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## I. PUBLIC SECTOR ACCOUNTING

### A. Assessment of the National Public Sector Accounting Environment

Timely, relevant, and reliable financial information is required to support all fiscal and budget- management, decision-making, and reporting processes.

The Accounting Law		
STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<p>I. For reliability, the requirements for public sector accounting and reporting should be specified by Law, cover all government-owned enterprises, specify the methods by which accounting and auditing standards are to be set for the public sector, specify the reporting requirements and lay down timetables for the publication of audited annual accounts.</p>	<p>Public sector accounting and reporting are governed by the parts 9 and 12 of the Interim Constitution of Nepal 2007, and the following laws:</p> <ul style="list-style-type: none"> <li>■ Audit Act 1991 (repealing Audit Act 1961),</li> <li>■ Financial Procedure Act 1999,</li> <li>■ Financial Administration Rules 1999 (amended in 2003),</li> <li>■ Operating Fund Act 1986,</li> <li>■ Company Act 2007,</li> <li>■ Bank and Financial Institution Act 2006,</li> <li>■ Nepal Rastra Bank Directives,</li> <li>■ Public Enterprises Act 1972,</li> <li>■ Relevant Acts of State-Owned Enterprises,</li> <li>■ Relevant Acts of Autonomous Bodies,</li> <li>■ Appropriation Act (enacted every year),</li> <li>■ Finance Act (enacted every year),</li> <li>■ Loan and Guarantee Act (enacted every year),</li> <li>■ National Loan Act (enacted every year).</li> </ul> <p>The Law covers government offices, Constitutional bodies, autonomous bodies, and government-owned enterprises.</p> <p>Subject to the relevant law, the accounts of government offices, constitutional bodies, and autonomous bodies are maintained in the form recommended by the Financial Comptroller General Office and as prescribed by the Auditor General. The government accounts have been maintained on a cash</p>	<p>The Auditor General has already issued directives to state-owned enterprises (SOE) to adopt guidelines stated in the Company Act for presentation of financial statements but has not specified the adoption of NAS and IAS. The relevant laws governing state-owned enterprises should be amended to prescribe for mandatory application of NAS, and applicable IAS and IFRS for those accounting standards where NAS has not been promulgated. Until the amendment of the relevant laws, it is recommended that the Auditor General issues directives to state-owned enterprises exercising authority entrusted by the Audit Act to comply with NAS and important applicable IAS and IFRS.</p> <p>The Audit Act and Financial Procedure Act should be amended for maintenance of government accounts on Cash Basis IPSAS and publication of a consolidated financial statement in accordance with Cash Basis IPSAS financial reporting. Once the Cash Basis IPSAS is adopted for at least five years, the accrual basis of accounting should be adopted for the general budget sector.</p> <p>The Government of Nepal should empower the Nepal Accounting Standards Board to set public sector accounting standards based on IPSAS. The auditing</p>

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
	<p>basis of accounting since 1962 but not as per the Cash Basis IPSAS. The accounts of the local autonomous bodies, Village Development Committees and District Development Committees, are to be maintained on the cash basis of accounting while the municipalities can maintain accounts either on the cash basis or accrual basis of accounting.</p> <p>Laws governing state-owned enterprises have made provision for maintenance of accounts on the basis of a double-entry book-keeping system following generally accepted accounting principles for state-owned enterprises, except companies and banks; and Nepal Accounting Standards (NAS) in case of companies; but there is no provision for mandatory compliance of International Accounting Standards (IAS), except for banks.</p> <p>The Audit Act has entrusted authority to the Auditor General— subject to the Interim Constitution of Nepal 2007 and the existing laws—to issue directives to the concerned government offices and corporate bodies, wholly or substantially owned by Government of Nepal, from time to time, to make proper arrangements on matters of accounts and to maintain regularity therein.</p> <p>There is no accounting standard-setting authority for the public sector. The Nepal Accounting Standard Board formed under the Nepal Chartered Accountant Act 1997 has promulgated 19 accounting standards applicable to companies. In the absence of legal provision to comply with these standards, except companies and banks, state-owned enterprises have been following the required IAS and NAS.</p>	<p>standards, which are based on the International Standards on Auditing, and promulgated by the Nepal Accounting Standard Board, should be adopted by the OAG for auditing the general budget sector.</p> <p>The timetable for publication of audited annual accounts should be specified in the Audit Act. Provision for appropriate actions should be made in the Relevant Acts of state-owned enterprises for late submission of the annual accounts for audit.</p>

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
	<p>Similarly, the Nepal Auditing Standard Board formed under the Nepal Chartered Accountant Act 1997 has promulgated 30 auditing standards.</p> <p>Section 14 of the Financial Procedure Act requires submission to the Office of the Auditor General of financial statements of consolidated accounts of each financial year and accounts of the appropriation, revenue, deposit, foreign aid, and loan and investment, apart from consolidated funds within the period specified by the Auditor General.</p> <p>The Auditor General conducts audits, with due regard to the regularity, economy, efficiency, effectiveness and propriety, to ascertain whether financial transactions comply with existing laws and accounts have been maintained in the prescribed forms, and such accounts fairly represent the position of the transactions.</p> <p>The laws have not prescribed timetables for the submission of audit reports and publication of audited annual accounts of the government account and the state-owned enterprises, except companies and banks. However, the Auditor General had submitted annual audit reports within the next financial year. The companies and banks should publish their annual accounts within five months from the end of fiscal year; but in most cases it is not followed. Audit of many state-owned enterprises are substantially delayed due to late preparation of accounting records and financial statements, and delay in responding to the preliminary management report. Even if the audit of state-owned enterprises is completed on time, the publication of SOE audited annual accounts is delayed due to late submission of the audit report by the Auditor General.</p>	

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<p>2. Compliance with IPSAS for noncommercial bodies and IAS for commercial bodies is needed for consistent transparency.</p>	<p>There are no specific requirements regarding compliance with IPSAS in the government sector accounting. The Government is maintaining accounts on the cash basis of accounting, but the annual financial statements are not prepared in this format or on Cash Basis IPSAS. For example, advance payments are treated as expenditures in the existing cash basis of accounting. The audited consolidated fund statement and annual revenue and expenditure statement do not include accounting policies and explanatory notes; however, the consolidated financial statements issued by the FCGO for government use does include basic accounting principles and assumptions.</p> <p>The Law does not require compliance with IFRS (including IAS) for the state-owned enterprises, except companies and banks. The state-owned enterprises are required to maintain accounts on the basis of double-entry systems following generally accepted accounting principles. The Law does not prohibit state-owned enterprises from compliance with the standards, and accordingly state-owned enterprises are maintaining some IAS- and NAS-based accounts.</p>	<p>The Financial Comptroller General should recommend and obtain approval of the Auditor General for the format of consolidated financial statements based on the Cash Basis IPSAS and prepare the financial statement on that basis for immediate implementation. Until amendment of the Audit Act and Financial Procedure Act, the information required for Cash Basis IPSAS is available in the current cash basis of accounting under the Financial Procedure Act for immediate implementation, the Government of Nepal could learn from the experience of Sri Lanka in adopting Cash Basis IPSAS.</p> <p>Transition from Cash Basis IPSAS to Accrual Basis IPSAS for accounting and reporting of expenditure of general budget sector (noncommercial bodies) should be adopted with consideration of the capability of the accountants and accounting systems. Cash basis of accounting is to be followed to account revenue.</p> <p>The Auditor General can issue directives exercising authority entrusted by the Audit Act to the state-owned enterprises for maintenance of accounts based on NAS and applicable IAS, and for immediate implementation of NAS and applicable IAS and IFRS. Subsequently, the Relevant laws of state-owned enterprises should be amended to prescribe for mandatory application of NAS and applicable IAS and IFRS.</p>

