Project Financial Statement Audit Directives

Office of the Auditor General
Anamnagar, Kathmandu, Nepal
2023

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Foreword

It is my immense pleasure to release the Project Financial Statement Audit Directives of the Office of the Auditor General of Nepal. This directives will be applicable in undertaking respective financial, compliance, performance audits of the entities as per the Audit Act, 2075.

This directives provides a clear picture of methods and approaches to audit that the audit staff is required to comply with in imparting their duties. It has been built around the prevailing Audit Act, Nepal Government Auditing Standards (NGASs), and office policies that require conducting a high-quality audit. Since NGASs are based on INTOSAI framework for Professional Pronouncement (IFPP), this directives seeks to incorporate the Nepal audit practices at par with the international best practices.

This directives provides guidance and direction in all phases of the audit from pre-panning to follow-up including audit process, understanding the project, audit considerations with necessary annexures which encourages professional judgment where it requires. The directives does not override the legal requirements and conditions of NGASs. Likely, it shall not limit the professionalism of the officials entrusted with the responsibility of conducting audits.

Our knowledge, skill, and experience with auditing practices continue to evolve, and so will this directives. This directives is expected to be updated for the continuous improvement of audit practices to meet legal provisions, audit standards, and practices to address emerging risks.

My special thanks to all staffs who prepared the directives and provided their valuable feedback and comments to make this directives implementable which, I do hope, will be of use to conduct audits efficiently and effectively.

April 26, 2023

Tankamani Sharma, Dangal
Auditor General

List of Abbreviations

Abbreviation	Full form
AWP	Annual Work Plan
DP	Development Partners
DTCO	District Treasury Controller Office
FAM	Financial Audit Manual
FCGO	Financial Comptroller General Office
FS	Financial Statements
GoN	Government of Nepal
IFPP	INTOSAI Framework of Professional Pronouncements
INTOSAI	International Organisation of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
ISSAI	International Standards of Supreme Audit Institutions
LMBIS	Line Ministry Budget Information System
MoF	Ministry of Finance
NGAS	Nepal Government Auditing Standards
NPSAS	Nepal Public Sector Accounting Standards
OAGN	Office of Auditor General of Nepal
PARF	Public Audit Restructuring Framework
PDMO	Public Debt Management Office
SoE	Statement of Expenditure
SWAp	Sector-wide Approach
WHT	Withholding Taxes

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Part - I
Introduction

1. Background

Government undertakes projects and programmes with the support of development partners. These projects and programmes are in many occasions required to prepare special purpose financial statements to meet the covenants of the grant and financing agreements. Government prepares general purpose financial statements for entities as required by the laws and standards (such as NPSAS) and to meet the requirement and /or rights of the stakeholders such as public and their need to be informed of the financial performance of the government. In addition, government may prepare financial statements for other parties, such as governing bodies, the legislature, development partners, financiers or other parties that perform an oversight function, who can demand financial statements tailored to meet their specific information needs.

1.1. Special Purpose Financial Statements

Special Purpose Financial Statements are financial statements prepared in accordance with a special purpose framework designed to meet the financial information needs of specific users.

In some circumstances and in some environments such special purpose financial statements will be the only financial statements prepared by the public sector entity. When such financial statements are the only financial statements prepared by the public sector entity, they are also considered to be special purpose financial statements. Project Financial Statements (PFSs) are the special purpose financial statements for the Project.

Public sector auditors, therefore, need to carefully examine whether the financial reporting framework is designed to meet the financial information needs of a wide range of users (“general purpose framework”) or the financial information needs of specific users.

1.2. Objective of this Guide

The objective of this Directives is to provide general guidelines to support the public sector auditor in audit of:

- Special Purpose Financial Statements:
  - Audit of project accounts, i.e., to enable the public sector auditor to express the opinion on the special purpose financial statements

This Directives has been prepared for the purpose of conducting audit of the government’s project and programs conducted with the support from or in collaboration with the development partners. This Directives will equally be applied to any auditor appointed for carrying out audit of foreign assistance in Nepal.

The requirements of the Nepal Government Auditing Standards (NGAS), the INTOSAI Framework of Professional Pronouncements (IFPP), and the Acts like Audit Act, 2019, Financial Procedure and Fiscal Accountability Act, 2019 and other relevant laws have been considered while developing this Guide.

This section of the Guide intends to provide:

- Guidance to auditors in conducting the audit of special purpose financial statements (namely project financial statements);
- Understanding to the auditors regarding the projects implemented by the government in collaboration or support from development partner(s).
- A basis for conducting training to audit staff.

1.3. Project Financial Statements (PFSs)

Government of Nepal (GoN) has been undertaking many infrastructures development, social and economic projects, and programmes with the support from the development partner(s). Assistance from the development partners is received in the form of soft loans or grants or combination of both or in the form of technical assistance or commodities.

Development activities funded by the development partners are designed/ operated as separate projects with specific budget headings and allocations.

PFSs show sources and utilisation of the funds for the period being reported and the cumulative figure from the beginning of the project. These financial statements indicate the financial performance of the project and disclose information, financial or otherwise, as agreed on the project agreement.

The form and format of financial statement presentation shall, if prescribed, be in accordance with the agreement with the development partners. When formats are not prescribed the financial statements shall have to be prepared to meet the information requirement of the principal stakeholders namely the government and the development partner(s).

