its budget ceilings from the National Planning Commission (NPC) and the Ministry of Finance (MoF) together with budget **preparation** directives. The budget is proposed on the basis of an implementation plan, health policy, NHSS, and discussions with external development partners (EDPs). The budget proposal is finalised through a tripartite meeting of MoH, NPC and MoF. MoH holds a series of Joint Consultative Meetings (JCM) to discuss and agree on the proposed budget.

### 5.2 Budget release

The Secretary of MoF issues authorization to the MoH's Secretary to implement the budget captured in the Annual Work plan and Budget (AWPB). Subsequently, the CAO issues an authorisation to the central level offices and department chiefs to implement the budget allocated to related departments of the ministry. Bank accounts in the name of District Treasury Controller Office (DTCO) all over the country operate the allocated budget, revenue, deposit, and other government funds. The Treasury Single Account System (TSA) makes payments against the pay request from spending offices.<sup>4</sup>

### 5.3 Reporting system

Spending units are required to submit monthly financial statements capturing allocation, expenditure, deposit, revenue, and funds of spending unit to DTCO and their superior office. The annual financial statement with other additional requirements mentioned in Financial Procedural Act need to be submitted to DTCO, departments, ministry, and OAG for audit purposes. The spending units submit physical progress statement along with financial statements in each trimester and annually.

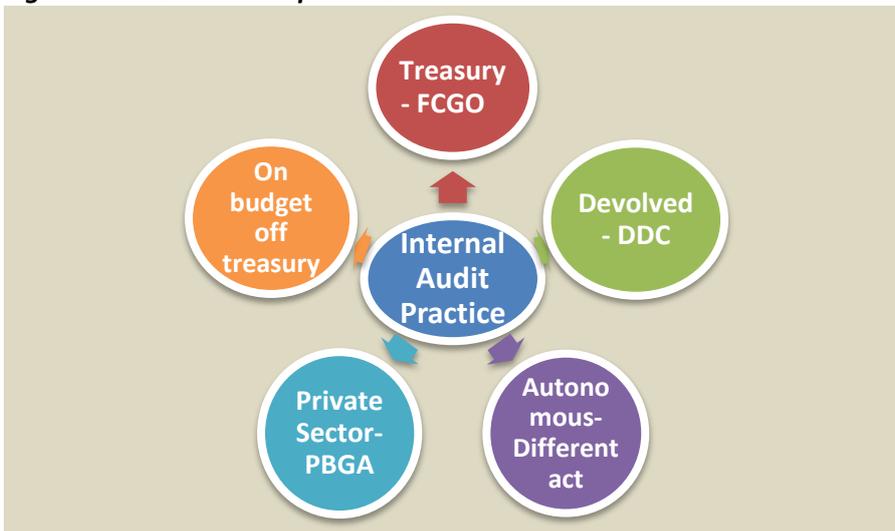
### 5.4 Internal audit

The DTCOs established in all 75 districts are responsible for timely budget release and to carry out onsite internal audit of government offices, including MoH's spending units. The Financial Controller General Office (FCGO), through the DTCOs, is responsible for internal audits of GoN operations at central and district level. The FCGO has issued Internal Audit Guidelines (IAG), 2016 to improve internal audit functions through DTCOs. We have reviewed FCGO's IAG and MoH's audit clearance guidelines while preparing and finalising IAIP. MoH has aligned relevant components of these two documents in the IAIP.

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<sup>4</sup> Treasury single account (TSA): Financial comptroller general office manages the TSA. This provision helped to reduce the number of individual bank accounts functioning under MoH's 308 spending units. All the treasury funds are being operated through district treasury controller office (DTCO).

**Figure 1 : Internal audit practices**



MoH funds that are channelled through the district development committees have different provisions for the internal audit. The internal audit section of the district development committees and municipalities are responsible for auditing of funds that go through their accounts. Offices incorporated under the Development Board Act, by government order, or under special charter, have a hybrid system of internal audit. Finally, MoH also provides funds to the private sector and the internal audit practices in direct and private funding are not harmonised into one standard system. The FPR requires that the internal audit shall be conducted for revenue, deposit, income and expenditure, of allocation or other public funds in spending units established in accordance with the prevailing law. Internal audit is performed to ascertain whether the financial resources are used in an economical, efficient and effective manner; if the goal, as per the approved annual program, has been achieved; and whether the internal control is effective. The DTCOs report to respective expenditure units and are responsible for clearing irregularities and implementing the recommendations in its report.

