Joint Consultative meeting on Strengthening of the Office of the Auditor General (SOAGP II)

Park Village Resort, Budhanilkantha
March 24-26, 2017

ABSTRACT

This document is a results of consultative workshop on sustaining reforms in Office of the Auditor General of Nepal

CONTENTS

BACKGROUND

Strengthening of the Office of the Auditor General
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Effective public financial management (PFM) through strong institutions, calibrated regulatory regimes, and robust systems is key to Nepal's development. While well-considered, prudent, fiscal policies conducive to private sector growth can result in much-needed resource mobilization and targeted resource allocation, strong PFM institutions in turn can fully capitalize on these policies and result in effective use of this increased fiscal space and allocated resources. Such well-synchronized systems can also meet fiscal sustainability objectives and lead to efficient macroeconomic management.

The Office of the Auditor General, Nepal (OAGN) is responsible for external audit of government institutions, including fully owned Government undertakings as mandated by the Constitution. The OAGN, the Supreme Audit Institution (SAI) of Nepal and member of the International Organization of Supreme Audit Institutions (INTOSAI) and Asian Organization of Supreme Audit Institutions (ASOSAI), was established in 1959. The office endeavors to promote good governance through enhanced public accountability and transparency. The OAGN has recently adopted the concept of risk-based auditing, aligned with International Standards for Supreme Audit Institutions (ISSAI) as a result of the Capacity Development of OAGN Project (P127040), which started in February 2012 to improve the quality of financial audits and

adopt international good practice approaches. The upgraded, financial audit methodology introduced a quality assurance framework to cover the whole audit cycle, including pre-engagement, risk assessment and audit planning, development of audit programs, sampling and testing, evaluation of the results of testing, audit conclusion, and reporting; and developed a set of standardized audit working paper templates. These reform priorities are articulated in OAG Strategic Plan 2016-2020, primarily aimed at improving quality and impact of audit, besides other imperatives, through implementing audit methodology aligned with ISSAI standards, strengthening quality assurance function, and strengthening follow-up audit

Workshop Objectives

- Articulate OAGN reform priorities and develop the contours of a broad reform programme.
- Seek feedback and inputs from stakeholders on key activities proposed for SOAGP II.
- Agree on components, timelines and performance indicators for SOAGP II.
- Discuss entry points for citizen engagement by SOAGP II.

DISCUSSION ON COMPONENTS

A. IMPLEMENTATION OF RISK BASED AUDIT AND ITS EXTENSION TO AUDIT OF SUB-NATIONAL GOVERNMENTS

Under this component, existing risk based planning process shall be improved and extended. Ministry level financial statement audits will be implemented and intensive training and capacity building will be undertaken to help embed the new processes. Risk based audit methodology shall be applied for audit of Sub-national government so that scarce resources of OAGN can be utilized on priority areas.

B. SUSTAINING THE REFORMS THROUGH ENHANCED USE OF IT TOOLS FOR AUDIT PLANNING, EXECUTION, AND FOLLOW-UP

Under this component, an IT excellence center will be established, which will help embed Audit Management System (NAMS), Computer Assisted Audit Techniques acquired during the first phase. NAMS will be used for audit follow up and management of backlog of audit observation. PAC will also be a beneficiary of the IT system. NAMS shall also be implemented in newly established provincial offices.

C. In-depth citizen participatory performance audit and its application in audit of sub-national governments

During the second phase, an intensive training plan in performance audit will be developed and implemented and necessary steps will be taken to increase the share of performance audits, as compared to financial and compliance audits with the view to gradually meet INTOSAI requirements. The OAGN has included citizen participatory audit as one of the priority areas of the Strategic Plan. Guidelines on Citizen Participatory Audits are also developed. The SOAGN Project II will closely collaborate with the MDTF demand-side project to help include citizen participatory audits in OAGN audit plans.

D. POLICY SUPPORT FOR AUDIT UNDER FEDERAL STRUCTURE

Among the many challenges that Nepal faces, one is the impact on how OAGN performs its functions. The new Constitution of Nepal proposes a federal structure of government. The Constitution also requires OAGN to certify financial statements of village development committees. These provisions have increased the scope of audit conducted by OAGN. With limited resources, OAGN will prioritize audits in accordance with an ISSAI-compliant, risk-based model adopted by the OAGN.