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<b>Education and Training of Public Sector Accountants</b>		
<p>3. For reliability, the curriculum requirements for the accounting qualifications of public sector accountants should accord with internationally recognized standards of accounting training as established in the International Education Standards for Professional Accountants (IES).</p>	<p>The qualifications of public sector accountants do not require training in internationally recognized standards of accounting as established by the International Education Standards for Professional Accountants.</p> <p>Educational qualifications, generally in commerce, law, economics, statistics, or mathematics are required for public sector accountants. The curriculum of the commerce discipline is not adequate for requirements of public sector professional accountants.</p> <p>The majority of public sector accountants are not qualified professional accountants (members of a professional accounting body). A few qualified professional accountants are working in some state-owned enterprises. Many accountants are from non-commercial backgrounds and are working on the basis of experience.</p> <p>The Nepal Administrative Staff College (NASC) and Revenue Administration Center (RATC) provide one-month intensive orientation training to newly recruited government officer-level accountants. This training, given after recruitment but before deputation, covers the government accounting system, financial management, relevant laws, and a general understanding of IAS. Upon request, the Revenue Training Center also provides training on revenue accounting to the government accountants. Training is not provided to the newly recruited non-officer staff. Some public sector enterprises, including Nepal Rastra Bank (Central Bank) have their own training institutions and provide training on subjects related to their own accounting system and IAS.</p>	<p>Degrees with significant accounting content should be made compulsory for the accountants of the government and all state-owned enterprises. The Government and state-owned enterprises should try to recruit more qualified professional accountants so that IPSAS, IAS, IFRS, and NAS can be more easily implemented within a short period of time.</p> <p>The Government should assist local universities to include topics of IPSAS, IAS, IFRS, NAS, and IES-prescribed courses in the curriculum of the accounting degree.</p> <p>The training curricula should meet the professional accountancy needs of public sector accountants, based on the academic qualifications of the accountants, and impart basic knowledge and encourage independent work.</p> <p>The period of orientation training should be increased to at least 10 weeks (from 5 weeks).</p> <p>The NASC and RATC, which lack well-trained instructors in internationally recognized standards of accounting, should hire or train instructors to provide IES-based training for professional accountants. The Government and state-owned enterprises may also enter into agreement with the ICAN or private centers to provide the necessary training.</p>

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
	<p>Some private training centers use qualified professional accountants to provide training on IAS and NAS to the SOE staff and persons seeking new SOE jobs.</p>	
<p>4. For reliability, public sector accountants should be provided with continuing professional training requirements that accord with internationally recognized standards of accounting training.</p>	<p>There are 4,523 staff members involved in accounts. Their academic qualifications vary depending on their level of designation, but for the most part, they lack professional accounting training.</p> <p>Five-week training is provided to officer-level staff, once during service at each level. Training to non-officer staff is not compulsory during their service period. Training is provided to some non-officer staff on a needs basis. There is a general need to provide public sector accountants with comprehensive training in line with the IES for Professional Accountants. Training curricula should include IPSAS, IAS, IFRS, internal control system, audit, financial data analysis, macroeconomic analysis, and other relevant subjects.</p>	<p>Training is necessary to enhance the accounting skills of the accountants and to implement IPSAS, IAS, IFRS, and NAS, easily and smoothly. The extent of continuing education depends on the academic qualifications and training already provided to the individuals.</p> <p>The Government should conduct a study to establish the status of various levels of accountants and understand their comprehensive training needs. A continuing professional education strategy for short-term and long-term training of five years that accords with internationally recognized standards of accounting training should be developed based on the study. Compulsory continuing professional education training should be provided to all the accountants according to their level within five years or a specified period.</p> <p>Professional training may be provided with the help of the ICAN and its sister organization, the Nepal Accounting Technician Institute, for immediate implementation of IPSAS.</p>

### Code of Ethics for Public Sector Accountants

*The INTOSAI code covers integrity, independence, objectivity and impartiality; professional secrecy and competence.*

<p>5. For reliability, public sector accountants should be required to adhere to</p>	<p>There is no specific code of ethics for public sector accountants. Public sector accountants are guided by</p>	<p>It is necessary to develop and enforce a code of ethics based on IFAC or ICAN codes for the</p>
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STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<p>the principles laid down in a code of ethics that are at least in accordance with the internationally recognized standards for professional accountants. This may be based on IFAC or INTOSAI codes.</p>	<p>the Civil Service Act (Code) amended in 1992, Anti-corruption Act 2002, Financial Procedure Act 1999, and Financial Administration Rules 1999 (amended in 2003). The Civil Service Code is not in accord with the IFAC or INTOSAI Codes of Ethics.</p> <p>The OAG adopted the INTOSAI Code of Ethics in 1996. In 1999, the OAG also developed its own staff code of ethics, which is compatible with INTOSAI Code of Ethics.</p> <p>Since 2004, ICAN has enforced a code of ethics in line with the IFAC Code of Ethics for Professional Accountants.</p> <p>If found negligent by the courts, government accountants can be penalized for noncompliance of acts and financial rules as per provisions of the respective laws. Similarly, ICAN takes action for breach of the code of ethics by public sector accountants who are ICAN members.</p>	<p>public sector accountants who are not members of ICAN and OAG staff by incorporating it in relevant laws. The arrangement should be made within FCGO to ensure compliance with the code.</p>

### Public Sector Accountant Arrangements

<p>6. For timeliness, relevance and reliability, there should be a professionally qualified CFO function to be responsible to the chief accounts officer for maintaining systems of internal financial controls that manage risks, and for preparing regular financial accounts for each government entity.</p> <p>7. The CFO should also be responsible for the maintenance and management of the chart of accounts, to ensure the most appropriate</p>	<p>The Financial Procedure Act makes provision for a Responsible Accounts Officer and Responsible Person. Responsible Accounts Officer means the secretary responsible for the ministry and the subordinate offices of the ministry to maintain accounts, prepare consolidated financial statements, submit statements of accounts, arrange for the audit to be conducted, respond to the report of the Auditor General, and take or cause to be taken actions to settle irregularities by taking part in the discussions held at the Public Accounts Committee. Responsible Person means the Officer in-charge or other person responsible to carry out the financial activities</p>	<p>The roles of Responsible Accounts Officer (i.e., Secretary) or Responsible Person (i.e., Officer in-charge) and Chief of Finance Administration Unit should be clearly divided between financial administration function and accounting function.</p> <p>The Chief of Finance Administration Unit should be designated as chief financial officer and should be responsible for maintenance of accounts, preparation and submission of financial statements, and resolution of final audit irregularities; and accountable both to the FCG and the Chief Accounts Officer (CAO)</p>
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STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<p>technological support for financial management practices, manage training and education needs for financial management, report on key performance indicators, and assist program managers develop an effective financial approach to the delivery of expected outcomes.</p>	<p>as delegated by the Responsible Accounts Officer. Functions and duties of the Responsible Accounts Officer and Responsible Person are similar to the chief financial officer in the Financial Procedure Act and Financial Administration Rule.</p> <p>The Chief of Finance Administration Unit of each office under the accountability of the Officer in-charge maintains accounts of expenditures, prepares statements of expenses and financial statements, maintains records of the audit irregularities and submits evidence to resolve irregularities. He/she carries out financial transactions assigned by the Officer in-charge, gives opinion on financial transactions to the Officer in-Charge, and bears responsibility for decisions taken on the basis of such opinion.</p> <p>The Financial Comptroller General acts like the chief accounts officer but with duties and functions not specified in acts and rules. The FCGO is responsible to maintain the central level accounts and prepare annual financial statements of the appropriation, revenue, deposit, assistance, grant, loan, interest, dividend, investment, consolidated fund, contingency fund, and other government funds; give necessary instructions after inspecting offices; resolve giving opinion on disputes arisen in respect of implementation of Financial Administration Rules; maintain records of central irregularities based on annual statements of irregularities received from the constitutional bodies and ministries; and carry out such functions as specified by Government of Nepal for implementation of financial rules.</p>	<p>through the Officer in-charge (OIC).</p> <p>The Responsible Account Officer or Responsible Person should be made responsible for the administration of the office, implementation of the program, and financial administration and jointly accountable with chief financial officer for maintenance of accounts and preparation and submission of the financial statements.</p> <p>The duties and functions of the FCG and chief financial officer should be defined in the Financial Procedure Act and Financial Administration Rules. It should be specified to whom they are accountable.</p> <p>Initiate reforms in the existing internal audit system which should include a separate Internal Audit Division in the FCGO. Further, a separate cadre of internal auditors should be formed. Accounting function should be kept separate from internal audit function, and there should be no inter-transfer between these two disciplines.</p> <p>Special training to conduct internal audit should be provided to the Internal Audit Division. Report of internal audit should be submitted to the FCG and to the concerned office through FCGO.</p> <p>The Internal Audit Manual, developed in 1995, later revised in 2006, should be revised to reflect recent changes in the concept of internal audit, auditing standards, and various laws.</p>