In the last few years, the following recommendations have been made for the improvement of the internal audit system:

- The PEFA report (2015/16) stated that FCGO has not prepared internal audit standards and guidelines that provide a framework to be used while conducting internal audits.
- The OAG report (2015) states that systemic issues, especially in achieving results, checking effectiveness of the internal control system and efficient use of financial resources, are not addressed properly by the internal audit process. Instead it states, it is limited to checking numeric and arithmetic errors, and verifying the accuracy of transactions.
- As prescribed in the Internal Audit Guidelines (IAG), 2016, the DTCO should perform an audit every trimester and issue its report regularly to government offices. However, in practice, reports are only issued annually. A representative sample of reporting under MoH offices is presented in table 1.

**Table.1 Status of internal audit function**

Spending Units	FY 2015/16		FY 2016/17- 2 <sup>nd</sup> Trimester
	Audit queries	Remarks	Status
DHO Tapalejung	0	Report once a year	No Internal audit
DPHO Jhapa	6,69,545	Report once a year	No Internal audit
DHO Nuwakot	15,57,387	Report once a year	Int. audit, but no report
DHO Lamjung	1,59,860	Report once a year	Int. Audit up to 1 <sup>st</sup> trime., but no report
KAHS, Jumla	2,81,64,686	Report once a year	No Internal audit
DHO Dadeldhura	3,525	Report once a year	Int. audit, but no report

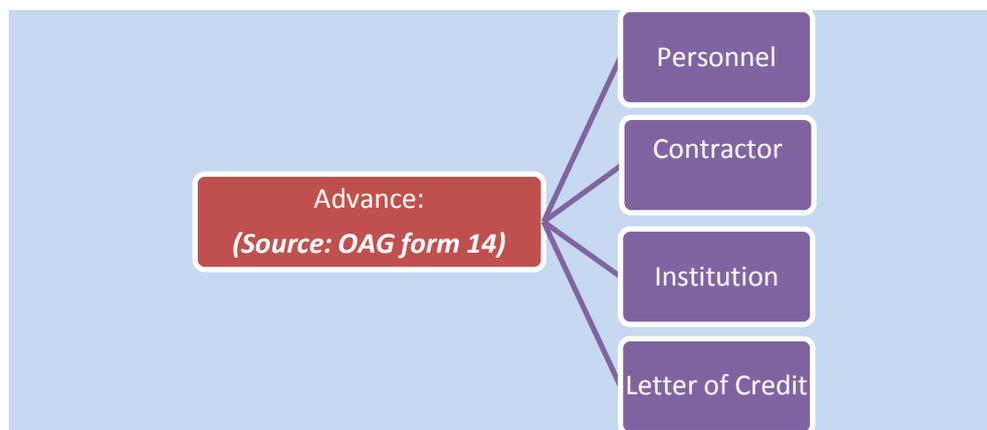
Source: MoH Finance Section, 2017

Table 1 shows that in most of the spending units the internal audit happens once a year. This is not sufficiently regular to allow MoH’s spending to be reviewed in order to ensure efficient and effective use of financial resources by government offices and autonomous bodies. Regular follow up and institutional arrangement in autonomous hospitals will be the short and medium term measures in ensuring good financial governance at MoH. HRFMD will provide specific framework to set up an institutional arrangement in all autonomous agencies. The institutional arrangement includes the establishment of internal audit section, posting of the staffs member and allocation of financial resource.

**5.5 Advance settlement**

According to the FPR, all advances should be settled within 21 days from the date of receipt of the statements, along with bills and vouchers. For the purpose of audits, unsettled advances are presented in the annual report of the OAG. Analysis of audit queries to date indicates that the majority relate to cash advances. The expending units are required to submit details of outstanding advances in the prescribed format (OAG form -14) along with monthly financial statement of expenditure to DTCO and the respective departments under MoH.