IMPLEMENTATION ARRANGEMENTS

Public Expenditure and Financial Accountability (PEFA) Secretariat will have an overall role in the coordination and management of Multi Donor Trust Fund (MDTF) program. At the level of implementing agency, a high-level Committee will undertake overall responsibility of project governance at the Senior Management level, chaired by Senior Deputy Auditor General. At the working level, a Management Committee chaired by the Program Coordinator will meet at least once every two months. The Management Committee will include one Assistant Auditor

General (other than the Program Coordinator), two Audit Directors, and one Audit Officer. The Management Committee will monitor the progress of the project against the Results Framework and will document agreed actions as necessary to ensure smooth implementation and achievement of the development objective. Minutes of Management Committee meetings will be distributed to Steering Committee members, Norway SAI and the World Bank, after clearance by the Auditor General.

KEY TAKEAWAYS

OAGN MANDATE

The biggest challenge before OAGN is implementing its new mandate. The constitution provides clarity on role, functions and power of OAGN in respect to newly formed sub-national governments. OAGN needs to complete assessments and identify needs of organization to enable it to perform its new function. This assessment, once complete, should be widely disseminated and communicated through consultative session and other channels.

LEADERSHIP

OAGN team demonstrated commitment and leadership at operational level by actively participating in the consultative session. Two DAGs, four AAGs and four directors attended the sessions for two days. However, appointment of the new Auditor General, though beyond the control of OAGN office, will remain a critical challenge and this issue will be raised with the government at all levels.

SUSTAINING AND EMBEDDING THE REFORMS

Sufficient tools were developed during the project's first phase. For the next phase, the challenge is to embed and mainstream these tools in the routine function of OAGN.

INHOUSE CAPACITY FOR IT, RISK BASED AUDIT AND PROCUREMENT

The next phase will be OAGN led and a number of procurements will be undertaken during the project's early phase. OAGN needs to develop a team of IT professionals and procurement specialists for seamless implementation of project activities.

UNLEASHING THE POTENTIAL OF INTOSAI

OAGN will benefit from the extensive knowledge that exists in INTOSAI community and actively collaborate with sister SAIs on learning lessons and implementing risk based audit, CAATS, Citizen Participatory Audits, Audit of Reconstruction and Rehabilitation, etc.

COLLABORATION WITH SAI NORWAY AND OTHER ENTITIES

SAI Norway has partnered with SAI Nepal in knowledge exchange. This commitment was once again demonstrated by participation of an official of SAI Norway in the consultative session. In future, OAGN II will be undertaken in close collaboration with SAI Norway team. There is also a possibility of collaboration with ICAN.

SAI NEPAL CAN BE A WORLD LEADER IN CITIZEN PARTICIPATORY AUDIT

Civil Society Organizations(CSOs) in Nepal are very active in remote locations. OAGN successfully piloted CPA during the first phase. This will be strengthened and scaled up so that SAI Nepal can be a beacon of light for other SAIs who want to test CPA.

TIME IS RIPE FOR REPFORMS

OAG requested for some form of commitment from WB, in order to propose a budget for the next FY. The planning process is ongoing and if they could initiate the process now, they could start some activities under retroactive financing.

ANNEX I - LIST OF PARTICIPANTS

1.   Akmal Minnallah - WB
2.   Anil Chitrakar – WB
3.   Yogesh Malla - WB
4.   Baburam Gautam – Deputy Auditor General
5.   Satya Thapa -OAG
6.   Ramu Prasad Dotel – OAG
7.   Ole Schoyen – Norway SAI
8.   Anjalee Thakali – WB
9.   Uddhab Shrestha- OAG
10.   Ram Chandra Ojha – OAG
11.   Netra Kumar Khatri - OAG
12.   Trilochan Acharya – OAG
13.   Parshuram Neupane - OAG
14.   Kamal Silwal- OAG
15.   Lekh Bahadur Thapa- OAG
16.   Chandra Kumar Bhandari – Director, OAG
17.   Ashok Kumar Karki – OAG
18.   Shraddha Shah - WB