The PFSs are prepared using information available in existing accounting records of government's accounting system.

1.4. Coverage

The Directives generally covers the audit of PFSs prepared and presented for development partner(s) supported projects. This Directives is a supplement to and should be used in conjunction with Financial Audit Guide (FAG) of OAGN for expression of opinion on the financial statements. The compliance and performance aspects of the projects shall be either in accordance with the Compliance Audit Guide (CAG) and Performance Audit Guide (PAG) respectively or included together with the financial audit. This Directives is designed to confirm with the provisions of NGAS and INTOSAI Framework of Professional Pronouncements (IFPP).

1.5. Materiality Consideration

Audit is subject to the materiality consideration for associated risk of misstatements and its impact on the financial statements.

An audit involves applying professional judgement in considering materiality, both quantitative and qualitative aspects of different areas of financial statements. Materiality is used to determine the nature, extent and timing of the audit procedure which helps in assessing the audit results.

Based upon the materiality and risk, the auditor applies professional judgement in determining the nature and extent of audit procedure.

1.6. Definitions

Project Financial Statements

Project Financial Statements (PFSs) refer to a complete set of financial statements as required by the Financing agreement for the Project and as determined by the applicable financial reporting framework[1].

Financial Information

Financial Information refer to accounting and related data of the entity and/or offices which may or may not have been presented in a reporting form.

Financial Reporting Framework

Financial reporting framework is defined as a set of criteria used to determine measurement, recognition, presentation, and disclosure of all material items appearing in the financial statements.

Public Sector

Public sector includes General Government and Public Corporations.

General Government

The general government sector consists of resident institutional units that fulfil the functions of government as their primary activity such as all government units of federal, provincial, and local governments and their extra budgetary units.

Entity

[1] ISSAI 2200.13(f)

Entity means the body that prepares financial statements in accordance with the applicable financial reporting framework, whether general or specific.

Office

Office means the underlying hierarchy or the constituent components of the entity that include subordinate offices (or branches where applicable) or similar bodies whose financial information are included in the financial statements.

Project

Project refers to the project agreed to finance from development partner(s)' assistance and implemented by the government. Project includes program for the purpose of this Guide.

Consolidated Fund

Consolidated Fund is the fund conceived by the Constitution of Nepal that the governments of all level need to maintain and report under the prevalent laws.

Consolidated Financial Statement

Consolidated financial statement is prepared and presented of the controlling entity combining the financial information of all of its subordinate offices and components under its control in accordance with the applicable financial reporting framework.

Nepal Public Sector Accounting Standards (NPSAS)

Nepal Public Sector Accounting Standards (NPSAS) is the public sector financial reporting framework adopted by the Government of Nepal (GoN).

Disclosure

Disclosures are the accounting policies, explanations or other information relevant to the financial statement to be disclosed explicitly in the financial statements in accordance with the financial reporting framework.

Imprest

Development partners may agree in the project agreement / document to maintain an imprest account to meet the regular/routine project expenditure whereby a fixed balance is maintained. If an imprest account is established, funds are regularly replenished to maintain the fixed balance. Imprest account ensures seamless availability of funds.

Special Account (also sometimes known as Designated Accounts)

An account specially created to provide for the project expenditure is called a special account. This account is also called as designated account. The development partner on government's request or on its own may deposit the amounts to meet the eligible project expenditures. This account may not be used for any other purpose other than for the project. Generally, there are two types of designated (special) accounts:

- Segregated Account – the proceeds for the project from a single development partner can be deposited.
- Pooled Account – the proceeds from more than one development partner may be deposited.

Retroactive financing

Retroactive Financing refers to an agreement by the development partner to finance all or part of the costs incurred by the government with respect to a project before the date on which the DP approves the project.

Co- financing

Co-financing is a well-established way of working for development. Development Partners and in some cases government jointly finance a programme or project, so that each member of the Co-financing partners bring the best they can offer. Co-financing leverages the resources—funding, knowledge, and expertise—of all partners, to the greater benefit of the needy.

Development Partners

Donors, multilateral institutions, and development agencies who assist developing initiatives of the government with a variety of projects to improve people's lives.

Earmarking

Earmarking is the practice of setting money aside for a specific purpose. The earmarked amount cannot be used for any other purpose.

Part - II
Audit Process

2. Audit of Project Financial Statements

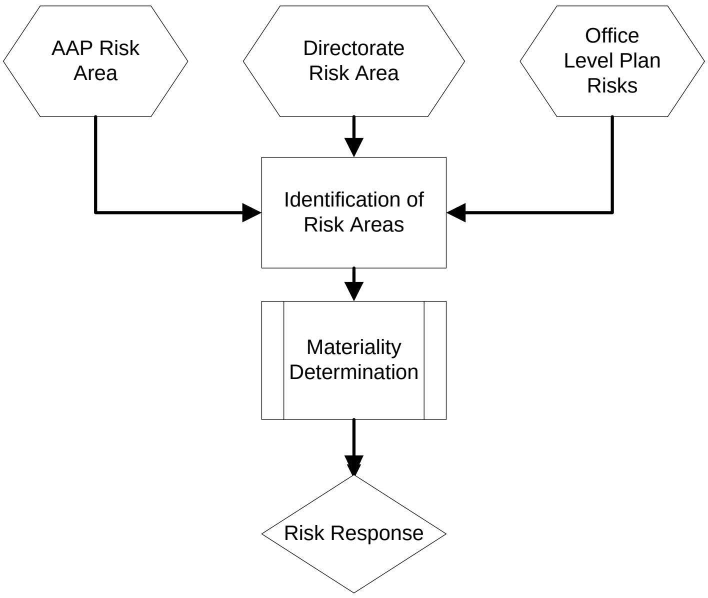
The audit requirements of the project are stipulated in the Agreement signed with the development partner along with the type of audit, audit assurance and the timing of audit report.