**Figure 2: Advance reporting practices**



The responsible officer submits a statement of advances outstanding for the current and previous year, detailing those of which the time limit for settlement has expired, and those of which time limit has not expired. Such reports of cumulative outstanding advances should be included in the annual financial statement submission to DTCO, MoH and OAG for audit. Advances outstanding at year-end are carried forward by the last vouchers and brought forward by first voucher during the next FY’s cash book.

## **6. Internal Audit Improvement Plan (IAIP)**

In December 2016, the FMIP for 2016-21 was developed and endorsed by the MoH. The objective of the plan is to extend good practices and implement new initiatives. The overall goal of the FMIP is to reduce fiduciary risk and improve overall financial accountability in the health sector. To support this, the MoH has taken a lead role in introducing the Transaction Accounting and Budget Control System (TABUCS) to create a more efficient accounting system<sup>5</sup>. The MoH has instructed all cost centres to use the TABUCS for their expenditure, planning, payroll, authorisation and audit. Once the finance officers enter the audit queries in TABUCS, the ministry can prioritise audit clearance needs and instruct the respective spending units to follow their instructions. For the FY 2015/16, the response in audit reports has started to be uploaded into TABUCS. This leads to prompt response on audit reports and minimises the volume of audit queries in annual report of the OAG.

Considering the institutional arrangements in the MoH and resources available, the IAIP is prepared (as prescribed by FMIP) to support the MoH in diagnosing major contributors of audit queries and to help prevent such queries in the final audit. The plan outlines steps to improve existing practices in line with the key recommendations made in the audit status report. The progress made in the IAIP will primarily be discussed at meetings of the Audit Committee. The secretary of the MoH chairs the Audit Committee (See Committee Terms of Reference (ToR) in annex A). The audit Committee is the highest level committee for the public procurement and financial management functions in the MoH. Most of the technical content of the IAIP will be reviewed and recommended by the PFM Committee which is chaired by the Chief of PPICD (ToR of the PFM committee included in annex B). Implementation of the IAIP will begin from July 2017 and is to be completed in June 2021. The IAIP plan is presented below.

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<sup>5</sup> TABUCS is accounting software which allows capturing of basic accounting transactions at the source level, and enforces budgetary control procedures.

## Internal Audit Improvement Plan (IAIP)

2017-2021

SN	Key Objectives/Key Activities	Implementing Unit in MoH	Key Indicators	Time frame	Status	Remarks
<b>1. Improved financial control</b>						
<b>objective :</b> Maintain financial discipline through increased audit clearance and improved policy level discussion on the status of internal audit						
1.1	Public Financial Management (PFM) Committee to improve the overall audit status	PPICD and HRFMD	<ul style="list-style-type: none"> <li>- Issuance of budget authorisation within 15 days</li> <li>- Status report on internal audit and final audit</li> <li>- Progress on audit queries</li> <li>- Meetings decisions shared to members and concerned entities within a week of meeting</li> <li>- Sharing health sector plan to OAG and FCGO</li> <li>- Discussion on the scope of PFM in federal context</li> </ul>	Each trimester (November, March and July of each FY)	Committee formed. Ongoing- July 2017- June 2021	
1.2	Audit queries clearance report & Audit status report	HRFMD/DoHS	<ul style="list-style-type: none"> <li>- Status of audit clearance reports produced by spending unit to Departments &amp; MoH</li> <li>- Monthly audit queries clearance report</li> <li>- Yearly audit queries status report</li> <li>- % of spending unit having trimestral internal audit : Y1: 40%, Y2: 50, Y3: 50%, Y4: 75% and Y5: 85%</li> </ul>	within September  Ongoing- 2017-2021		
<b>2. Updated guidelines and framework</b>						
<b>Objective:</b> Improve compliance against guidelines related to internal control						
2.1	Update and disseminate guidelines on internal control	PFM committee	-Internal control guidelines revised and endorsed	May 2017	Completed	FPR 2007 clause. 95(1)

