



Progress Report:

Building the Capacity of the Ministry of Health and Population on Audit Status Management and the Implementation of its Financial Management Improvement Plan (FMIP)

July 2014

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LIST OF ACRONYMS

ACC	Audit Clearance Committee
AQCEMC	Audit Queries Clearance Evaluation and Monitoring Committee
DHO	district health office
DoHS	Department of Health Services
DPHO	district public health office
DTCO	district treasury comptroller's office
eAWPB	electronic annual work plan and budget
EDP	external development partner
FCGO	Financial Comptroller General's Office
FMIP	Financial Management Improvement Plan
FMRs	financial monitoring reports
FRA	fiduciary risk assessment
FY	fiscal year
GAAP	Governance and Accountability Action Plan (of NHSP-2)
GoN	Government of Nepal
HR&FM Division	Human Resources and Financial Management Division
KCCRO	Kumari Chowk and Central Recovery Office
MoF	Ministry of Finance
MoHP	Ministry of Health and Population
NA	not available
NHSP-1	Nepal Health Sector Programme 1
NHSP-2	Nepal Health Sector Programme 2
NHSSP	Nepal Health Sector Support Programme
OAG	Office of Auditor General
PAC	Public Accounts Committee
PFM	public financial management
PHCC	primary health care centre
PIP	Procurement Implementation Plan
PPICD	Policy Planning and International Cooperation Division
SU	spending unit
TABUCS	Transaction Accounting and Budget Control System
TSA	Treasury Single Account
VDC	village development committee

EXECUTIVE SUMMARY

During the first three years of its second Nepal Health Sector Programme (NHSP-2, 2010–2015), the Ministry of Health and Population (MoHP) has launched a number of initiatives to improve public financial management in Nepal's health sector. These include new policies and systems, structural changes (including the formation of specialist committees), the institutionalisation of new procedures, and capacity enhancement to enable the rollout of the new procedures.

Foremost among these initiatives is MoHP's Financial Management Improvement Plan (FMIP). Under this plan MoHP has:

- improved budgeting systems;
- designed and implemented a transaction accounting and budget control system (TABUCS);
- formulated internal financial control guidelines;
- prepared audit clearance guidelines (MoHP 2014); and
- strengthened day to day auditing support through the recruitment of an audit focal person in both MoHP and the Department of Health Services (DoHS).

MoHP's audit clearance guidelines are designed to reduce the number of high level audit queries raised and to accelerate audit clearance. Part of the current report documents the progress made in this area in the first three years of NHSP-2 (2010–2013). It reports that while there have been some improvements, the overall proportion of audit queries in this period actually increased and only modest progress has been made in responding to audit queries. However, this should not be viewed as particularly surprising in the early stages of implementing the new financial control and audit clearance guidelines, and may be due in large part to the significant budget shortfall (and therefore the need to vire funds between budget lines) in fiscal year (FY) 2012/13. A longer timeframe is needed to judge the effectiveness of these new initiatives.

In order to bring greater clarity on MoHP's audit status management, the current report describes the auditing process and audit status of the various entities that function under MoHP. Beyond this, the primary objective of this report is to:

- report the progress on building MoHP's capacity to submit audit status reports by the end of each trimester; and
- describe the actions taken by MoHP's to report the implementation status of FMIP by the end of each trimester.

This report describes how NHSSP has built the capacity of MoHP to prepare monthly audit status reports. MoHP is now regularly submitting these reports to the chief secretary/Government of Nepal.

Another important development has been MoHP and its external development partners (EDPs) agreeing to add a column in the FMIP matrix for documenting activity-wise progress. This information will be used to present the progress made to meetings of the Public Financial Management (PFM) committee. This is a more practical approach than preparing FMIP status reports.

The audit status reports reveal the following situation related to audit queries and the clearance of queries: Of the three major types of audit queries (expenditure to be recovered, expenditure to be regularised, and advances to be cleared):

- ‘expenditure to be regularised’ made up the largest proportion of queries in 2012/13 (58%); while
- ‘advances to be cleared’ made up the largest proportion in 2011/12 (71%).

The primary cause of expenditure needing to be regularised was ‘lack of evidence of expenditure’ (>70% cases) while the primary cause of outstanding advances was ‘expenditure on the procurement of medicines and equipment’ (>95%). Of the total audit queries for 2012/13, central level bodies accounted for approximately nine of every ten queries and local bodies one in ten.

Despite a slow start, MoHP is committed to advancing the audit clearance process and recently convened a meeting of its PFM committee to present audit status findings (see Annex 2) and to inform members that it had assigned specialist audit focal persons to MoHP and DoHS. These staff are responsible for preparing and forwarding the monthly audit status reports to the Audit Queries Clearance Evaluation and Monitoring Committee (AQCEMC), which is chaired by the Chief Secretary of the Government of Nepal (GoN).

MoHP believes that improvements can be expected over time in financial management and audit practices and that these will have a positive impact on public financial management in the medium and long term. MoHP recognises that in order for this to happen, its audit clearance and internal control guidelines need to be fully institutionalised and implemented. Furthermore, a dedicated section responsible for overseeing the full audit and audit clearance cycle is needed in both MoHP and DoHS. The FMIP also needs to place a stronger emphasis on strengthening audit practices and building the capacity of the audit committee.