Under the Constitution of Nepal, the Auditor General is the sole authority to carry out the audit of government implemented projects and programmes including of the Project Financial Statements. The Auditor General conducts such audit with due consideration to regularity, economy, efficiency, effectiveness, and propriety, as provided by the constitution and related laws. OAGN follows the NGAS which is aligned with INTOSAI Framework of Professional Pronouncement (IFPP).

Audit of the PFSs requires additional understanding and may require additional information and non-generic reporting as specified in the project agreement. The PFSs must be approved by the Project Chief, the Secretary of the concerned Ministry and the Financial Comptroller General, before it is audited by OAGN.

Except for the special feature of the project audit as discussed in this section of the Guide, all audit procedures as explained in the OAGN Financial Audit Manual shall be applicable.

2.1 Planning[2]



[2] To be applied with Para 4.3 of Financial Audit Guide and Para 3.3 of Compliance Audit Guide Para

Planning Consideration for audit of project financial statements

The auditor shall prepare audit plan and program before conducting the audit. The audit plan and program include the following:

a. Risks identification and assessment - Risks associated with projects are identified and assessed at three different sources

- At strategic level in the annual audit planning stage of the auditor general where higher level risks are identified and analysed
- At the directorate level, while preparing entity level planning where specific sectoral risks are identified and analysed
- At project level where auditor identifies possible risks associated with the particular project based on the auditor's knowledge and experience, audit issues identified and reported in the past and based on any particular new information that has come to the knowledge of the auditor.

b. Materiality

Audit is subject to the materiality consideration. Every area of the audit must be considered for associated risk of misstatements and its impact on the financial statements.

This project audit Guide provides the guidance to conduct audit in the project environment. However, auditor needs to apply professional judgement in considering the materiality of each sub-category of project financial statements and determine the nature extent and timing of the audit procedure. This Guide contains the guidance for relevant audit procedures to be conducted during project audits. It is up to the auditor to apply judgement in determining the nature and extent considering the risk and materiality.

c. Risk Response

The risk response in the form of audit plan (audit programmes / audit checklist) has to be prepared based on the risk assessment of the specific project. Generic checklists such as for the administrative expenses, procurement, internal control may be relevant and have to be referred to. This audit Guide contains checklists relevant only to the project environment.

d. Financial Reporting Framework Consideration

Auditor are required to determine the acceptability of the financial reporting framework applied in the preparation of the financial statements[3]. In an audit of PFSs, the auditor shall obtain an understanding of[4]:

(a) The purpose for which the financial statements are prepared;
(b) The intended users; and

[3] ISSAI 2210.6(a)
[4] ISSAI 2800.8

(c) The steps taken by management to determine that the applicable financial reporting framework is acceptable in the circumstances.

In the case of PFSs, the financial information needs of the intended users are a key factor in determining the acceptability of the financial reporting framework applied in the preparation of the financial statements[5]. The applicable financial reporting framework may encompass the financial reporting provisions of a contract (or agreement)[6].

Auditor therefore should review and understand the project agreement document in terms of its provisions on financial reporting requirements, specific information needs and disclosure requirements. The provisions of the project agreement act as the special purpose framework and guiding document for preparation and presentation of PFSs.

Other consideration when planning the audit

The auditors are required to comply with all standards relevant to the audit[7]. It requires the auditor to comply with:

(a) Relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements; and

(b) All standards relevant to the audit.

In planning and performing a project audit, the auditor shall determine whether application of the standards requires special consideration in the circumstances of the engagement[8].

In the case of financial statements prepared in accordance with the provisions of a contract (project agreement), the auditor shall obtain an understanding of any significant interpretations of the contract (project agreement) that management made in the preparation of those financial statements. An interpretation is significant when adoption of another reasonable interpretation would have produced a material difference in the information presented in the financial statements[9].

Application of some of the requirements of the standards in an audit of PFSs may require special consideration by the auditor however, those judgments are based on a consideration of the financial information needs of the intended users.[10]

The management may agree with the intended users on a threshold below which misstatements identified during the audit will not be corrected or otherwise adjusted. The existence of such a threshold does not relieve the auditor from the requirement to determine materiality for purposes of planning and performing the audit of the special purpose financial statements[11].