SN	Key Objectives/Key Activities	Implementing Unit in MoH	Key Indicators	Time frame	Status	Remarks
2.2	Maintain risk register framework	Finance Section	-Risk flow process identified, - Risk based annual plan prepared and implemented	January, 2018  Ongoing- 2017-2021		
2.3	Standard e- tracking system on the flow of Memo/Tippani and decisions taken developed	HRFMD & Administration Division	-Software developed and implemented	Dec. 2017  Ongoing- 2017-2021	In process	
2.4	Progress on Internal audit status monitor through TABUCS	Finance section	-Requirement report prepared and included in TABUCS	2017 July Ongoing- 2017-2021		
<b>3. Enhanced practices related to budget authorisation</b>						
<b>Objective:</b> Establish intuitional clarity in budget authorisation and implementation						
3.1	Timely budget authorisation by MoH/ Departments to spending unites	PPICD and Finance section	- Authorization entered into TABUCS  -Status of programme revision	30 <sup>th</sup> July  every March		
3.2	Instruct the responsible officer on budget and programme implementation	PPICD, HRFMD	-Instruction on budget implementation prepared with instruction from MoF and NPC	Each year within the 3 <sup>rd</sup> week of July. Ongoing- 2017-2021	Currently in practice	
3.3	Reduce the volume of virements	PPICD, HRFMD	- Assessment of virements - Virements status tracked through TABUCS - End of 5 year virements reduced to less than 5%	Every March  Ongoing- 2017-2021		
<b>4. Improved payroll arrangements</b>						
<b>Objective :</b> Regularise the payroll system in line with the approved positions and availability of staff						

SN	Key Objectives/Key Activities	Implementing Unit in MoH	Key Indicators	Time frame	Status	Remarks
4.1	Review of HR and payroll preparation	Administration section and Finance section	<ul style="list-style-type: none"> <li>- Payroll approved by DOPR/ DTCO</li> <li>- Assessment report on staff not requiring payroll approval</li> <li>- Payroll approved within July: Y1: 75%, Y2: 80%, Y3: 85%, Y4: 95, Y5: more than 95%</li> </ul>	Every July  September 2018 Ongoing- 2017-2021		- PEFA (PI-18)
4.2	Action taken on staff absent from assign duty	Admin division	<ul style="list-style-type: none"> <li>- Records from administration section</li> <li>- Assessment on current status of deputation at all levels</li> </ul>	Every August Every two years		-
<b>5. Harmonized norms related to programme expenditure</b>						
<b>Objective:</b> Harmonise the programme expenditure norms across the spending units						
5.1	Updated and harmonized Programme expenditure departmental divisional norms	PPICD& HRFMD	<ul style="list-style-type: none"> <li>- Expenditure norms for workshop, trainings, seminar, review meeting prepared and updated.</li> <li>- 100% authorities using uniform expenditure norms</li> </ul>	May 2018 Ongoing- 2017-2021  2018/19 onward		Uniformity in the operation
5.2	Preparation of Performance based Grant Norms for hospital services	PPICD & HRFMD	<ul style="list-style-type: none"> <li>- Grant norms prepared and updated</li> <li>- Performance-based contracts signed</li> <li>- MoH annual reports on Performance Based Grants Agreements (PBGA)</li> </ul>	September every year August every year		- PEFA (PI-8) - FMIP Dec. 2012, (4.3)
5.3	Preparation of grant guidelines for province and local level government	PPICD& HRFMD	<ul style="list-style-type: none"> <li>- Guidelines for the transition period operation for devolved programme to implement the constitution prepared</li> </ul>	October 2018 Ongoing- 2017-2021		
5.4	Submission of FMR	HRFMD	Submission of FMR	every trimester (November, March and July of each FY)		
<b>6. Regularised advance transaction</b>						
<b>Objective:</b> Improve the advance settlement system through compliance and instructions						
6.1	Timely settlement letter of credit (L/C) Advance	HRFMD/ DoHS	L/C account timely closed	Ongoing 2017-2021		