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
	<p>The positions of chief financial officer and chief accounts officer are not specifically provisioned in the act and rules that would define their duties, functions, and accountability.</p> <p>The Responsible Accounts Officer maintains accounts and prepares financial statements and submits them to the FCGO and OAG. The Chief of Finance Administration Unit, although an accountant, is not directly responsible for accounting. The Chief of Finance Administration Unit is responsible to the Officer in-charge for maintenance of accounts and financial administration, while responsible to the FCGO for only personnel administration and not for maintenance of accounts. As a result, accountants are not held responsible and accountable to FCGO for maintenance of accounts and preparation of financial statements even though FCGO administers the Government accountants.</p> <p>Appointment for chief financial officer and chief accounts officer does not require specific professional accounting qualifications in the Government of Nepal</p> <p>FCGO is responsible for maintaining systems of internal financial controls, maintenance and management of the chart of accounts to ensure the most appropriate financial management practices, and manage training and education needs for financial management. The Chief of Finance Administration Unit assists program managers to develop an effective financial approach to the delivery of expected outcomes and report on key performance indicators.</p> <p>There is no written Internal Control Manual.</p>	<p>FCGO must develop an Internal Control Manual to guide the staff to apply and ensure best practices of internal control system in financial management.</p>

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
	<p>One accountant works as both an accountant and internal auditor depending on deputation. The accountants are not trained to conduct internal audit. An Internal Audit Manual needs to be prepared and implemented. As a result internal audit is not effective.</p> <p>The final audit irregularities are not resolved on time since the Chief of Finance Administration Unit is not accountable for resolution of irregularities.</p>	

## B. Assessment of National Public Sector Accounting Standards

*Financial reporting must be adequate to meet the accountability demands of stakeholders.*

### Framework for the Preparation and Presentation of Financial Statements

<p>8. National accounting standards should accord with international standards to provide consistency.</p> <p>The responsibility for establishing national accounting standards for the public sector should be well defined to provide reliability.</p>	<p>The Government has not adopted IPSAS. There is no public sector accounting standard-setting board. However, the Auditor General is authorized to prescribe the format of accounts on the recommendation of the FCGO under the Constitution and issue accounting directives to the public sector under the Audit Act.</p>	<p>The Nepal Accounting Standards Board should be empowered to set public sector accounting standards based on IPSAS. The national public sector accounting standards should be promulgated based on international public sector accounting standards, for consistency with the IPSAS.</p> <p>The Government should adopt the IPSAS until national accounting standards are promulgated. The OAG should review and report whether the financial statements have been prepared in compliance with the public sector accounting standards.</p>
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### Preparation and Presentation of Financial Statements on the Cash Basis

<p>9. Financial statements should be presented using IPSAS.</p>	<p>Nepal has not adopted the Cash Basis IPSAS and financial statements do not present all the information in the format required by Cash Basis IPSAS.</p> <p>The FCGO has all the information required for presenting consolidated</p>	<p>The consolidated financial statements should be presented in the IPSAS. The FCGO is capable and willing to report on the Cash Basis IPSAS. However, technical advice is required to extract the information in the required form and present the consolidated</p>
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STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
	financial statements in the format of IPSAS (as per discussions held with FCGO).	financial statements in the format prescribed by the IPSAS.  Forms of the financial statements are required to be designed to meet the requirements of the IPSAS.

## C. Assessment of Accounting and Auditing in State-owned Enterprises

### Financial Statements should comply with IAS and IFRS

10. The financial statements should include (a) balance sheet, (b) income statement, (c) statement of changes in equity, or a statement of recognized gains and losses, and (d) cash flow statement. [IAS 1.8]

The financial statements should present fairly (or give a true and fair view of) the financial position, financial performance, and cash flows of the entity. [IAS 1.13]

The financial statements should be prepared on the accrual basis of accounting. [IAS 1.25]

The financial statements should be prepared using the accounting policies established by the International Accounting Standards. [IAS 1]

The financial statements of the state-owned enterprises established under the Company Act, Corporation Act, and special Acts (Nepal Electricity Act, Employees Provident Fund Act) include (a) balance sheet, (b) income statement, and (c) cash flow statement but does not include the statement of changes in equity. The Company Act does not require preparation of statement of changes in equity. Other acts have not made the preparation of cash flow and statement of changes in equity mandatory. However, all state-owned enterprises prepare cash flow statements. The OAG annual report includes the balance sheet and the income statements of the state-owned enterprises.

State-owned enterprises established under the Company Act have to follow NAS while banks are required to follow IAS. But laws governing the state-owned enterprises, except companies and banks, have made provision for maintenance of accounts on the basis of double-entry book-keeping system following generally accepted accounting principles. There is no provision for mandatory compliance of NAS and IAS. State-owned enterprises follow some IAS. The financial statements are not prepared using the accounting policies of all IAS and

Relevant Acts of the state-owned enterprises, except companies and banks, have to be amended to prescribe for mandatory application of NAS and applicable IAS, and IFRS for those accounting standards where NAS has not been promulgated. Until the amendment of the relevant laws, the Auditor General should issue directives to state-owned enterprises exercising authority entrusted by the Audit Act, to comply with NAS and important applicable IAS and IFRS.

Provision for audit committees should be made in the relevant acts of the state-owned enterprises. Audit committees should be made active and effective to ensure corporate governance and resolve audit irregularities reported by the Auditor General.

The Financial Review Committee should be constituted in the Ministry of Finance under the Economic Affairs and Policy Analysis Division, to review the SOE financial statements and ensure their compliance with the relevant laws, NAS, and IAS.