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[5] ISSAI 2800.A5
[6] ISSAI 2800.A8
[7] ISSAI 2200.18
[8] ISSAI 2800.9
[9] ISSAI 2800.10
[10] ISSAI 2800.A10
[11] ISSAI 2800.A11

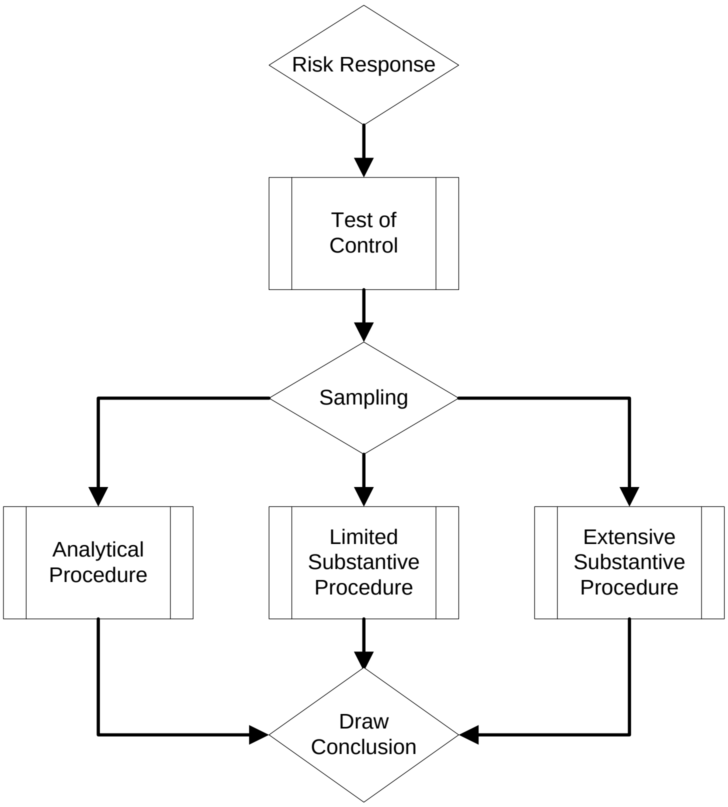
The person(s) responsible for preparation of the PFSs may not be the same as those charged with governance responsible for the oversight of the preparation of those general-purpose financial statements[12].

2.2 Execution[13]

Based on the risk response prepared at the planning stage, Test of Control procedures are performed for the project whereby the auditor assesses whether the internal controls associated with the project are designed appropriately and are operating effectively or not. The results of the test of control controls further informs the auditor for performing nature and extent of substantive procedures to be performed.

- The extent of the procedures is determined by way of altering the sampling,
- Nature of the audit procedure depends on the associated risks and the results of the test of controls. The audit procedures also known as substantive procedure might be one of the following:
  - Analytical Procedure as substantive procedure
  - Limited substantive procedures
  - Extensive substantive procedures

The substantive procedures involve the testing of the audit assertions, namely Completeness, Occurrence, Measurement, Presentation, Accuracy, Rights and Obligations, Existence (mnemonic - COMPARE)



[12] ISSAI 2800.A12; ISSAI 2260.A8
[13] To be applied with Para 5.3 of Financial Audit Guide and Para 4.3 of Compliance Audit Guide Para

2.3 Reporting[14]

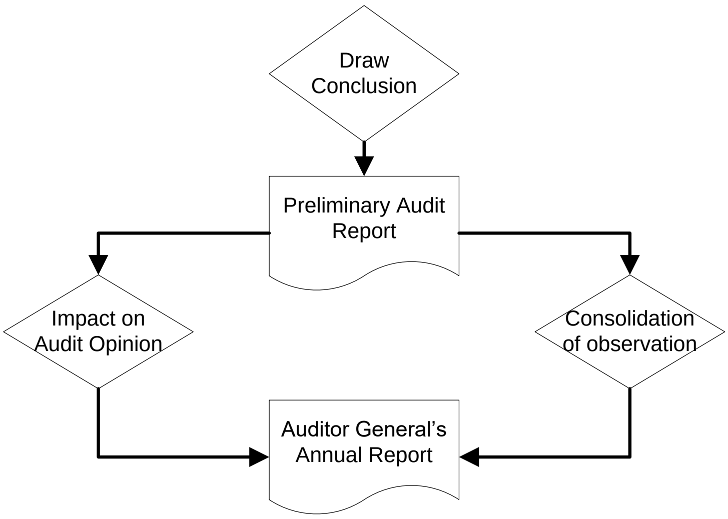
After the completion of the audit procedures, auditors shall draw conclusions of the audit and discuss during the audit exit conference with the project management. Then the auditor should prepare preliminary audit report including material observations and findings for the concerned project to respond within the time stipulated by the law.

The observations and finding are compiled and consolidated to assess whether they have any material bearing on the audit opinion of the PFSs. Opinion on PFSs is expressed in accordance with the NGAS, complying with the ISSAI 2800 and ISSAI 2805.

The audit report shall include, inter alia, whether the project resources are utilized for the intended purpose of the project fund and whether the expenditures incurred are eligible as per the project agreement. The report shall mention with necessary details if there is any ineligible expenditure for the Project.

OAGN also issues a Management Letter (ML) in addition to the opinion on the project financial statements highlighting the audit observations, internal control weaknesses and compliance of the financial covenants of the project document. Furthermore, the issues are consolidated at the entity (e.g. Ministry) level and reconsidered for inclusion in the auditor general's annual report. The ML shall present the audit observations classified as per audit observations classification norms and practices of the OAG.