SN	Key Objectives/Key Activities	Implementing Unit in MoH	Key Indicators	Time frame	Status	Remarks
6.2	Mobilisation Advances	DoHS	<ul style="list-style-type: none"> <li>- Mobilisation advances deposited in the specified bank accounts of the contractor</li> <li>- Bank guarantee record maintained</li> <li>- Advance in agreed instalment in each interim payment deducted.</li> </ul>	Ongoing 2017-2021		
6.3	Regularise organizational and individual advances	expenditure authority	<ul style="list-style-type: none"> <li>- Advances provided against detail statement of work plan</li> <li>- Additional advances without clearing previous advances not provided</li> <li>- Interest charged to defaulter</li> <li>- Regular monitoring on the status of advances by responsible officer</li> <li>- No procurement of office supplies in cash</li> <li>- Departmental action taken against unsettled advances</li> </ul>	<p>Within 21 days of document submission within 7<sup>th</sup> of each month</p> <p>Ongoing- 2017-2021</p>		<p>FPR( Rules74)</p> <p>FPR ( Rules77)</p> <p>FPR(Rules 74)</p> <p>FP( Rules77(3))</p> <p>FPR(rules 81)</p> <p>FPR( Rules79)</p>
<b>7 Improved financial and physical progress report</b>						
<b>Objective:</b> Initiate informed decision making through the use of financial reports						
7.1	Preparation of financial statement	Finance section of spending unit	<ul style="list-style-type: none"> <li>- Monthly, trimesterly and annual financial statement submitted to DTCO, OAG and concerned entities</li> <li>- Status report on audit queries submitted to ISEMC</li> <li>- Annual including NPSAS</li> </ul>	<p>Within 1st 7 days of each month</p> <p>Ongoing- 2017-2021</p>		<p>FPR[36(10)]</p> <p>FPR( rules 101)</p>
7.2	Special purpose financial statement submission	Finance section ,MoH	<ul style="list-style-type: none"> <li>- Unaudited project Accounts presented by 15<sup>th</sup> October</li> <li>- Clarification and action taken, notes on the audit report and management letter prepared</li> <li>- Integrated financial statement showing disbursement, direct payment for the last FY submitted to FCGO</li> </ul>	<p>By 15<sup>th</sup> November</p> <p>By 15th January. within 15<sup>th</sup> November</p>		

SN	Key Objectives/Key Activities	Implementing Unit in MoH	Key Indicators	Time frame	Status	Remarks
7.3	Report on physical report preparation	PPICD	<ul style="list-style-type: none"> <li>- Bimonthly progress report on the Priority one project submitted</li> <li>- Trimester progress of program implementation in ministry submitted (November, March and July)</li> <li>- Status of progress on the budget implementation up to second trimester submitted to MoF</li> <li>- Yearly progress report prepared</li> </ul>	November, March and July of each FY		FPR,2007 (rules 31)
7.4	Preparation of statements of commodity grants	all spending units	Statements of grants in kind prepared and informed to FCGO, updated records in TABUCS	within 15 days receipt		FPR(rules 48)
<b>8. Improved financial accounting</b>						
<b>Objective:</b> Update and upgrade TABUCS to improve reporting mechanism						
8.1	Update & upgrade TABUCS	PPICD/HRFMD/DoHS	<ul style="list-style-type: none"> <li>- TABUCS system updated and upgraded</li> <li>- Automatic sequential numbering of TABUCS transaction</li> </ul>	2017/18		<ul style="list-style-type: none"> <li>- PEFA (PI-22&amp;23)</li> <li>- FMIP Dec. 2012, (2.1)</li> </ul>
8.2	Prepare FMRs within 45 days after the completion of each trimester using TABUCS	HRFMD	<ul style="list-style-type: none"> <li>- FMRs produced from TABUCS</li> </ul>	within 45 days after end of each trimester		
8.3	Prepare IPRs annually within 45 days using TABUCS	MoH HRFMD, DoHS	<ul style="list-style-type: none"> <li>- IPRs produced from TABUCS</li> </ul>	Starting FY 17/18		FMIP Dec. 2012, (2.5)
<b>9. Improved internal audit tracking</b>						
<b>Objective:</b> Improve the internal audit functions through tracking and progress review system						