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1. INTRODUCTION

1.1. Background

Financial management refers to the capacity to plan in accordance with national acts, regulations, policies, guidelines and fiscal frameworks; to prepare budgets and ensure their timely release; to ensure transparent and timely accounting of spending, and to audit expenditure including assessing value for money. During NHSP-1 (2004–2010) and the first three years of NHSP-2 (2010–2015), several initiatives were launched to strengthen PFM in Nepal’s health system. These are seen to have improved the authorisation of budgets, the integration of planning and budgeting processes, and the strengthening of decision making by MoHP’s Audit Clearance and PFM Committees.

The modernisation of MoHP’s financial management systems and related capacity enhancement of staff in its various spending units are important objectives of NHSP-2’s Governance and Accountability Action Plan (GAAP) and Financial Management Improvement Plan (FMIP). Accordingly MoHP has launched several new field level initiatives including an electronic Annual Work Plan and Budgeting (e-AWPB) system to make the full budget process (planning, execution and analysis) web-based and the innovative TABUCS accounting and budget control package.

Despite progress made against several core FMIP indicators in the first three years of NHSP-2, the institutionalisation of effective financial monitoring, implementation of internal control guidelines and progress in achieving sustained reductions in audit queries remain major causes of concern for the ministry as described more fully in the sections below.

1.2. Objectives

As noted, MoHP, through its FMIP and the activities of its PFM committee is committed to strengthening PFM practices related to financial recording, reporting, internal control and auditing including sustainable reductions in the number audit queries. Accordingly, this document sets out to:

1. Highlight the practices followed during the preparation of internal and final audits
2. Assess and analyse MoHP’s audit status for the first three years of NHSP-2, and
3. Describe the main initiatives introduced by MoHP to improve the PFM practices and reduce audit queries.

2. MOHP'S AUDITING SYSTEM

The main objective of an audit system is to assist the government/legislature-parliament to improve the accuracy, transparency and accountability of public financial expenditure. This is achieved through an examination, analysis and evaluation of financial transactions and associated activities carried out by government agencies, corporate bodies, other entities and boards by a credible, independent and impartial entity.

Nepal's Audit Act 1991 defines an audit as an examination of the books of account and an analysis to evaluate them. MoHP adheres to the Act and its regulations deploying a system that involves an internal interim audit leading to a final audit report.

2.1. Internal Audit Process, Timeline and Response

An internal audit is an independent management tool that leads to and serves as an effective supplement to a final audit. Its scope of activities includes all financial and operations related accounting. According to GoN's Financial Procedures Regulations an "internal audit" must be performed by the Financial Comptroller General's Office (FCGO) taking into consideration the following:

- *Process and timeline:* On behalf of the FCGO, district treasury comptroller's offices (DTCOs) conduct an internal audit of each field office within one month of the end of each trimesterly (4 month) period with the audit report submitted to the office in-charge within 15 days¹.
- *Response to internal audit report:* The office retains the records of this internal audit including its observations and seeks to address all audit queries prior to proceeding to the final audit.
- *Cessation of internal audit report:* The observations mentioned in the internal audit report are addressed and unresolved matters ultimately incorporated in the report of Office of the Auditor General (OAG) which is considered to be the final or 'external' audit report.

2.2. External or Final Audit Process, Timeline and Response

The Interim Constitution of Nepal mandates the Auditor General to carry out audits of public entities and to submit an annual audit report to parliament. This audit process is described as follows and Table 1 below lists the timeline of the major ministry-wise audit activities in Nepal.

- *Notification of audit:* The OAG issues a circular with an annual audit calendar to all ministries at the end of the financial year or beginning of the new one.
- *Audit implementation:* The audit process normally begins in field offices from mid-August (Bhadra). Once completed, the OAG provides the spending unit with its audit report on the spot and forwards a copy to the DTCO and appropriate MoHP department.
- *Duration of auditing:* The audit process runs continuously from mid-August to mid-February (end of Magh).
- *Discussions:* After completing the audit in the field the auditor discusses the findings and observations with the officer- in-charge and accountant chief.

¹ As per the Internal Audit Directory, 2012 issued by the Financial Comptroller General's Office (FCGO).

- *Preliminary audit report:* Following these discussions the auditor provides a preliminary audit report with a request to respond to queries within 35 days. A copy of the letter is forwarded to the appropriate MoHP department(s) and concerned DTCO.
- *Draft annual report:* As per the OAG calendar, a draft annual report up to the 24th of April (10th Chaitra) is prepared and forwarded to the Health Secretary each year.
- *MoHP's response:* MoHP is given up to a week to respond to audit observations.
- *Annual report to the President and Parliament:* The Auditor General submits its annual report to the President in the middle of April (Chaitra). The president takes any necessary actions and then submits the final report to parliament, through the Prime Minister. This report is considered the final report and is uploaded to the OAG's webpage www.oag.gov.np.
- *Discussions on OAG's annual report:* The OAG's report on audit observations across all ministries is discussed in parliament's PAC.
- *Final authority:* The PAC holds final authority in settling any audit queries.