Considerations when forming an opinion and reporting



Audit Report

When forming an opinion and reporting on the PFSs, the auditor shall apply the requirement of ISSAI 2700[15] (this includes ISSAI 2700, 2705, 2570, 2720, 2706). The illustration of audit reports given in the FAM may be relevant to the reporting.

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[14] To be applied with Para 6.3 of Financial Audit Guide and Para 5.3 of Compliance AuditGuide Para

[15] ISSAI 2800.11

ISSAI 2800 requires the auditor to apply ISSAI 2700 when forming an opinion and reporting. In doing so, the auditor is required to apply reporting requirements in ISSAI along with the special considerations mentioned in ISSAI 2800[16].

Going Concern: Depending on the applicable financial reporting framework used in preparation of the PFSs, the description of the management's and auditor's responsibilities relating to going concern may need to be adapted as necessary[17].

Key Audit Matters: For the audit of PFSs, ISSAI 2701 only applies when communication of key matters is required by law, regulation or by contract (i.e. financing agreement)[18].

Other Information: The purpose of 'Other Information' is to provide owners (or similar stakeholders) with information on matters presented in the special purpose financial statements. For special purpose framework 'similar stakeholders' include specific users whose financial information needs are met by the design of the special purpose financial framework used to prepare the special purpose financial statements.[19]

Name of the auditor: The name signatory in the audit report also applies to the audits of the special purpose financial statements.[20]

Reference to general purpose financial statements: The auditor may deem it appropriate to refer, in the 'Other Matter' paragraph in the auditor's report on the special purpose financial statements, to the auditor's report on the complete set of general-purpose financial statements[21].

Alert that the financial statements are prepared under special purpose framework: The special purpose financial statements may be used for purposes other than those for which they were intended. To avoid misunderstandings, the auditor alerts users of the auditor's report by including an Emphasis of Matter paragraph explaining that the financial statements are prepared in accordance with a special purpose framework and, therefore, may not be suitable for another purpose[22].

Illustrative Example of an Auditor's Report on the complete set of financial statements prepared in accordance with the financial reporting provisions of a contract (or an n agreement) is given in **Annexure A**.

Management Letter

In addition to the audit report, auditors provide the project with Management Letter the matters to be improved for better project management and ensure to achieve project

[16] ISSAI 2800.A14
[17] ISSAI 2800.A15
[18] ISSAI 2800.A16
[19] ISSAI 2800.A17
[20] ISSAI 2800.A18
[21] ISSAI 2800.A19
[22] ISSAI 2800.A20

objectives in a timely manner with efficiency and in effective manner. The contents of management letter include:

a. Brief introduction of the project;
b. Current years audit observations along with the type of audit observation as per classification norms and practices of the OAG ;
c. The audit observations highlight the following matters, but not limited to:
    - comments and observations on the accounting records, systems and internal controls,
    - specific deficiencies and areas of weaknesses in the system and make recommendations for improvement;
    - highlight to the development partner any other matter that the auditor considers pertinent;
    - compliance with the applicable legal requirements
    - Economy, efficiency, regularity and propriety has been observed in implementation of the project / programme.
d. Compliance Status of Previous years' audit observations,
e. If a disbursement from the development partner(s) is conditioned with a Delivery Linked Indicator (DLI), the auditor will verify the DLI verification report prepared for the disbursement purpose and clearly report about the fulfilment of the DLI condition(s), and
f. Compliance status of the financial covenants in the financing agreement.

It is the prerogative of the auditor to address any matter which, in the auditor's opinion, should be drawn to the management's attention. However, auditor many also agree with the project management at the commencement of the audit on matters to be included in the audit engagement and be addressed in the Management Letter. But this shall be at the auditor's discretion. Sample Management Letter is given in **Annexure B**.

2.4 Follow-Up[23]

The observation and finding of the audit of project financial statements reported by the auditor in the Management Letter are subject to follow up actions in accordance with the procedure prescribed by the law, OAGN practices and the project agreement requirements.

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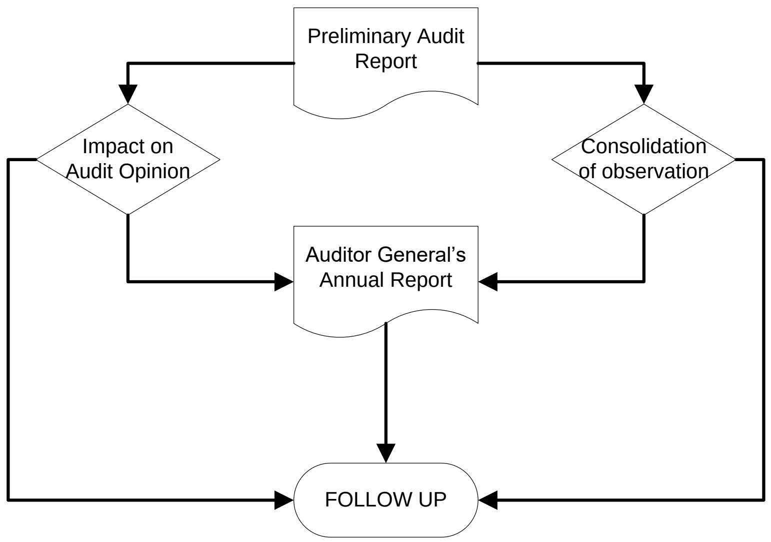
[23] To be applied with Para 7.3 of Financial Audit Guide and Para 6.3 of Compliance AuditGuide Para