SN	Key Objectives/Key Activities	Implementing Unit in MoH	Key Indicators	Time frame	Status	Remarks
9.1	Review of the internal audit report	MoH/ Departments Finance t section	<ul style="list-style-type: none"> <li>- Review the current status of internal audit</li> <li>- Identify the underlying causes of audit observation</li> <li>- Record of internal audit report maintained in TABUCS</li> <li>- Instruction to settle the internal audit queries before final audit</li> <li>- Response to the internal audit: Y1:20%, Y2:30%, Y3:40%, Y4: 50%, Y5: 60%</li> </ul>	<p>October, 2017</p> <p>December 2017 on going</p>		
9.2	Institutionalise the internal audit in autonomous hospitals	Autonomous hospital governing board	<ul style="list-style-type: none"> <li>- No. of autonomous hospitals having an internal audit section</li> <li>- Standard internal audit guideline for autonomous hospital prepared and endorsed</li> <li>- Trimester IA report reviewed (November, March and July)</li> </ul>	<p>May 2018</p> <p>October 2018</p>		
9.3	Strengthen financial monitoring and feedback mechanism	MoH PPICD & HRFMD/ PMED	<ul style="list-style-type: none"> <li>- Use of monitoring tools included TABUCS</li> </ul>	on going	running	
9.4	Feedback to Audit Committee	Finance Section of MoH/ Departments	<ul style="list-style-type: none"> <li>- Audit committee meeting</li> <li>- Progress reports and feedback</li> </ul>	November, March and July of each FY		- FMIP Dec. 2012, (7.5)
9.5	Feedback to Public Financial Management Committee (PFM)	PPICD/HRFMD	<ul style="list-style-type: none"> <li>- PFM Committee meeting</li> <li>- Progress reports and feedback</li> </ul>	November, March and July of each FY		- FMIP Dec. 2012, (7.6)
9.6	Issuance of management Representation	Finance Section of MoH/ Departments, spending units	Management representation letter	Ongoing- 2017-2021		-
9.7	Timely Response on Audit Issues	Finance Section of MoH/ Departments, spending units	Response record in TABUCS	Ongoing- 2017-2021		-
9.8	Response on OAG annual draft audit observation	MoH	Response with letter	March		-
9.9	Access to TABUCS data by OAG	MoH HRFMD	TABUCS data accessed by OAG	June 2019		

SN	Key Objectives/Key Activities	Implementing Unit in MoH	Key Indicators	Time frame	Status	Remarks
9.10	Periodic interactions with OAG and FCGO	HRFMD	Meetings on systematic issues	as required		
9.11	Reporting to Public Accounts Committee (PAC)	MoH	- Letter and response on OAG report - Progress on PAC instruction	June every year		
<b>10. Institutionalised internal control</b>						
<b>Objective:</b> Institutionalise internal audit function through capacity development and implementation for the core functions						
10.1	Activating different committees to enhance the financial management and procurement functions	HRFMD	- Meeting of audit committee, CAPP monitoring committee and PFM Committee  - Separate unit to coordinate created within MoH's finance section	November, March and July of each FY  July 2018		-
10.2	Rewarding the best performer	HRFMD	Decision on audit performance	October every year		-
10.3	Stock take on current auction practices	all spending units	Auction status report	every year		
10.4	Build the capacity of responsible officers in internal audit	HRFMD/ Departments	Training / workshop	In the 1 <sup>st</sup> trimester each year		
10.5	Update Financial Management Handbook	MoH HRFMD	Updated Financial Management Handbook	Dec 2018		RFR (WB) App 2 (1.6)

## **7. Way Forward**

The MoH has made progress in developing policies, designing systems, forming committees and organising their meetings, and implementing a flagship PFM system TABUCS. In order to achieve and sustain the progress in reducing the audit queries and increasing the audit clearance, the following points need to be considered:

- Ensure proper implementation of TABUCS in the spending units functioning under MoH;
- Initiate maintenance of responses in preliminary audit in TABUCS;
- Maintain records of internal audit in each trimester and include them in TABUCS;
- Make provisions for audit in the financial rules of the boards, committees and autonomous institutions;
- Prepare and implement internal audit manuals for autonomous hospitals and other institutions;
- Form an audit committee in the hospitals to manage the internal and final audit;
- Establish a section at MoH and DoHS responsible for taking a lead role in implementing the entire audit cycle; and
- Invest in developing human resource capacities in financial management, strategic planning, and the use of technology based solutions.