Table 1: Auditing time line for Nepalese government ministries

Month	Activities
July	<ul style="list-style-type: none"> • OAG circulates its annual audit calendar to ministries together with any audit instructions
August	<ul style="list-style-type: none"> • OAG prepares an annual audit plan • OAG forms audit teams and begins audits in cost centres • A cross cutting (composite) team reviews selected districts (typically 15 from various ecological zones) from 1st August onwards • Sectoral teams (e.g. health) start audits from the 3rd week of August
September	<ul style="list-style-type: none"> • Audits continue up to mid-February (end of Magh)
October	<ul style="list-style-type: none"> • Old audit queries are settled by the team upon request from cost centres
November	<ul style="list-style-type: none"> • After completing the field audit the auditor discusses its findings with the office in-charge and accounts chief
December	<ul style="list-style-type: none"> • Following discussions, the auditor prepares a preliminary audit report and requests a response within 35 days of receipt. This letter is also sent to appropriate departments under MoHP and the relevant DTCO
January	
February	
March	<ul style="list-style-type: none"> • OAG sends its final audit report to MoHP with its opinion on the Central Financial Statement of the Ministry by mid-March (end of Falgun) • OAG delivers its final draft audit report to MoHP by 24th March (10 Chaitra)
April	<ul style="list-style-type: none"> • OAG prepares its annual audit report which the Auditor General submits to the President within mid-April (Chaitra) • The President submits the report to parliament through the Prime Minister • The PAC discusses the Auditor General's report on a ministry-wise basis
May	Clearance of audit queries by OAG
June	Clearance of audit queries by OAG
Mid-July	Clearance of audit queries by OAG and start of the new audit cycle

3. MOHP'S AUDIT STATUS

As noted above, auditing is an effective and essential instrument to enhance the transparency, financial control and accountability of public bodies. MoHP's two stage audit approach aims to ensure the preparation of timely, quality internal audits able to reduce the number of audit queries ultimately appearing in the final audit report.

3.1. Audit Queries Under NHSP-2

This review found that the proportion of audit queries against total audited expenditure increased from 5.78% in FY 2010/11, to 13.79% in FY 2012/13 although this increase may be due in part to the significant budget shortfall (and therefore need to vire funds between budget lines) seen in FY 2012/13 (Table 2).

Table 2: Status of audit queries against audited amount in NHSP-2 (FY 2010/11 to 2012/13)

FY	AG Report No	Audited amounts (NPR 1,000)	Queries against audits	
			Amount (NPR 1000)	%
2010/11	49 th	16,580,144	957,514	5.78
2011/12	50 th	21,000,767	1,500,428	7.14
2012/13	51 st	17,874,272	2,464,659	13.79

Source: OAG, MoHP 2014

MoHP believes that with the proper implementation of its audit clearance guidelines, internal control guidelines and procurement implementation plan, the proportion of audit queries will reduce significantly.

3.2. Major Types of Audit Queries

The analysis of audit queries carried out over the reporting period shows that there are three major types as follows: a) expenditure to be recovered; b) expenditure to be regularised, and c) advances to be recovered.

Table 3: Major types of audit queries in NHSP 2 (FY 2010/11 to FY 2012/13)

FY	Total value of queries (x 1000)	Analysis of audit queries (NPR 1,000)					
		To be recovered		To be regularised		Advance	
		Amount	%	Amount	%	Amount	%
2010/11	957,514	18,752	2.0	456,830	47.7	481,932	50.3
2011/12	1,500,428	54,984	3.7	373,320	24.9	1,072,124	71.4
2012/13	2,464,659	122,320	5.00	1,426,173	57.9	916,166	37.1

Source: OAG, MoHP 2014

Table 3 shows that the largest proportion (71%) of all audit queries in 2011/12 was due to unsettled advances while the largest in 2012/13 was expenditure to be regularised (58%).

We have carried out a further analysis of the two major factors contributing to the higher levels of audit queries in the review period. Table 4 shows the further analysis of the audit query under the

amount to be regularised. It indicates that the majority of queries under the 'to be regularised' category were due to a lack of evidence of the expenditure. Clearly, once evidence is produced, the outstanding amount can be regularised.

Table 4: Analysis of 'expenditure to be regularised' audit queries in NHSP-2 (FY 2010/11 to 2012/13)

FY	Amount to be regularised (NPR 1000)	Classification of 'expenditure to be regularised' queries (NPR 1,000)							
		Non compliance		No evidence		No records		No reimbursement	
		Amount	%	Amount	%	Amount	%	Amount	%
2010/11	456,830	85,786	18.78	370,900	81.19	0	0	144	0.03
2011/12	373,320	100,989	27.05	271,739	72.79	0	0	592	0.16
2012/13	1426,173	422,834	29.65	1,003,000	70.33	2	0	337	0.02

Source: OAG, MoHP 2014

Table 5 shows the factors contributing to higher levels of audit queries under the outstanding advances category. Advances taken for the procurement of medicines and equipment are the primary contributors to these audit queries.

Table 5: Analysis of outstanding advances audit queries in NHSP-2 (FY 2010/11 to FY 2012/13)

FY	Classification of Outstanding Advances (NPR 1000)					
	Staff advance		Others advance		Total	
	Amount	%	Amount	%	Amount	%
2010/11	20,836	4.32	461,096	95.68	481,932	100.00
2011/12	22,988	2.14	1,049,136	97.86	1,072,124	100.00
2012/13	54,253	5.92	861,913	94.08	916,166	100.00

Source: OAG, MoHP 2014

Table 6 highlights the distribution of total audit queries by the different entities functioning under MoHP for fiscal year 2012/13. It shows that DoHS accounts for the majority of audit queries and that the overall burden of audit queries lies at the centre.