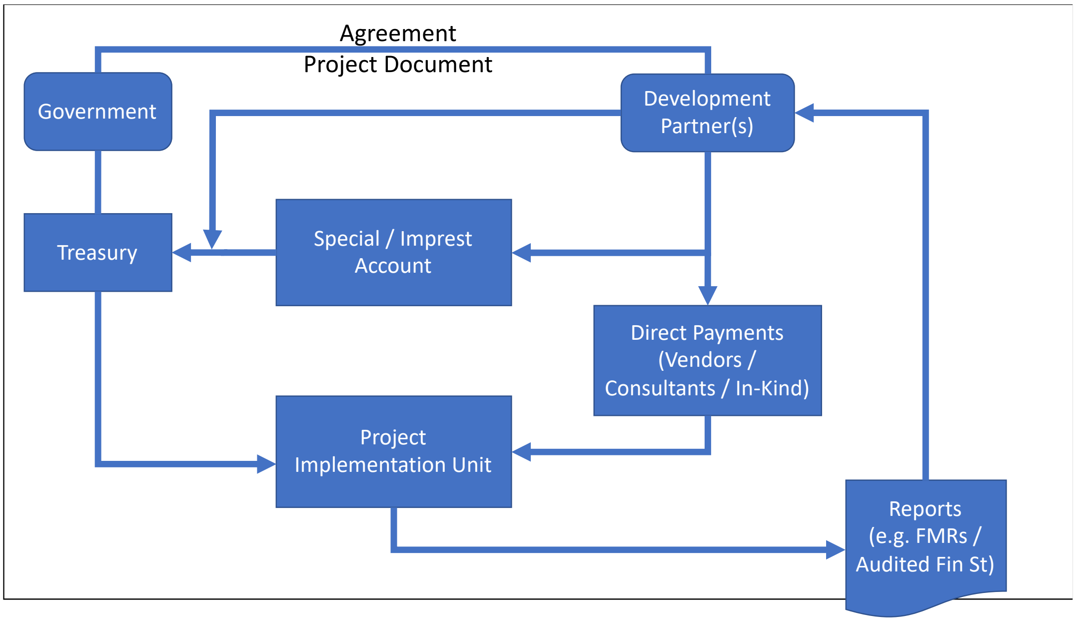

Preliminary Audit Report
Impact on Audit Opinion
Consolidation of observation
Auditor General's Annual Report
FOLLOW UP

Part - III
Understanding Project Implementation

3. Understanding the Project

3.1 Project Arrangement

Projects / programmes implemented by the government in support or collaboration with the development partners have somewhat different terms, procedures, conditions and terminologies when compared with generic government accounting system. Therefore, it is imperative on the government auditors to understand and make themselves aware of the project implementation systems and procedures for the purpose of conducting audit of project financial statements.



3.2 Matters to be considered in project audit

3.2.1 Project Document and Project Implementation Agreement

These are the legal agreement between the development partner(s) and the government. It describes the implementation procedures, project costs, budget allocations to different activities, the duration of the project, reporting requirements, accounting and auditing requirements. The activities of the project are implemented according to the terms and conditions of this agreement. For example, the procurement and contract management provisions may be different from the government's normal provisions. This may be in the form of project / programme Financing Agreement document or Memorandum of Understanding or Project Implementation Letter or any similar form.

These are the principal documents for auditors to refer in terms of project audit.

3.2.2 Funding and implementation process

Information on the source of funding of a project / programme can be obtained from the "Source Book for Foreign Aided Projects" published by the Ministry of Finance and is also available in the financing agreements. Funding can be either in the form of:

1. Grant; or
2. Credit (Loan); or
3. Combination of both Credit and Grant

A project / programme may be funded with the joint funding from the government and the development partner(s) or entirely funded by the development partner(s). Generally, project / programme implementation is managed in either one of the following three ways:

1. Fully managed by the government;
2. Jointly managed by the government and development partner(s); or
3. Fully managed by the development partner(s).

Irrespective of the mode of implementation is the project and the programme is under the agreement with the government and included in the "Source Book" should generally be within the purview of this audit Guide.

3.2.3 Annual budget and funding arrangement

Project / programme implementation may exceed one financial year depending on the agreement. Resources needed for each financial year is provided by means of an annual budget. The "Source Book for Foreign Aided Projects" contains resource allocations to each project operation by activities as well as by source and modalities of funding of each project for each of those the particular financial years. Anything not specifically mentioned in the Source Book is normally required to be cleared by the Ministry of Finance.

The total budget from foreign sources mentioned in the Source Book is variously classified by the Ministry of Finance into loan, grant or assistance given in kind. Further the Source Book generally contains amounts that is paid to the third party directly by the development partner(s) and the amount that is to be paid out by the government and received as reimbursements from the development partner(s).

Funding a project by development partner (s) can be in either of the following modalities

1. On-Treasury
    a. Cash - where development partner supports the government programme by directly contributing cash to the treasury.
    b. Reimbursement – where the government initially makes the expenditure for the project and the development partner disburse the eligible amounts to the special (designated) account or directly to the treasury
    c. Imprest/special/designated – Development partners deposit advances into the imprest/special/designated account from which project expenditure are

withdrawn to treasury and then development partner replenishes the imprest/special/designated account to maintain it at an agreed amount.