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**Terms of Reference  
For  
Audit Committee**



Human Resource and Financial Management Division (HRFMD)

Ministry of Health

Ramshahpath, Kathmandu

May, 2017

## **1. Background**

Effective Internal control systems play a vital role in safeguarding assets and utilization of funds which contribute to the proper implementation of planned activities in the health sector. Audits are one such control tool and the Ministry of Health (MoH) has taken different initiatives to manage and accelerate their audit clearance system. The Financial Procedure Regulation, 2007 (FPR) has included a provision of the responsible authority of spending unit and chief accounting officer (COA) at the ministry to be responsible for implementing the budget and maintaining financial discipline. Weak financial discipline can contribute to an increase in audit queries among the spending units functioning under MoH. In order to improve the financial management practices, MoH has endorsed the financial management Improvement Plan (FMIP) 2016-21. The audit committee is the highest committee under the MoH. The Secretary chairs the audit committee.

## **2. Rationale**

In 2012/13, the MoH prepared its audit clearance guidelines, with the audit committee taking the lead role in finalising them. These guidelines were officially endorsed in February 2014 and the MoH's Finance Section is taking the lead in implementing them. The MoH has suggested to the Department of Health Services (DoHS) that it needs to build the capacity of its finance officers on Public Financial Management (PFM), particularly on audit clearance, internal control, and financial governance. The MoH's internal control guidelines were also officially endorsed in March 2014. The MoH has circulated these two guidelines to all cost centres and all 75 district treasury controller offices (DTCO). In order to monitor progress in this area the MoH formed an Audit Committee in April 2012 with the objective of improving financial discipline. This committee has taken the lead in preparing and finalising MoH's audit clearance guidelines and internal control guidelines. This updated ToR will help to monitor the progress made in both internal and final audits of MoH

An Audit Support Committee has been formed to help the Audit Committee achieve its objectives. The Support Committee reviews audit-related reports and presents them to the Audit Committee. This committee organises meetings as and when required and is responsible to the audit committee.

## **3. Objectives**

The committee intends to strengthen the internal control system by ensuring financial discipline, organising regular meetings, enhancing the response to internal audit, and responding to audit queries. Specific objectives are to:

1. Prepare an explanation of the issues included in the OAG's annual report and submit them to the Public Accounts Committee (PAC);
2. Prepare the basis for assuring value for money while regularising the financial transactions especially raised in audit queries;
3. Provide instructions on internal audit of autonomous entities under MoH;
4. Monitor the progress against the internal audit improvement plan (IAIP);
5. Instruct subordinate offices to arrange for trimester internal audit and address the queries raised by the auditor;
6. Strengthen TABCUS to capture data of different activities, as needed, ensuring the creditability and timely submission of financial statements;

7. Maintain the decision taken for regularizing transactions on the basis that there is no government wastage as per FPR clause 103(1), and monitor actions taken on the conditionalities mentioned while regularizing the transactions; and
8. Endorse the standard operation procedures that will guide in clearing audit queries raised by the auditors.

#### 4. Composition of the Audit Committee and the Audit Support committee

##### Audit committee

SN	Position and Office	Committee Position
1	Secretary, MoH	Chairperson
2	Chief HR&FM Division (MoH)	Co-chairperson
3	Director General, DoHS	Member
4	Chief ,DoHS Finance Section	Member
5	Chief ,Health Sector Reform Unit (HeSRU)	Member
6	Chief ,MoH Finance Section	Member Secretary

##### Audit Support Committee

SN	Position and Office	Committee Position
1	Joint Secretary, HRFM division, MoH	chairperson
2	Chief , Management Division, DoHS	Member
3	Chief ,Logistic division, DoHS	Member
4	Chief, Monitoring and evaluation Section, MoH	Member
5	Chief (Under secretary), Finance Section,MoH	Member
6	Chief, Policy and Planning Section, MoH	Member
7	Chief Accounts Controller, Finance section DoHS	Member
8	Chief, Finance Section, DoAur.	Member
9	Chief, Finance section, DoDM	Member
10	Accounts officer, assigned to handle Irregularities	Member Secretary