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
	<p>disclosures in the SOE accounts are not adequate to meet IAS.</p> <p>The SOE financial statements are prepared on the accrual basis of accounting, except interest income of the bank. The bank must account for income on cash basis as per Directives of the Central Bank. Some state-owned enterprises do not account for full liability of staff retirement benefits and do not follow IAS.</p> <p>The independent professional auditor, who is appointed by the Auditor General as an assistant, issues the audit report expressing his opinion on the financial statements in the format prescribed by the NSA. The Auditor General reviews the report and submits reports to SOE management in the format prescribed by the NSA. The Auditor General however does not express opinion in the format on the consolidated financial statements presented in his Annual Report, as required by the Section 4 (C) of the Audit Act. However, the OAG audit report mentions the qualification as a comment. Out of the sample of eight annual reports examined by the World Bank assessment, two audit reports (Rastriya Banijya Bank and Nepal Oil Corporation) are qualified.</p>	

**II. PUBLIC SECTOR AUDITING**

**A. Assessment of the Public Sector Auditing Environment**

Effective scrutiny by the legislature through comprehensive, competent, external audit enables accountability for the implementation of fiscal and expenditure policies.

The environment for an effective SAI requires a comprehensive approach to Public Financial Management (PFM). SAIs are not stand-alone institutions; they are part of a PFM architecture that also includes budgeting, accounting, internal control, audit and legislative oversight, and government response. Improving the way the SAI functions is integral to providing information for improving the overall PFM system, but the action must be within the executive under the watchful eyes of the legislature and the public. A strong demand for good public sector external auditing



STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
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is necessary for the SAI to have any impact. This requires willingness of the executive branch to accept and respond to external scrutiny over its management of funds and to ensure that action is taken for reform. It also requires public presentation of the audit reports to ensure public support for effective action.

### Statutory Framework

11. Statutory auditing requirements should be established by legislation.	Statutory auditing requirements are given in the Interim Constitution, Part XII; and Audit Act 1991 (repealing Audit Act 1961).	
12. The SAI should have authority to conduct a full range of audits for all government owned or controlled entities including regularity, financial, and performance audits. (INTOSAI Lima Declaration Sections 18-19)	<p>The accounts of the Supreme Court, the legislative-Parliament, the Constituency Assembly, the Commission for the Investigation of Abuse of Authority, the Office of the Auditor General, the Public Service Commission, the Election Commission, the National Human Rights Commission, the Office of the Attorney General, other offices of the Constitutional Bodies, the Nepal Army, the Nepal Armed Police and Nepal Police, and all other government offices and courts shall be audited by the Auditor General in the manner as determined by Law, with due consideration given to the regularity, economy, efficiency, effectiveness and the propriety thereof.</p> <p>The Auditor General's consultation and recommendation is needed when appointing an auditor of corporate bodies for which the Government of Nepal owns more than 50 percent shares or assets. The Auditor General is authorized to issue necessary directives setting forth the principles for carrying out the audit of such corporate bodies.</p> <p>The Audit Act does not specify the types of audits to be conducted by the auditor General; it specifies the matters to be audited. The Auditor General is authorized to conduct audits giving due consideration to the regularity, economy, efficiency,</p>	<p>The Audit Act specifies the matters to be audited. This Act does not give the degree of discretion needed or the range of audit types that should be allowed.</p> <p>The OAG is currently under-resourced in personnel having the knowledge to conduct the level and extent of auditing of all types to meet its statutory obligations and report within six months from the reporting date.</p> <p>The Auditor General should provide recommendations and advice to Parliament for improvement to the financial management system.</p> <p>The Audit Act should be amended to authorize the OAG to conduct specialized audits, such as forensic, environment, anti-corruption and fraud, for all government-owned or -controlled bodies.</p>

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<p>13. The legislation should set out penalties in the event of noncompliance with the auditing requirements, and these penalties should be applied appropriately.</p>	<p>effectiveness and the propriety of the transactions. This authority implies financial and performance audits other than environment, forensic, anti-corruption, and fraud audit.</p> <p>Under the Audit Act, the Employees' Regulations of OAG, and the Anti Corruption Act, disciplinary action can be taken against staff for noncompliance with auditing requirements.</p> <p>The Financial Procedures Act and the Financial Administration Rules have set out the imposition of penalty and departmental actions to the auditee for noncompliance of certain auditing requirements.</p> <p>The Audit Act and the Financial Procedure Act do not specify any penalty to the auditee if the auditee obstructs the conduct of an audit or provides wrong information.</p>	<p>The Financial Procedure Act should be amended to contain an offence clause for the following activities committed by the auditee without lawful justification or excuse, and be liable to be penalized for such an offence that:</p> <ul style="list-style-type: none"> <li>■ intentionally obstructs, hinders or resists the Auditor General,</li> <li>■ intentionally refuses or fails to comply with any lawful requirement of the Auditor General,</li> <li>■ makes a statement or gives information to the Auditor-General knowing, or reckless to the fact that the statement or information is false or misleading,</li> <li>■ willfully suppresses any information required by the Auditor-General in the performance of his/her duties, or</li> <li>■ represents directly or indirectly that the person holds any authority under this act when the person knowingly does not hold that authority.</li> </ul>
<b>Setting Auditing Standards</b>		
<p>14. The Government should adopt the INTOSAI Auditing Standards and the IAASB International Standards for Auditing for public sector entities. (ISA 200.5</p>	<p>The OAG developed Government Auditing Standards in 1996 based on INTOSAI Auditing Standards. These standards were updated in 2005 to accord with the revised INTOSAI Auditing Standards.</p>	<p>Through legislation, the OAG should also adopt ISA and NSA for conducting the SOE and government audits.</p>



STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
and INTOSAI Auditing Standards I.0.14)	<p>These Government Auditing Standards are too general and do not describe in sufficient detail the audit procedures. IFAC-issued ISA are not made mandatory to conduct government audits.</p> <p>As ICAN members, the professional auditors of fully state-owned enterprises appointed to act as an assistant of the OAG and auditors of substantially state-owned enterprises are required to follow Nepal Standards on Auditing (NSA) adopted by the ICAN. These standards are in accord with the International Standards on Auditing.</p>	
<b>Code of Ethics</b>		
15. The INTOSAI Code of Ethics should have been fully adopted by the SAI (IFAC ISA 200.4 and INTOSAI Code of Ethics 4), communicated to all staff, and applied.	The OAG adopted the INTOSAI Code of Ethics in 1996. Also, in 1999, OAG developed its own code of ethics based on INTOSAI and incorporated provisions of various acts. Some of the requirements of the OAG Code of Ethics are not realistic and practical. The OAG Code of Ethics has been distributed and communicated to all staff.	The OAG needs to revisit their Code of Ethics to make it more realistic and then follow up rigorously with an effective monitoring system to ensure compliance.
<b>Accountability in the SAI</b>		
16. There should be an accountability process in the SAI. (INTOSAI Auditing Standards I.0.20)	The OAG does not operate a management board, but responsibilities, rights, and duties are clearly laid down in the Constitution. The Auditor General must prepare an annual audit report to be laid before the Parliament.	
17. There should be clear responsibility in the SAI for (i) advising on internal finance, keeping proper financial records and accounts, and maintaining systems of internal control; (ii) for ensuring compliance with laws and regulations	Financial Procedure Act and Financial Administration Rules apply.	