2. Off-treasury
   a. Separate Project Account – Some development partner pay into a separate project account from which payment for the project activities are undertaken
   b. Direct Payment – Development partners directly pay to the suppliers, vendors, service providers, and consultants.
   c. Commodity support – where development partners purchase commodities and or build assets and hand it over to the government.

3.2.4 Budget release and expenditure

The allocated budget, both government portion and DP portion, is authorised to the project office through treasury offices via treasury single account or transferred a grant as the case may be. The budget release makes arrangement for payments as authorised by the project office.

The development partner's portion of fund is generally released as pre-funded by the government, which is subsequently reimbursed from the development partner(s) after expenditure is incurred. Project / programme may also incur expenditures provided in the Budget which are directly reimbursed or paid out from the DP source.

3.2.5 Disbursement of Development Partners' Funds

On many instances development partners make payments to suppliers (foreign) directly and reimburse local expenditure on receipt of the withdrawal application.

Some development partners open special/imprest account with the central bank in order to ease the cash position of the government. Project / programme can withdraw money from the special/imprest account as and when expenditure is incurred by the project subsequently to be replenished by the DP to the agreed set special/imprest amount. Some projects / programmes have special account with the central bank where the development partners pay their share of contribution.

Disbursement procedures generally shall be as agreed with the development partner(s) or the specific guidelines issued by the development partner(s).

3.2.6 Expenditure categories / components

Project must maintain either separate set of accounting records or should be able to generate separate financial report for each reporting period which can be monthly, quarterly, trimester based, annual or otherwise. All transactions of release and expenditure of funds should be in according to the government's financial procedural laws.

Some projects may have additional requirements to report and maintain records as per the particular financing agreement, these shall be additional from the normal legal requirements.

Categories and components specifically required to be reported or disclosed as per the financing agreement should be done as per the agreement provisions.

Typical categories may be as under (below are the indicative examples but these have to be as per the agreement if provided or as per the law)

- civil works;
- consultants' services;
- community service providers
- goods;
- local training, grants and scholarships;
- incremental salaries and operating costs; and
- Land & building, plant, equipment and vehicles.

Classification of budget release and expenditure for project / programme which are based on governments classification may not exactly match with the components / categories required by the loan / grant agreement. To overcome this limitation project / programme is required to maintain separate accounts for specific component / category.

Multi donor project / programme may or may not require separate reporting requirements for each of the development partner. Or on many occasion single project financial statements may be sufficient for financial reporting.

Project may have been implemented by federal, provincial and local governments and by multiple ministries and offices. Even then consolidated financial statements have to be prepared for each project / programme combining expenditures made in different offices and levels of governments.

3.2.7 Records to be maintained

In addition to the books of accounts normally required to be maintained, project / programme is required to maintain additional records. These have to be maintained for ease to provide reports and information as required by development partner(s) and the financing agreement. Generally, the information on the position of the Fund, special/imprest account, reimbursement, replenishment eases the process of preparation of "Project financial statements". Some indicative records are

- Project Accounts
- Main Loan / Grant Register
- Withdrawal
    - Monitoring Register
    - Direct Payment
- Reimbursement
- Records as per the required categories / components
- Special / Imprest account
- Statement of Expenditure

Note: If not specifically provided in the financing agreement or required by the development partner the project reporting should be as per the approved OAGN Form. OAGN Forms No 231.1 to 231.7 specifically provide for the reporting which are as under.

- 231 - Project Financial Statements
  - 231.1 – Statement of Sources and Application of Funds
  - 231.2 – Interim reports of Sources and Application of Funds
  - 231.3 – Statement of Govt. Fund and Govt. Reimbursable Fund
  - 231.4 – Statement of expenditure (category-wise)
  - 231.5 – Statement of Withdrawal applications and expense categories
  - 231.6 – Statement of Development Partner's Fund
  - 231.7 – Annexures to the Project Financial Statements

3.2.8 Payment procedures

Payments by the development partner is affected by way of multiple mechanisms. Some of the common modes of payments are as under (described in detail in audit consideration section of this Guide)

Reimbursement and replenishments

In reimbursement modality government makes the payments for the project activities from the treasury and then development partner(s) deposit the agreed share of the eligible expenditure. In replenishment modality an imprest or designated account is maintained from which the project expenditures are made, and development partners replenish the account to maintain it at agreed level in case of imprest account or pay its share of expenditure in case of the designated (special) account.

Making direct payments

Development Partner(s) may at the government's request, make payments, directly to a third party (e.g., supplier, contractor, consultant) for eligible expenditures.

Advances

Development Partner(s) may advance loan / grant proceeds into a designated account of the government to finance eligible expenditures as they are incurred and for which supporting documents will be provided later.

Special Commitments

Development Partner(s) may pay amounts to a third party for eligible expenditures under special commitments entered into, in writing, at the government's request and on terms and conditions agreed between the DP and GoN.

Payment against withdrawal applications

Government submits a formal 'withdrawal application' to the development partner (s) along with the required supporting documentations to withdraw the grant or loan proceeds. The limit of reimbursements, replenishments, direct payments, advances and special commitments may be specified in the project document.