Table 6: Audit queries of FY 2012/13 (2069/70) by MoHP entity

Entity	Queries amounts (NPR 1000)			Percentage of total queries
	Centre	District	Total	
MoHP	1004	0	1,004	0.04
DoHS	1,356,032	0	1,356,032	55.02
DoA	0	956	956	0.04
DDA	0	2	2	0.00
NHEICC	10,037	0	10,037	0.41
National Laboratory	29,451	0	29,451	1.19
National TB Centre	406,707	0	406,707	16.50

National AIDS Centre (NCASC)	394,365	0	394,365	16.00
Regional Directorates	NA	35,144	35,144	1.43
Regional Medical Stores	NA	135	135	0.01
Training centres	671	20	691	0.03
DPHO/DHO	NA	230,135	230,135	9.34
Total	2,198,267	266,392	2,464,659	100.00
Central-District Percentage	89.19%	10.81%	100%	

Source: OAG Report, 2014

Table 7 shows the OAG's observation on audits conducted at hospitals under the committee account. OAG conducts a separate audit of hospitals functioning under the autonomous committees. Table 7 indicates that the proportion of total audit queries in hospitals is lower than in other MoHP entities.

Table 7: Queries of hospitals/committees against audited amounts in NHSP-2 (FY 2010/11 to FY 2012/13)

FY	AG Report No.	Audited amount (NPR 1000)	Queries Against Audit	
			Amount (NPR 1,000)	%
2010/11	49	13,948,050	697,208	5.00
2011/12	50	15,633,093	484,240	3.10
2012/13	51	15,102,203	928,023	6.14

Source: OAG Report, MoHP: 2014

Table 8 highlights the various categories of audit queries at hospitals and suggests that amounts to be regularised comprise the major portion of total queries. Table 8 also shows that the amount to be recovered is relatively high in comparison with other entities under the MoHP.

Table 8: Analysis of audit queries of hospitals/committees in NHSP-2 (FY 2010/11 to FY 2012/13)

FY	Analysis of audit queries (NPR 1000)						
	Total Queries	To be recovered		To be regularised		Advances	
		Amount	%	Amount	%	Amount	%
2010/11	697,208	103,232	14.81	50,5033	72.44	88,943	12.75
2011/12	484,240	55,434	11.45	297,014	61.34	131,792	27.21
2012/13	928,023	108,406	11.68	462,584	49.85	357,033	38.47

Source: OAG Report, MoHP: 2014

3.3. Audit Clearance

As noted above, OAG specifies a time frame for the clearance of audit queries. Table 9 shows MoHP's achievements in clearing these queries over the last four years.

Table 9: Status of audit queries clearance in NHSP-2 (FY 2010/11 to June 2014)

FY	Cleared (NPR 1000)					
	From old queries		From new queries		Total cleared	
	Amount	%	Amount	%	Amount	%
2010/11	393,276	29.62	691,009	65.91	1,084,285	45.63
2011/12	182,084	14.10	703,542	62.00	885,626	36.5
2012/13	238,817	15.50	682,436	71.27	921,253	36.88
2013/14	NA	NA	NA		1,191,122	38.7

Source: OAG Report, MoHP: 2014

4. AUDIT QUERIES CLEARANCE MECHANISM

GoN deploys several mechanisms through various financial bodies to clear outstanding audit queries as follows:

4.1. Public Accounts Committee (PAC)

The PAC is a high level parliamentary committee responsible for promoting effective governance through the maintenance of financial discipline. This body has the authority to settle long standing and complicated audit queries.

After receiving the annual report of the Auditor General, the PAC holds a series of ministry-specific meetings. Members of the PAC, the Auditor General and officials, the Health Secretary and concerned officials from MoHP participate in discussions and the PAC issues directives to MoHP to clear audit queries. Policy related and complex theoretical queries related to audits need to be settled by the PAC.

4.2. Office of the Auditor General (OAG)

OAG is a constitutional body responsible for ensuring the proper utilisation of treasury funds by carrying out financial and performance audits. OAG is also mandated to verify unsettled audit queries and has the authority to write off queries on the basis of evidence, clarification, and justification from the respective spending units.

4.3. Audit Queries Clearance Evaluation and Monitoring Committee (AQCEMC)

GoN has formed a five member Audit Queries Clearance Evaluation and Monitoring Committee under the chairmanship of the Chief Secretary to ensure the effectiveness of actions intended to settle audit queries. It utilises a monitoring framework to assess each situation and collect the required information in accordance with the Financial Producers Regulation, 2007, Rule No. 101.

4.4. Kumari Chowk and Central Recovery Office (KCCRO)

The Kumari Chowk and Central Recovery Office functions under the FCGO. It was formed under the Financial Producers Act, 1999 and Regulations, 2007. KCCRO is mandated to recover uncleared and irregular amounts that cannot be recovered following standard procedures. In such cases the accounts responsible officer (Secretary) sends records of irregular amounts to the Central Recovery Office (CRO) which takes action through legal recourse. The CRO was mandated by Cabinet in 2012 to maintain records of irregularities from 2002/03 onwards.