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<p>18. The SAI should prepare an annual report on its operations and performance that is separate to its reports on its audits. It should provide an objective, balanced and understandable account of activities and achievements, and details of financial position and performance.</p>	<p>OAG does not prepare an annual report on its operation and performances. However, the Annual Audit Report includes a chapter of OAG activities undertaken during the year. The Annual Audit Report includes the number of audits conducted and financial statements (the budgets received and expenditures incurred).</p>	
<p>19. The SAI should prepare a corporate plan or equivalent.</p>	<p>The OAG does not prepare a corporate plan. It prepares an annual operational program for the audit before beginning the fiscal year (July 15) and provides it to government entities. This covers the submission of financial statements and schedules for field audit and reporting.</p>	<p>The OAG should prepare a corporate plan for a period of at least five years and implement it to enhance the capability of the OAG.</p>
<p>20. The SAI should undergo peer review or independent performance audit.</p>	<p>An internal OAG peer review is in place. The National Audit Department of Malaysia conducted a peer review during the OAG Public Audit Reform and Capacity-building Project in 2005 as a part of institutional strengthening. An independent professional Chartered Accountant is being appointed to conduct internal audit of the OAG accounts.</p>	<p>Some audits (approximately 20 every year) conducted by the OAG should undergo peer review by other SAI or external qualified professional auditors to review the quality of the audit and enhance capability of the OAG staff.</p>

**Independence provided by the Legislation**

Legislation needs to be adequate for the following core principles of SAI independence if the SAI is to provide effective external scrutiny:

- (1) Existence and de facto application of an appropriate and effective constitutional and legal framework;
- (2) Independence of the SAI Heads, including security of tenure and legal immunity in the normal discharge of their duties;
- (3) Sufficiently broad mandate and full discretion in the discharge of SAI functions;
- (4) Unrestricted access to information;
- (5) Obligation to report on their work;
- (6) Freedom to decide on the content and timing of their reports and to publish and disseminate them;
- (7) Existence of effective follow-up mechanisms on SAI recommendations;
- (8) Financial and managerial autonomy and the availability of appropriate human, material, and monetary resources.

(Core Principles of SAI Independence, INTOSAI Sub-committee on SAI Independence, 2004)

<p>21. The legislation should spell out in detail the extent</p>	<p>The Interim Constitution and Audit Act have guaranteed the</p>	<p>The Audit Act needs to be amended to provide the full range</p>
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STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<p>of the SAI independence. (INTOSAI Lima Declaration Section 5)</p> <p>22. The legislation should assure the independence of the SAI Heads and “Members” (in collegial organizations) and that there is security of tenure and legal immunity in the normal discharge of their duties. (INTOSAI Lima Declaration Section 6)</p>	<p>independence of the OAG. The Prime Minister appoints the Auditor General on the recommendation of the Constitutional Council. The Auditor General and his assistants shall at all times have access to information necessary for the audit.</p> <p>The Auditor General is appointed for six years and eligible for reappointment subject to 65 years of age limit. The Auditor General can be removed from office on the same grounds and in the same manner as has been set forth for the removal of a judge of the Supreme Court.</p>	<p>of effective independence set out in the Core Principles of SAI Independence.</p>
<p>23. The SAI’s constitutional/statutory/legal framework should ensure that it has available sufficient human, material and monetary resources. (INTOSAI Lima Declaration Section 7)</p>	<p>According to Section 9 of the Audit Act 1991, the OAG can have a prescribed number of separate cadre officers and employees as approved from time to time by the Government of Nepal. The number of such employees cannot be reduced without the approval of the Auditor General. The recruitment and other conditions of services of the OAG staff shall be as prescribed in the rules framed under the Audit Act.</p> <p>The budget of the OAG, after discussion with the Ministry of Finance, is submitted to the Parliament, which passes it without voting. There is no budget constraint to OAG.</p>	<p>The best international practice is to discuss OAG budget in the Public Accounts Committee and then submit to the Parliament without discussion with and approval of the Ministry of Finance.</p>
<p>24. A fixed term must be long enough to survive changes of government and avoid pressures concerning re-appointment impinging too early in the term of office of the SAI office holder. A single non-renewable appointment is preferable to avoid those pressures. (INTOSAI Working Group on SAI Independence, 2004)</p>	<p>The Prime Minister appoints the Auditor General for the period of 6 years on the recommendation of the Constitutional Council. A person to meet eligibility for appointment as Auditor General must hold post graduate degree in management, commerce or account from a university recognized by Government of Nepal or has worked in special class of the Nepal Government passing chartered accountancy examination or has</p>	

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
	<p>experience in auditing of at least twenty years, is not a member of any political party during appointment, has attained the age of forty five, and has maintained high moral character.</p>	
<p>25. The legislation should ensure that the Head of the SAI is free to determine the organization of the audit office, including personnel and contract management systems and material acquisition/disposal policies and procedures. The SAI should be able to determine personnel policies, including the selection, recruitment, training, remuneration, promotion, discipline, and dismissal of staff and contract personnel. (INTOSAI Lima Declaration Section 6)</p>	<p>The Office of the Auditor General is free to determine the structure of its organization with the approval of Government of Nepal.</p> <p>The Employees Service Rules enacted under the Audit Act provides the criteria of recruitment, training, promotion, discipline, dismissal, and other conditions of service of the OAG officers and employees. The Public Service Commission recruits the staff in consultation with the OAG as per these Rules. The Auditor General can hire the services of any expert required for the task of audit under contract with reasonable remuneration.</p> <p>The OAG follows the Financial Administration Rules for procurement of materials and services and disposal. Remuneration and other benefits of the OAG staff are as per the Government.</p>	
<p>26. There should be unrestricted access to information. (INTOSAI Lima Declaration Section 10)</p>	<p>The Article 123 (3) of the Interim Constitution provides unrestricted access to information. Under the Audit Act, the Auditor General may examine documents relating to accounts of the program and project being operated under the grants of Government of Nepal. And if deemed necessary in the course of audit, the Auditor General may require the contractor of government contracts to produce relevant documents or other evidence relating to the contract.</p>	<p>The penalty clause should be included in the Financial Procedure Act for restricting the auditor to obtain information required for the audit.</p>
<p>27. The legislation should give the SAI the right and obligation to report on their work. (INTOSAI Lima Declaration Section 16)</p>	<p>The Auditor General is required to submit reports, which are to be tabled in the Parliament.</p>	<p>Legislation should fix the time within which the OAG should submit the audit report to the Prime Minister, and make provision for publishing the report</p>

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<p>The legislation should give the SAI the right and obligation to report effectively on its work, and the freedom to decide on the content and timing of its reports and to publish and disseminate them expeditiously. (INTOSAI Lima Declaration Section 17)</p>	<p>The Auditor General is free to decide on the content and timing of its reports. However, the Auditor General may submit a report at any time to the Prime Minister, if deemed necessary to take immediate action against any loss or damage already incurred or impending upon the fixed and current national assets. There is no legal provision for publishing the report. However, the Auditor General publishes and disseminates the report after submission of annual audit report to the Parliament.</p>	<p>to the public after submission to the Prime Minister, preferably, at the same time, presenting it to the Parliament if in session.</p>
<p>28. To the extent the findings of the Supreme Audit Institution are not delivered as legally valid and enforceable judgments, the Supreme Audit Institution shall be empowered to approach the authority, which is responsible for taking the necessary measures and require the accountable party to accept responsibility. (Lima Declaration Section 11.2)</p>	<p>The audit findings are discussed with the auditees during the audit. The preliminary audit reports are forwarded to the auditees for their comments with copy to the ministry's secretariat. Upon receipt of the comments, the final draft audit report is prepared and issued to the concerned auditee and copied to the secretariat of the respective ministry. The audit report is finalized on receipt of the response from the auditee or on expiry of the time granted for response.</p> <p>The audit reports have been disseminated to the public by putting on the OAG website after submission of the reports to the Prime Minister. The audit reports of the last four years were not tabled in the Parliament due to dissolution of the Parliament. However, after the reconstitution of the Parliament this has been tabled. There is an enormous backlog in hearing the audit objections by the Public Accounts Committee.</p>	<p>The Public Accounts Committee should be made more effective to complete hearing of the audit reports within the period specified by the Parliament.</p> <p>The secretariat of the respective ministry should form a separate cell to resolve audit irregularities in coordination with the respective auditee, FCGO, and the OAG.</p> <p>A yearly progress report of the follow up action taken by the concerned office is required to be issued.</p>