ANNEX II – AGENDA

Date	Time	Session theme	Resource person/ outcomes
March 24th, Friday	5 pm	Introduction and objective of the joint consultation	Anil Chitrakar
	6- 6:30	Review of the achievements of Phase I, identification of gaps, Institutionalization process	OAG Baburam Ji
	7pm	dinner	
March 25th, Saturday	8 to 9 am	Breakfast	
	9-10:30	Enhancing audit quality and reliability through implementation of ISSAI	WB/ OAG
	Half hour	Tea break	
	11-12:30	Sustaining the reforms through enhanced use of IT tools for planning, execution and follow up of audits	WB/ OAG
	12:30-1:30	Lunch	
	1:30-2:45	Entry points for Citizen Engagement in Audit process of Nepal	Anjalee ji
	2:45-3:45	Supporting audit under federal structure and audit of recovery and rehabilitation	WB/ OAG
	15 mins	Tea break	
	4-5pm	Wrap-up session	
	7pm	dinner	
March 26th, Sunday	8 am	Breakfast	
	9-11 am	Strategy session Next steps, Roles and responsibilities Timeline	Anil Chitrakar

ANNEX III – ENTRY POINTS FOR CPA

EXPANDING CITIZEN'S PARTICIPATION IN THE AUDIT (CPA) PROCESS OF NEPAL

The OAG-CSO Operational Manual (2073) to guide the OAGN in engaging CSOs in Nepal is a positive step. The Manuals on Citizen's Participation in Audit process were implemented with eight CSOs in five earthquake affected districts in February 2017, following the capacity building workshop in December 2016 in Kathmandu. The lessons learnt during the CPA implementation will be documented and later incorporated into the CPA manual (2073). The CE part of the OAG project MDTF will work closely with the SOAGN Project II to help imbed citizen participatory audits in OAGN audit plans. The activities will be well coordinated with the supply-side components to enable a holistic approach to improving the PFM systems in Nepal.

The direct beneficiaries of this project include OAGN staff and potential CSOs in the Performance Audit process. The capacity of the both OAG Auditors and CSOs will be enhanced through series of hands-on training, workshops and exposure visits on Citizen's Participation in

Audit process. Both OAG staff and local CSOs at the provincial and district level will work closely and be actively involved in conducting actual performance audits through engaging direct beneficiaries in the process.

The capacity of the Public Affairs Committee (PAC) Members will be further enhanced on PFM issues in general and their attention will be drawn by sharing the audit findings and observations in particular in close coordination with CMU. The Final Audit Report will be submitted to the parliament by OAG. The CSOs will support the Executives for the effective implementation of audit observations that will help to improve the overall PFM system in the country.

The indirect beneficiaries of the program will be all the citizens of the country residing in all the Local Bodies through proper utilization of public resources and increased interface between citizens and their constitutional bodies. The outcome or the results of the development will help to enhance good governance and reduce the poverty in the country through enhanced transparency and accountability.

Figure 1: CPA Results Framework

Goal: To Institutionalize CPA in OAGN

Outcome: Substantive citizen engagement institutionalized in the performance audits conducted by OAGN

Intermediate Outcome 1: Database of active and qualified/trained CSOs for CPA established	**Intermediate Outcome 2:** Capacities of CSOs enhanced for engagement of citizens in OAGN Performance Audit	**Intermediate Outcome 3:** Regional exchange of CPA experiences	**Intermediate Outcome 4:** Dissemination of audit findings by OAGN in a citizen friendly manner
Component 1: Provincial and local body CSO mapping	**Component 2:** Strengthening of institutional capacities of CSOs and OAGN to implement CPA	**Component 3:** Regional program learning and knowledge sharing	**Component 4:** Citizen focused communication strategy
Output 1: A database on CSos with potential capacity to contribute to CPA which can be regularly updated	**Output 2:** Refined OAGN CE manual and guideline and workshops conducted for strengthening to capacitate CSOs in CPA	**Output 3:** Events organized or platforms established for sharing of experiences among countries in the region	**Output 4:** Citizen focused communication strategy and products developed by OAGN
Activities: 1. Mapping of CSOs with potential CPA capacity by province and local bodies	**Activities:** 1. Capacity building workshops for OAGN officials 2. Development of training materials for CSO capacity building 3. CSO capacity building workshops 4. Refine CE manual and guideline of OAGN	**Activities:** 1. Prepare case studies on CPA experiences of Nepal 2. Organize in-country experience sharing workshops 3. Organize inter-country exchange visits	**Activities:** 1. Develop a citizen friendly communication strategy for OAGN 2. Prepare citizen friendly dissemination materials for different media 3. Capacity building workshops for journalists from different media