4.5. Irregular Amounts Settlement Committee

As per the Financial Producers Act, 1999, GoN under advice from the PAC and Auditor General, established an Irregular Amounts Settlement Committee. The committee was responsible for the settlement of irregular amounts that could not be settled through normal procedures up to FY 2002/03. In recent year this function has been performing by CRO (see 4.4).

5. MOHP'S INITIATIVES ON AUDIT QUERIES CLEARANCE AND IMPLEMENTING FMIP

In order to improve the practices related to public financial management, reduce the number of audit queries and increase audit clearance rates under NHSP-2, the following specific measures have been introduced.

5.1. Building MoHP's Capacity to Prepare Audit Status Reports

As a result of the endorsement and implementation of FMIP, MoHP and DoHS have recruited one staff member each to work on audit related processes including the clearance of audit queries, the preparation of audit status reports and helping to organise meetings of the Audit Committee. NHSSP is providing regular technical support to the recently recruited audit focal persons on preparing audit status reports. As a result, MoHP has been submitting the audit status reports following a prescribed format, on a monthly basis. MoHP sends it to AQCEMC, chaired by the Chief Secretary. Reporting has thus become more regular following the contracting of the specialised audit staff. Copies of the monthly audit status report are being kept in record of MoHP. MoHP believes that the recruitment of the staff through the AWPB and preparing the audit reports regularly is a good start that will help improve compliance with the audit process and help reduce the number of audit queries.

The PFM committee is meeting as required to discuss pertinent PFM issues. It last convened on 26 June 2014 when the Chief of the Human Resource and Financial Management Division presented the progress made on the FMIP and audit status report (see Annex 2). This presentation was part of MoHP's capacity building efforts to improve audit implementation and the clearance of related queries. NHSSP is currently, working with MoHP to disseminate audit status reports through the proper channels.

5.2. Trimesterly Reporting of FMIP Progress

In 2011/12, an FMIP was prepared and endorsed by MoHP for the four-year-period 2012/13 to 2015/16 with the objective of extending good practices and implementing new supportive initiatives. The FMIP, which is an addendum to NHSP-2's Governance and Accountability Action Plan (GAAP), aims to strengthen MoHP's current practices on financial planning, accounting procedures, internal control, financial reporting, monitoring, auditing and transparency measures. The overall thrust of the FMIP is to reduce fiduciary risk and improve financial accountability in the health sector. NHSSP is providing ongoing support to help implement the FMIP and the reporting of progress at PFM committee meetings.

One NHSSP payment deliverables is to build the capacity of MoHP on preparing updates on the implementation status of FMIP. NHSSP has had several round of discussions with MoHP and DoHS finance sections to figure out the process for preparing these updates. NHSSP has also discussed these issues in PFM committee meetings where it was agreed to add a column on the right side of the FMIP matrix to document the progress made against activities in the FMIP matrix. This will provide the means of reporting on progress at PFM committee meeting to increase understanding among MoHP and EDPs. The PFM committee meets to discuss PFM issues and last met on 26 June 2014 when the Chief of the Human Resource and Financial Management Division presented the progress on FMIP and audit status reporting (Annex 2). This presentation was part of MoHP's capacity building efforts to report progress on the implementation of FMIP.

The most important aspect of FMIP is to ensure the timely and quality submission of financial monitoring report (FMRs) to EDPs. NHSSP, with the technical inputs of Public Financial Management and Accountability (PFMA) project (a DFID funded PFM reform project), have supported MoHP to revise its reporting templates. MoHP wanted to reduce the number of the reporting templates and NHSSP supported it to reduce the number from 33 to 8. This is a major achievement for improving efficiency to reduce time and efforts for preparing FMRs. These revisions were discussed with EDPs individually and presented at a PFM committee meeting. The committee endorsed the revisions and MoHP reported this achievement in the FMIP matrix. This is how NHSSP is building the capacity of MoHP in understanding the problems, taking a lead role in solving the problems and taking ownership by including the achievement in their document.

Most importantly, MoHP has agreed to incorporate the findings of fiduciary risk assessments (FRAs) of DFID, the World Bank and USAID into its FMIP. Which is also a part of reporting the progress on implementing FMIP. Note that MoHP recently endorsed the first revision to the FMIP – available at www.mo hp.gov.np and www.nhssp.org.np.

5.3. Audit Clearance and Internal Financial Control Guidelines

MoHP has prepared and endorsed some customised audit clearance guidelines. The endorsement of these guidelines will help improve the timely submission of audit queries and reduce audit clearance backlogs. The ministry has also prepared and endorsed a set of internal financial control guidelines designed to improve financial management practices including fund flows, fund utilisation and internal auditing.

5.4. Transaction Accounting and Budget Control System (TABUCS)

MoHP took the lead role in introducing TABUCS, with NHSSP providing technical assistance and the UK’s Department for International Development (DFID) providing financial support. TABUCS is a simple accounting system that allows for the capture of basic accounting transactions at source level and enforces budgetary control procedures so that no expenditure can be entered without an approved budget line.