### Qualifications and Skills of the Auditor

*Qualified accountants are needed to sign audit opinions, and auditors must have adequate professional expertise and technical knowledge to carry out audits.*

29. The government and the SAI accounting schools

Government has its own training institutions, Nepal Administrative

The syllabus provided to the auditors by the OAG and

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<p>syllabus should cover all areas recommended by International Federation of Accountants' educational standards. (IES)</p>	<p>Staff College (NASC) and Revenue Training Center (RTC), which have specialized and qualified trainers, training materials, and curricula. Training is carried out for periods of 5 weeks to 3 months.</p> <p>OAG has its own training directorate to provide training to newly recruited staff and continuing staff on an 'as needed' basis. Training materials, curricula, and skilled tutors are not up to the desired standard. In the case of training in specialized areas and computer technology, training is outsourced to other professional trainers and institutions.</p> <p>The syllabi of the NASC and RTC do not cover all areas recommended by the IES. The OAG syllabus to some extent covers the IES-recommended syllabus.</p>	<p>NASC should cover all IES-recommended areas of training.</p> <p>The period of orientation training should be increased to at least 10 weeks for newly recruited staff.</p>
<p>30. There should be adequate professional criteria for recruitment and promotion of auditors. (INTOSAI Lima Declaration Section 14 and INTOSAI Auditing Standards 2.1.4)</p>	<p>Minimum education qualification for recruiting officer level is graduate degree in commerce or management and education level 10+2 for non-officer. The criteria do not require specialization in accounting or auditing. The OAG Employees Regulations provide criteria for promotion, such as seniority, education, training, etc. Staffs are also provided with some scholarships to study chartered accountancy. At present there are 5 professional qualified auditors in the OAG.</p>	<p>Recruitment of all level should require a degree specializing either in accounting or auditing.</p> <p>Emphasis should be to move toward providing more professional training and encouraging staff to acquire professional memberships, diplomas, or degrees.</p>
<p><b>Training</b></p>		
<p>31. The SAI should operate a continuing professional development program for its professional personnel. (INTOSAI Lima Declaration Section 14 and INTOSAI Auditing Standards 2.1.5-2.1.12)</p>	<p>The Human Resources Development Plan developed in 2005 requires 18 hours minimum of continuing education annually and of 54 hours minimum of continuing education over a rolling 3-years period. The plan is in process of implementation. Training facilities are modernized for this purpose.</p>	<p>The Human Resources Development Plan is to be strictly implemented.</p> <p>The OAG should work with other SAIs or professional institutions to make arrangements to provide a continuing education program for audit staff.</p>



STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<b>Audit Competence</b>		
<p>32. The SAI should equip itself with the full range of up-to-date audit methodologies, including systems-based techniques, analytical review methods, statistical sampling, and audit of automated information systems. (INTOSAI Auditing Standards 2.2.37)</p>	<p>Audit guidelines have been developed. A separate directorate is working within the OAG for policy making, maintenance, and updating of the manuals, etc. However, the existing capacity of the OAG personnel to implement these manuals is not up to the desired level, and there is a need for more training and development in practical use of the manuals.</p> <p>Computer hardware and software are used for report writing purpose on a limited basis. Computer-assisted audit techniques and other audit-enhanced technologies need to be applied within OAG for conducting the audit of entities having computer-based accounting systems.</p>	<p>The OAG-developed Operating Guidelines contain the main standards of the audit methodologies but lack detailed procedures. The adoption of the NSA and ISA will help to provide the detail for the audit methodologies, including systems-based techniques, analytical review methods, statistical sampling, and audit of automated information systems. OAG staff should be trained to conduct all types of audit effectively.</p>
<b>Quality of the Audit</b>		
<p>33. The SAI should have quality assurance programs in place to ensure audit performance and results. Written quality control policies and procedures should be communicated to the audit personnel in a manner that provides reasonable assurance that the policies and procedures are understood and implemented. (ISA 220.7)</p>	<p>Government Auditing Standards, consisting of policy standards and operational guidelines, provide guidance on quality control. The staffs are being trained to understand and follow these standards and guidelines.</p>	<p>Working papers should be properly maintained in an organized way and should be indexed for easy cross-reference, quality control review, and recording quality supervision.</p>
<p>34. Quality control procedures should cover:</p> <ul style="list-style-type: none"> <li>■ Direction: Assistants to whom work is delegated need appropriate direction.</li> <li>■ Supervision: covering the following functions during the audit: (a) monitor the progress of the audit, (b) become informed of</li> </ul>	<p>The quality control procedures cover direction, supervision, and review. The audit assistants are given clear instructions through audit plans and programs. The audit work is closely monitored. The supervisor is to be immediately informed about accounting and auditing issues, and appropriate authority is to be consulted on such issues. The supervisor and higher personnel</p>	

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<p>and address significant accounting and auditing issues, and (c) resolve any differences of professional judgment between personnel and consider the level of consultation that is appropriate.</p> <p>■ Review: The work performed by each assistant needs to be reviewed by personnel of at least equal competence. (ISA 220.11, 220.14 &amp; 220.15)</p>	<p>review the work of assistants. There is a practice of post-audit quality review system (peer review) to some extent.</p> <p>The working papers have not been maintained properly in some cases.</p>	

## B. Assessment of Public Sector Auditing Standards and Practices

*Results from the audits should hold the executive to account for its fiscal and expenditure policies and their implementation.*

Planning		
<p>35. The planning process should collect information about the audited entity and its organization in order to identify important aspects of the environment in which the audited entity operates, develop an understanding of the accountability relationships, determine whether appropriate action has been taken on previously reported audit findings and recommendations, assess risk, and determine materiality. (IFAC ISA 300.6-300.9)</p> <p>The planning process should identify the scope of the audit, and specify the audit objectives and the tests necessary to meet them. (ISA 300.10-300.12)</p> <p>The planning process should review the internal audit of the audited entity and its work program, identify</p>	<p>The OAG follows the Government Auditing Standards and INTOSAI Auditing Standards. Information about the audited entity is collected. Follow up is done to review whether appropriate action has been taken to resolve previous year’s audit findings and implement recommendations. But the risk is not always assessed and materiality is not determined in all audits.</p> <p>The planning process identifies the scope and objectives of the audit and necessary tests required to conduct an audit.</p> <p>The planning process reviews the internal audit report of the audited entity, identifies key management systems and controls, and determines</p>	<p>The planning process of all audits should include more comprehensive planning based on the specific objectives of the audits. The auditors should be trained to implement all planning processes. They should visit other SAI for on-the-job training.</p> <p>Emphasis should be given on review of the internal audit work program and assessment of internal auditors’ strengths and weaknesses.</p>



STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<p>key management systems and controls, and carry out a preliminary assessment to identify both their strengths and weaknesses, and determine the approach to be adopted in the audit. (ISA 300.9)</p> <p>The planning process should highlight special problems foreseen when planning the audit. (ISA 300.10)</p> <p>The planning process should prepare a budget and a schedule for the audit, and provide for appropriate documentation of the audit plan and for the proposed fieldwork. (ISA 300.10)</p> <p>The planning process should identify staff requirements and a team for the audit. (ISA 300.11)</p> <p>The planning process should familiarize the audited entity about the scope, objectives and the assessment criteria of the audit and discuss with them as necessary. (ISA 300.7)</p>	<p>the approach to be adopted in the audit. It does not review the internal audit work program or carry out a preliminary assessment to identify both strengths and weaknesses.</p> <p>The planning process highlights special problems foreseen when planning the audit.</p> <p>In the case of some audits, the budget covers audit expenses, excluding personnel cost and office overhead cost, and the audit schedule mentions various stages of audit.</p> <p>The planning process identifies staff requirements for the audit.</p> <p>The auditors familiarize the audited entity with the scope, objectives, and assessment criteria of the audit at the time of entrance conference and during the audit.</p>	
<b>Supervision</b>		
<p>36. The process of supervision should ensure that the members of the audit team have a clear and consistent understanding of the audit plan. (INTOSAI Auditing Standards 3.2.3a)</p>	<p>The audit team gets a clear understanding about the audit plan because they are involved in the audit planning process and are guided during supervision of the audit</p>	<p>There is a need for more guidance on the audit testing to be undertaken and the functions of supervision, and the forms of audit opinion to be given.</p>
<p>37. The process of supervision should ensure that the audit is carried out in accordance with the auditing standards and practices of the SAI.</p>	<p>Senior-level officers supervise the field-level audit, review documents, and discuss the issues identified at a higher level. Audit files are reviewed at three levels of officers to ensure</p>	<p>Working papers are to be more structured and cross-referenced to substantiate the audit conclusion and opinion.</p>

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
(INTOSAI Auditing Standards 3.2.3b)	that audit is done as per auditing standards. Supervision at field level is in practice.	
38. The process of supervision should ensure that the audit plan and action steps specified in that plan are followed unless a variation is authorized. (INTOSAI Auditing Standards 3.2.3c)	Checklists are used and reviewed to ensure that audit actions and steps specified in audit plan are followed.	
39. The process of supervision should ensure that working papers contain evidence adequately supporting all conclusions, recommendations and opinions. (INTOSAI Auditing Standards 3.2.3d)	Working papers contain competent, relevant, and reasonable audit evidence to support audit conclusions, recommendations, and results.	
40. The process of supervision should ensure that the auditor achieves the stated audit objectives. (INTOSAI Auditing Standards 3.2.3e)	The supervising officer ensures it.	
41. The process of supervision should ensure that the audit report includes the audit conclusions, recommendations and opinions, as appropriate. (INTOSAI Auditing Standards 3.2.3f)	The process of supervision ensures that the audit report includes the audit conclusions and recommendations. Audit opinions in the case of state-owned enterprises are expressed in the annual Auditor General's Report but not in the standard format. Audit opinions are not expressed in the case of budget sector audits.	
<b>Internal Controls</b>		
42. The auditor should obtain an understanding of the entity and its environment, including its internal control, sufficient to identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, and sufficient to	Yes, but not in writing in all cases as per the idea given by previous audit experiences. The risk is not assessed. The OAG staff lack sufficient technical knowledge to assess audit risk appropriately.	Training on operational guidelines developed for the Government audit and various ISA-recommended audit methodologies should be provided to OAG staff. In addition to upgrading their audit skills in implementing guidelines and ISA, staff should also be provided with materials for on-the-job training

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<p>design and perform further audit procedures. (ISA 315.2)</p>		<p>to understand how to use audit methodologies in other SAls.</p>
<p>After obtaining an understanding of the accounting and internal control procedures, the auditor should obtain a sufficient understanding of control activities to assess the risks of material misstatement at the assertion level and to design further audit procedures responsive to assessed risks. (ISA 315.90)</p>	<p>Yes, in material cases, it is done</p>	
<p>The auditor should document in the audit working papers: (a) conclusions reached about susceptibility to material misstatement due to error or fraud; (b) the understanding obtained of the entity's accounting and internal control procedures; and (c) the assessment of control risk. (ISA 315.122-123)</p>	<p>Yes, but in case of control risk it is not properly assessed and substantiated with appropriate working papers to the desired extent.</p>	
<p>The auditor should perform tests of controls to obtain sufficient appropriate audit evidence that the controls were operating effectively at relevant times during the period under audit. (ISA 330.23)</p>	<p>Yes, tests of controls are carried out to check the operation of internal control system during the period under audit.</p>	
<p>When the auditor cannot obtain sufficient appropriate audit evidence as to a material financial statement assertion, the auditor should express a qualified opinion or a disclaimer of opinion. (ISA 330.72)</p>	<p>No, but in the case of certification of project account, the OAG expresses a qualified or a disclaimer of opinion as the case may be.</p>	
<p>The auditor should make management aware</p>	<p>Yes, a preliminary audit report is issued to the auditee to inform in writing</p>	

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<p>in writing, as soon as practical and at an appropriate level of responsibility, of material weaknesses in the design or operation of the accounting and internal control procedures, which have come to the auditor's attention. (ISA 315.120)</p>	<p>about material irregularities caused due to weaknesses in the operation of the accounting and internal control procedures and to obtain written responses for confirmation of irregularities.</p>	
<p><b>Compliance with Laws</b></p>		
<p>43. The auditor should obtain a general understanding of the legal and regulatory framework applicable to the entity and the industry and how the entity is complying with that framework. (ISA 250.15)</p> <p>The auditor should perform testing and other procedures to help identify instances of noncompliance with those laws and regulations where noncompliance should be considered when preparing financial statements. (ISA 250.18)</p> <p>The auditor should obtain sufficient appropriate audit evidence about compliance with those laws and regulations generally recognized by the auditor to have an effect on the determination of material amounts and disclosures in financial statements. (ISA 250.19)</p> <p>Generally, management is responsible for establishing an effective system of internal controls to ensure compliance with laws and</p>	<p>They are obtained.</p> <p>Substantive testing, including analytical testing, is performed to identify instances of noncompliance with laws and regulations.</p> <p>Audit evidence of noncompliance is obtained to substantiate the determination of material amounts and disclosures in financial statements.</p> <p>The legal framework, mandate, policies, and procedures of the entity are verified. The entity's internal control is evaluated, and risk is assessed but not in detail in case of</p>	



STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<p>regulations. In designing steps and procedures to test or assess compliance, the auditor should evaluate the entity's internal controls and assess the risk that the control structure might not prevent or detect non-compliance. These evaluations should be used to report to management on defects in the system of internal controls and the steps that should be taken to improve the system. (ISA 250.17)</p> <p>The auditor should obtain written representations that management has disclosed to the auditor all known actual or possible noncompliance with laws and regulations whose effects should be considered when preparing financial statements. (ISA 250.23)</p> <p>The SAI should use regularity audit to make sure that the State budget and accounts are complete and valid. The audit procedure may result, in the absence of irregularity, in the granting of a "discharge". If not, other processes are needed to resolve irregularities.</p>	<p>audit of Government offices. In case of weakness/noncompliance, corrective measures are recommended.</p> <p>Written representations are obtained from state-owned enterprises and Government offices for audit of project financial statements but not from all the Government offices.</p> <p>It is confirmed that state budget and accounts are complete and valid as per the requirement prescribed in the Audit Act by verifying budget authorizations, over-run of budget, approval of budget transfer, and proper allocation of expenditures. Mistakes in the financial statements are corrected for final reporting.</p>	<p>Written representations from the management of all Government offices should be obtained.</p>
<b>Evidence</b>		
<p>44. When obtaining audit evidence from tests of control, the auditor should consider the sufficiency and appropriateness of the audit evidence to support the assessed level of control risk. (ISA 500.10)</p>	<p>The sufficiency and appropriateness of the audit evidence are considered to support the assessed level of control risk and financial statement assertions.</p>	<p>Audit evidences should be properly documented, filed, and cross-referenced in the working paper file.</p>