#### 5. Procedure

The Audit committee will meet each trimester at the MoH. The meeting will be called by the chairperson of the committee. HRFMD is a secretariat for this committee. Following the meeting, the secretariat will circulate draft minutes, seek responses from members, and finalise the minutes of meeting within a week. The final minutes shall be submitted to the Secretary and other related authorities.

#### 6. Reporting

The MoH finance section will keep all records of the meetings, reports and plans. The section is responsible to the HRFMD.

*Annex B ToR of PFM Committee*

**Terms of Reference**  
**For**  
**Public Financial Management Committee**



Human Resource and Financial Management Division (HRFMD)

Ministry of Health

Ramshahpath, Kathmandu

May, 2017

## **1. Background**

The Ministry of Health (MoH) has made significant improvements in budget allocation, absorption and financial management during the Nepal Health Sector Programme-2 (NHSP-2, 2010–2015). The main gains have been achieved through the development and implementation of Financial Management Improvement Plan (FMIP, 2012/13–2015/16); the development and implementation of the Transaction Accounting and Budget Control System (TABUCS) which link the budget with expenditure; and the development and introduction of systems to reduce the proportion of audit queries against audited expenditure.

## **2. Rationale**

Well performing PFM processes ensure that limited financial resources are being used efficiently and effectively and in line with government policies and priorities. Public Financial Management (PFM) refers to the capability of government to plan in accordance with national policy and fiscal framework; to prepare budgets and ensure their timely release; to ensure transparent and timely accounting of spending; and to follow up on financial and value for money audit of expenditure.

The MoH formed a PFM Committee in 2012/13 to improve financial management at the ministry. The Chief of the Policy Planning and International Cooperation Division (PPICD) chairs this committee with high level health officials and External Development Partner (EDP) representatives as members. To date there was no ToR to guide the overall scope of this committee. As such, the MoH has prepared this ToR in order to standardise the monitoring of progress made in the procurement and PFM system.

## **3. Objectives**

The overall objective of the PFM Committee is to monitor the progress made in procurement in public financial management. Specific objectives are to:

1. Review the progress against FMIP and advise concerned divisions and centers how to improve their performance;
2. Review the draft updated FMIP and provide recommendations to the MoH to formalise it;
3. Review the progress against PIP and advise concerned divisions and centers how to improve their performance;
4. Review the draft updated PIP and provide recommendations to the MoH to formalise it;
5. Discuss audit status and help the MoH to identify approaches to reduce the practice of using cash advances;
6. Provide ongoing recommendations for the improved rollout and functionality of TABUCS;
7. Review the FMR and provide necessary feedback;
8. Review the expenditure practices and advise concerned divisions on improvements; and
9. Discuss other PFM reform agendas as and when they arise.

#### 4. Composition of the committee

SN	Members	Position
1	Chief, PPICD (MoH)	Chairperson
2	Chief, HR&FRM Division, MoH	Co-chair
3	Director, Logistics Management Division (DoHS)	Member
4	Under-secretary, PPICD (MoH)	Member
5	Chief, MoH Finance Section	Member
6	Chief, DoHS Finance Section	Member
7	Representative from DFID	Member
8	Representative from World Bank	Member
9	Representative from USAID	Member
10	Representative from ,KfW	Member
12	Representative from ,NHSSP	Member

#### 5. Procedure

The PFM Committee will meet each trimester at the MoH. The meeting will be called by the chairperson of the Committee. The HRFMD is the secretariat for the committee. Following the Committee meetings, the secretariat will circulate draft minutes, seek responses from members, and finalise the minutes of the meeting within one week. The final minutes shall be submitted to the Secretary and other related authorities.

#### 6. Reporting

The MoH finance section will keep all records of the meetings, reports and plans. The section reports to the HRFMD. The PFM committee reports to the Secretary.