Training for finance and planning officers from all cost centres under MoHP has been completed and MoHP has instructed all centres to use TABUCS for expenditure, planning, payroll, authorisation and audit purposes. Once finance officers enter audit queries in TABUCS, the ministry can prioritise any audit clearances that might be required and instruct respective cost centres to follow appropriate instructions.

5.5. MoHP’s Audit Committee

As already noted, MoHP formed an Audit Committee in April 2012 with the objective of improving internal financial discipline under the chairmanship of MoHP’s Secretary (see Table 10). The committee’s ToR includes strengthening internal control systems, ensuring financial discipline, organising regular meetings and responding to audit queries. The committee has taken the lead in preparing and finalising MoHP’s audit clearance guidelines and internal control guidelines.

Table 10: Composition of MoHP’s Audit Committee

	Members	Position
--	---------	----------

1	MoHP Secretary	Chairperson
2	Chief HR&FM Division (MoHP)	Co-chairperson
3	DoHS Director General	Member
4	DoHS Finance Section Chief	Member
5	Health Sector Reform Unit (HeSRU) Chief	Member
6	MoHP Finance Section Chief	Member Secretary

5.6. PFM Committee

MoHP formed a public financial management (PFM) committee in FY 2012/13 to improve the overall quality of financial management in the Ministry. The Chief of the Policy Planning and International Cooperation Division (PPICD) chairs this committee which includes several EDP officials as members (see Table 11). The committee led the introduction and approval of the FMIP.

Table 11: Composition of PFM Committee

	Members	Position
1	Chief PPICD (MoHP)	Chairperson
2	Chief of Human Resources and Financial Management Division (HR&FM Division, MoHP)	Member
3	Director Logistics Management Division (DoHS)	Member
4	Under-secretary PPICD (MoHP)	Member
5	Chief MoHP Finance Section	Member
6	Chief DoHS Finance Section	Member
7	DFID	Member
8	World Bank	Member
9	USAID	Member
10	KfW	Member
11	AusAID	Member
12	NHSSP	Member

Source: MoHP 2014

The committee meets as required on pertinent PFM issues and last convened on 26th June 2014 when the Chief of the Human Resource and Financial Management Division presented the Audit status report (Annex 2). This presentation was part of MoHP's capacity building efforts to improve audit implementation and the clearance of related queries.

6. THE WAY FORWARD

MoHP has made good progress in developing policies, designing improved systems and guidelines, forming appropriate committees, and implementing TABUCS. In order to achieve sustainable progress in reducing the number of audit queries and clearing them promptly, the following issues and recommendations should be considered:

1. Ensure the proper implementation of the audit clearance guidelines and endorse the internal financial control guidelines. This will help to improve financial management practices including fund flow, fund utilisation and internal auditing. MoHP and DoHS should also establish a section to be responsible for leading the entire audit cycle.
2. Ensure the proper implementation of TABUCS across the country. TABUCS will provide the audit status of each cost centre and help MoHP and DoHS prioritise audit clearance actions, sending the required instructions to concerned cost centres.
3. Procurement is one of the main factors contributing to high levels of audit queries. As such MoHP is advised to formulate and implement a robust consolidated procurement implementation plan.
4. MoHP and DoHS need to ensure the proper implementation of the FMIP with an increased focus on strengthening audit practices and the effectiveness of the audit committee.
5. Additional resources are needed to develop the capacity of human resource for financial management, strategic planning and the use of IT based solutions.

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ANNEX 1: REWARDS AND PUNISHMENTS

1. Rewards

A reward system has been established for the clearance of audit queries at different levels (see Tables A1.1 and A1.2):

Table A1.1 Rewards at central level:

Description	Reward
Ministry, departments with the 'best' audit clearance (70 to 100%)	
For chiefs	NPR 10,000 with letter of thanks
For staff directly involved in audit clearance (maximum 5 people)	NPR 7,000 each person
Ministry, departments who clear 50 to 70% of audit queries	
For chiefs	NPR 8,000 with letter of thanks
For staff directly involved in audit clearance (maximum 5 persons)	NPR 5,000 each person
Ministry, departments who clear 35 to 50 % of audit queries	
For chiefs	Recognition of efforts made

Table A1.2: Rewards at district level office/projects

Description	Reward
Offices with more than NPR 10 million in audit queries who cleared more than 60% of them with zero or very few queries. Only for staff directly involved in audit clearances.	NPR 2,000 with letter of thanks (2 people maximum)
Offices with less than NPR 10 million in audit queries who cleared more than 70% with zero or very few queries. Only for staff directly involved in audit clearances.	NPR 2,000 with letter of appreciation (2 people maximum)

2. Punishments

a. Action for ministry/department level staff — Action may be taken when there are more than 5% of audit queries on the total audited amount (including for whole Ministries/departments) but where less than 35% of the queries have been cleared. In such cases the necessary action/s can be taking including impacting the annual performance evaluation.

b. Action for District level Office/projects — In cases with more than 4% of audit queries on the total audited amount but where less than 50% of these queries have been cleared, punitive action can be taken including reflecting the matter during work performance assessments.

AUDIT STATUS of MoHP



Kedar Bahadur Adhikari
Presented in a PFM Committee Meeting
26th June 2014

Background-1

What is Audit?