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<p>When obtaining audit evidence from substantive procedures, the auditor should consider the sufficiency and appropriateness of audit evidence from such procedures together with any evidence from tests of control to support financial statement assertions. (ISA 500.12)</p>		
<p>45. When inventory is material to the financial statements, the auditor should obtain sufficient appropriate audit evidence regarding its existence and condition by attendance at physical inventory counting. (ISA 500.Part A.5)</p> <p>When in substantial doubt as to a material financial statement assertion, the auditor should express a qualified opinion or a disclaimer of opinion. (ISA 500.18)</p>	<p>The auditors do not attend the physical verification conducted at the end of the fiscal year, but they carry out physical verification during the audit on material basis.</p> <p>Inventories are not shown in the financial statements of the Government.</p> <p>Qualified audit opinions or disclaimers of audit opinions are issued as necessary to the donor agencies in the case of financial statements of the Government projects and to the OAG by the auditor appointed as assistant in case of financial statements of fully state-owned enterprises.</p>	<p>The OAG should attend physical verification of inventory at the end of the year of some of the Government projects having a considerable amount of inventory.</p> <p>The OAG should also start reporting on impairment of inventory.</p>
<p>46. When long-term investments are material to the financial statements, the auditor should obtain sufficient appropriate audit evidence regarding their valuation and disclosure? (ISA 500.38)</p>	<p>All investments are accounted by FCGO showing opening, addition/adjustment, and cumulative figures of each fiscal year. A summary of investments is reported in the Auditor General's Annual Report.</p> <p>There is no practice of valuation of Government investment.</p>	<p>The Government investment should be valued on the basis of share market price of shares of entities listed in the share market, and suitable valuation methods of shares of entities not listed in the share market. Any loss on investment should be reported in the Annual Audit Report.</p>
<p><b>Analysis of Financial Statements</b></p>		
<p>47. In regularity (financial) audit and in other types of audit when applicable, the auditor should analyze the financial</p>		<p>The financial statements of the Government budget sector and the state-owned enterprises published in the Audit Report should present the disclosures</p>



STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<p>statements to establish whether acceptable accounting standards for financial reporting and disclosure are complied with. (INTOSAI Auditing Standards 3.6.1) Analysis of financial statements should be performed to such a degree that a rational basis is obtained to express an opinion on the financial statements. The auditor should ascertain whether:</p> <p>(a) financial statements are prepared in accordance with acceptable accounting standards;</p> <p>(b) financial statements are presented with due consideration to the circumstances of the audited entity;</p> <p>(c) sufficient disclosures are presented about various elements of financial statements; and</p> <p>(d) various elements of financial statements are properly evaluated, measured, and presented. (ISA 200.2-200.12)</p>	<p>(a) The financial statements of the Government budget sector are prepared in prescribed forms based on government accounting systems. The financial statements of the state-owned enterprises are prepared based on NAS, IAS, or GAAP prescribed in the relevant laws.</p> <p>(b) Yes. Financial statements are presented with due consideration to the circumstances of the audited entity.</p> <p>(c) Sufficient disclosures are presented in the audited financial statements of fully state-owned enterprises submitted to the OAG. But the disclosures are not presented in the financial statements published in the Annual Audit Report. The Government does not have practice of disclosing various elements of the financial statements.</p> <p>(d) Yes, various elements of financial statements are properly evaluated, measured, and presented.</p>	<p>about various elements of the financial statements.</p>

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<b>Reporting on Financial Statements.</b>		
<p>48. The auditor should provide an opinion paragraph in the audit report. (ISA 700.4)</p> <p>There should be a reference to the financial reporting framework used to prepare the financial statements (including identifying the country of origin of the financial reporting framework when the framework used is not International Accounting Standards). (ISA 700.12-15)</p> <p>The opinion paragraph should contain an expression of opinion on the financial statements stating the auditor’s opinion as to whether the financial statements give a true and fair view (or are presented fairly) in all material respects. (ISA 700.17)</p>	<p>Normally, OAG provides an audit opinion on project financial statements to the donor agencies. The OAG Annual Audit Report does not contain a separate opinion paragraph in the prescribed format.</p> <p>The OAG Annual Audit Report does not contain reference to the financial reporting framework.</p> <p>Such opinion is given in the Annual Audit Report of the financial statements of the Government projects submitted to the donor agencies. The audit report of fully state-owned enterprises submitted to the OAG by the professional auditor appointed as assistants are issued in the format and language prescribed by the national and international standards on auditing.</p>	<p>The OAG should issue audit reports giving reference to the financial reporting framework used to prepare the financial statements and expressing an opinion on the complete set of financial statements of the Government budget sector and the fully state-owned enterprises.</p>
<p>49. The SAI should provide a detailed report amplifying the opinion in circumstances in which it has been unable to give an unqualified opinion. Reports should be made where weaknesses exist in systems of financial control or accounting. (ISA 700.17)</p>	<p>The OAG does not issue a qualified opinion in the prescribed format but mentions the audit observations/irregularities in the Annual Audit Report. The OAG provides the final draft Audit Report before finalization for comment to the audited entities. The final audit observations presented in the Annual Audit Report are made available to the audited entities.</p>	<p>The OAG should issue any qualified opinions or disclaimers of opinion in the prescribed format</p>
<b>Reporting on Fraud</b>		
<p>50. The SAI should report fraudulent practices or serious irregularities</p>	<p>Auditors are responsible for following the applicable standards when considering fraud and error</p>	<p>The Audit Report should mention the reasons that led to the fraud, and the actions taken by the</p>



STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<p>discovered by the auditors. (INTOSAI Auditing Standards 4.0.7) ISA 240 establishes standards and provides guidance on the auditor's responsibility to consider fraud and error in an audit of financial statements. The standard requires that – when planning and performing audit procedures and evaluating and reporting the results thereof – the auditor consider the risk of material misstatements in the financial statements resulting from fraud or error.</p>	<p>during audit of financial statements. If any cases of fraud and error are reported during the course of audit, they are brought to the notice of the accountable officers/ministers. Such fraud and error are reported in the draft audit report, which is forwarded to the auditee/minister for comment and incorporated after review of the response of the auditee in the Annual Audit Report.</p>	<p>auditee to avoid recurrence of the fraud.</p> <p>The OAG staff should be trained in forensic audit to conduct audits in a systematic way to find fraud and error</p>
<h3>Reporting on Compliance</h3>		
<p>51. With regard to regularity audits, does the auditor prepare a written report, which may either be a part of the report on the financial statements or a separate report, on the tests of compliance with applicable laws and regulations? (INTOSAI Auditing Standards 4.0.7)</p>	<p>A preliminary Audit Report is prepared on completion of the audit and provided to the entity for their response. And then, considering their responses and evidences submitted subsequently the final Audit Report is sent to the Responsible Account Officer/Minister for their final comment. After obtaining their comments and responses, the final observations and audit irregularities are included in the Annual Audit Report.</p> <p>A follow-up audit is also carried out during the next years' audit on resolving such irregularities.</p>	<p>The Annual Audit Report should be concise and include only major irregularities. The minor irregularities are to be reported in the separate management letter addressed to the secretary of the respective ministry and the Finance Ministry.</p> <p>A separate audit report review cell is to be formed in each secretariat of the ministry to resolve audit irregularities in coordination with the respective auditee, FCGO, and the OAG. This will reduce the number of irregularities to be reported to the Parliament and workload of the Public Accounts Committee and help to resolve the irregularities on time. In addition, it may be useful to explore other alternative approaches following reviewing of similar systems in other countries.</p>