"Audit" means examination of the accounts and the analysis and evaluation made on the basis thereof". (Audit Act, 1991)

GoN's Audit Practice

- Internal audit and
- final audit

Internal Audit

- FCGO/DTCO conducts internal audit.
- The responsibility of internal audit lies with both the office In-charge and DTCO.
- The DTCO carries out the internal audit of the cost centers within one month after completing each trimester and the audit report should be submitted to Office In-charge within 15 days after completing internal audit
- DTCO also forwards a copy of internal audit report to pertinent higher office

Background-2

Final Audit

- Final audit carries out by OAG
- After completing the fiscal year final audit starts, normally, the month of
 - Shrawan (July/August) in the cost centers on the spot/ field offices and audit runs continuously up to the end of the Magh (Mid February) as per the OAG's calendar.
- After completing the audit in the cost centers the auditor discuss with Office In-charge & Account Chief on audit findings
- After the discussions, auditor provides, a preliminary audit report, requesting to respond within 35 days, at the spot and forwarded a copy to concerned higher office and DTCO.

Annual Report of the Auditor General

- OAG provides a draft annual report to MoHP's Secretary up to the month of 10th Chaitra (24 April) as per OAG calendar. MoHP can make required responses within **7 days**
- The AG submits annual report to the President, up to the month of Chitra (Mid of April); and the President authorize to submit such report to the Legislature Parliament, through the Prime Minister
- Discussion on AG report happens in Public Account Committee of Parliament

Institutional Arrangements for Audit Clearance

Kumari Chowk and Central Recovery Office (KCCRO) :

- This office is under the structure of FCGO and has mandate to clear records having a decision of Secretary of the amounts that could not be settled through normal procedures
- This provision is for unsettled queries amounts up to FY 2059/60 (2002/03)

Audit Clearance Committee

- Now a days this committee is not active. It's work performed by KCCRO.

Audit Queries Clearance Mechanism..

Office of the Auditor General (OAG):

OAG verifies the unsettle queries since FY 2060-61 (2003/04) and clear on the basis of evidence and clarification of the cost center

Audit Clearance Evaluation and Monitoring Committee -ACEMC

GoN has formed 5 members ACEMC, on the chairmanship of Chief Secretary, to ensure the effectiveness in settling the audit queries

Public Account Committee (PAC)

There will be discussion on AG Annual report in PAC. PAC gives directives to MoHP to clear audit observations. Particularly theoretical and policy level audit observations are settled in the PAC

MoHP's Initiatives on Audit Queries Clearance

Audit Committee

MoHP formed an Audit Committee on April 2012 having objective of improving financial discipline. The secretary of MoHP chairs the committee.

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

Initiatives of MoHP in Audit Queries Clearance....

Internal Control Guidelines, 2070 (2014)

MoHP has prepared Internal Control Guideline, 2070 (2014) and endorsed in on 2070.10.08 (22nd January 2014). This guidelines printed and distributed to all cost centres and all 75 DTCOs

Audit Clearance Guidelines, 2070 (2014)

MoHP has prepared Audit Clearance Guideline, 2070 (2014) and endorsed it on 2070.10.06 (20th January 2014). This guidelines printed and distributed to all cost centres and all 75 DTCOs

Initiatives of MoHP for Audit Queries Clearance....

TABUCS

Audit Queries and clearance records maintain in TABUCS

Monthly Progress Report

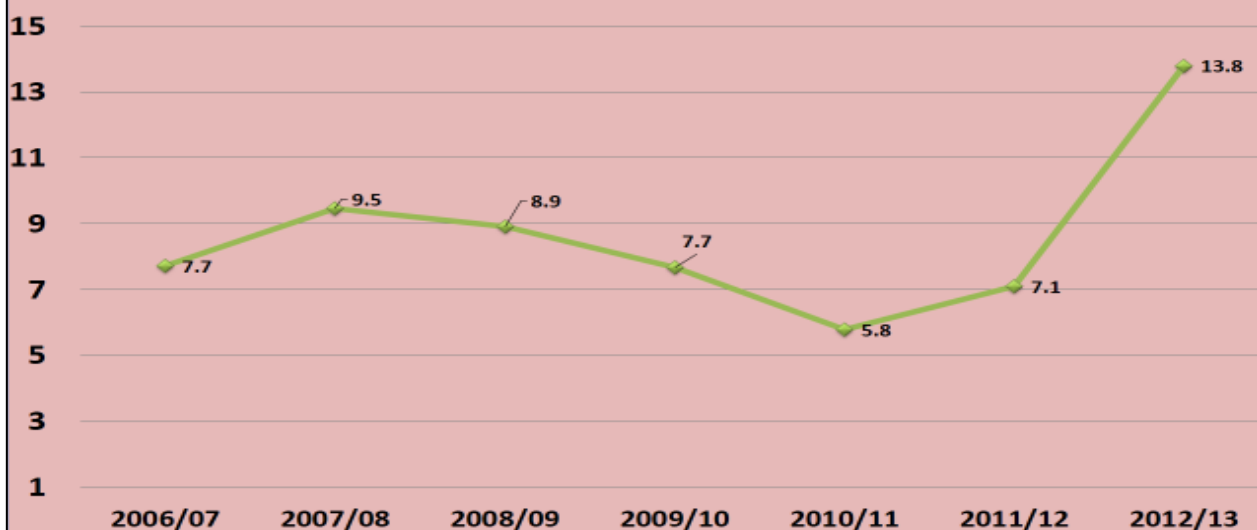
MoHP prepare monthly Audit queries clearance report and send it to Audit Clearance Evaluation and Monitoring Committee

Staff Recruitment for Audit Clearance

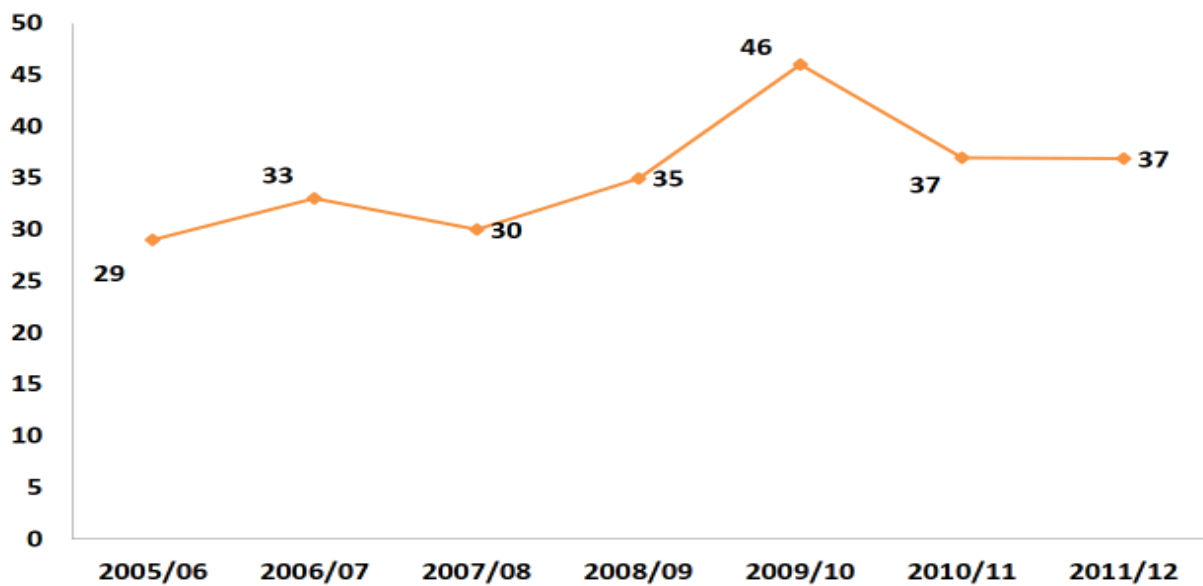
MoHP & DoHS has recruited staffs on the contract basis (included on the AWPB).

The staffs are responsible to keep the records, work for the clearance and prepare the report on audit queries

Proportion of Audit Queries Against Audited Expenditure



Trends in Clearance of Audit Queries



Reward and Punishment

Description	Reward
Ministry, Departments who cleared the audit clearance as "Best" (70 to 100%)	
For chief	• NPR10 thousand with letter of appreciation
For staff who directly involve on audit clearance (Maximum 5 Person)	•NPR 7 thousand each person
Ministry, Departments who cleared the audit clearance as (50 above to 70%)	
For chief	•Rs. 8 thousand with appreciation
For staff who directly involve on audit clearance	•Rs. 5 thousand each person
Ministry, Departments who cleared the audit clearance -35 to 50 %	
For chief	Recognitions for effort

Reward and punishment

Reward for District level Office/ projects

Who have more than 10 million audit queries & cleared more than 60% (who directly involve on audit clearance)	Rs. 2 thousand with letter of appreciation up to 2 person
Who have less than 10 million audit queries & cleared more than 70% (who directly involve on audit clearance)	Rs. 2 thousand with letter of appreciation up to 2 person

Reward and Punishment

Punishment:

Action for Ministry / Department level staff

- Who makes more than 5% audit observation on audited amount (with whole Ministry/departments) and who cleared less than 35% faces the necessary action/s and to give attentions during annual performance evaluation

Action for District level Office/ projects

- Who cleared audit observation less than 50% and who makes more than 4% audit queries on audited amount
- Take necessary action and to give attentions while evaluating his work performance

Audit Queries on FY 2012/13

Audit Queries

AG Report		Audited Amount (In thousand, NPR)	Queries against audit	%
N	FY			
50	011/12	21,00,07,67	1,50,04,28	7.14
51	012/13	17,87,42,72	2,46,46,59	13.79

Analysis of Audit Queries

FY	To be Recovered		To be Regularized		Advance	
	Amount	%	Amount	%	Amount	%
011/12	5,49,84	3.7	37,33,20	24.9	1,07,21,24	71.5
012/13	12,23,20	5.0	1,42,61,73	57.9	91,61,66	37.2

Way Forward

- Ensure the proper Implement of the audit clearance guidelines
- Ensure the proper Implement of the internal control guidelines
- Ensure the proper implementation of TABUCS at the national level
- Ensure the proper implement the procurement implementation plan from FY 2014/15
- Proper implementation of FMIP
- Provide the resources to develop human resource capacities on financial management, strategic planning and the use of technology based solutions
- Strengthen the existing audit committee through regular meetings