3.2.9 Opening Special / Imprest Account

The conditions of the financing agreement may permit the project to have a special / imprest account in a local bank. It is opened by submitting an application to the development partner. On receipt of the application, the development partner deposits the agreed amount of funds in the special / imprest account and informs the concerned government's treasury office and the concerned Project or Programme Office. The procedures that are to be followed in the opening and operation of such account shall be in accordance with the financing agreement.

3.2.10 Operation of Special / Imprest Account

The operational procedures of the special / imprest account should be as described in the agreed guidelines of the development partner(s). Such account should be opened in the Central Bank or bank authorised by the central bank. If required approval from the development partner is sought in case of the bank other than the central bank. Such account is operated by the project / programme office.

3.2.11 Transfer of fund to consolidated account

Transfer of funds from the special / imprest account to government's Consolidated Fund is done periodically on the basis of the Statement of Expenditure received from the project / program's implementing entity. A certified SoE is sufficient to make the transfer and these transfers are affected by the Central Bank as per instructions from the project / programme.

3.2.12 Project Reporting

The project reporting depends on the project agreement provisions. Some examples of common project reports are as follows.

- Interim Financial Reports – indicates periodic financial progress
    - Financial Monitoring Report (FMR) – can be monthly/ quarterly/ trimester
- Annual unaudited and audited financial statements that is inclusive of - indicates annual financial progress
    - Statement of Sources and Uses
    - Statement of Expenditure

Financial reports have to be considered by the auditors with other non-financial reports like

- Project monitoring reports
- Project progress reports

3.2.13 Closing of Special / Imprest Accounts

The special / imprest account balance is recovered from funds to be replenished towards the end of the project period. Any fund balances not recovered must be refunded to the DP which is then adjusted in the total amount of loan / grant.

3.3 Project Financial Statements

Project Financial Statements are special purpose financial statements, and they have to be prepared as agreed with the development partners. Different DP may have different reporting requirements including the formats (e.g. FACE Forms of UN agencies) of the project financial reporting.

When no specific reporting format is prescribed the generic reporting of the project will have the following features (but not limiting to).

Statement of Sources and Utilisation of Funds For the period ……………………………..			
Sources	Note		
Opening Balance	1	XXXX	
Government of Nepal	2	XXXX	
Development Partner's Contribution	3	XXXX	
Foreign Exchange Gain or (Loss)	4	XXXX	
A		**XXXXX**	
Uses			
Component 1	5	XXXX	Component can be the project components as agreed in the project document or nature of expenditure such as recurrent and capital expenditure with relevant sub-components
Component 2	6	XXXX	
Component 3	7	XXXX	
Component 4	8	XXXX	
B		**XXXXX**	
Balance C = A – B		**XXXX**	
Balance Represented by			
Special / Designated Account	9	XXXX	As applicable
Cash and Bank balances	10	XXXX	As applicable
D		**XXXX**	**C should be equal to D**

Part - IV
Audit Consideration

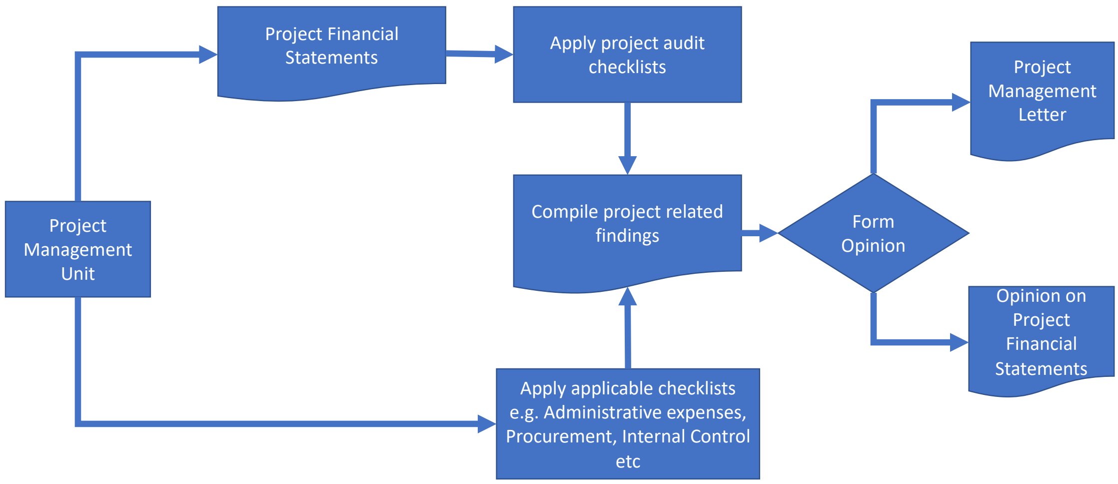
4. Audit Considerations

The project audit is usually undertaken in either of the following two ways.

1. When Project Management Unit is the only spending unit of the project

Audit of the project is conducted while conducting the audit of the office, i.e. the Project Management Unit. Audit checklists, all the applicable generic checklists such as administrative expenses, internal controls, procurement etc. are applied along with project audit specific checklists. The process flow will be as follows:

Project Audit Process Flow



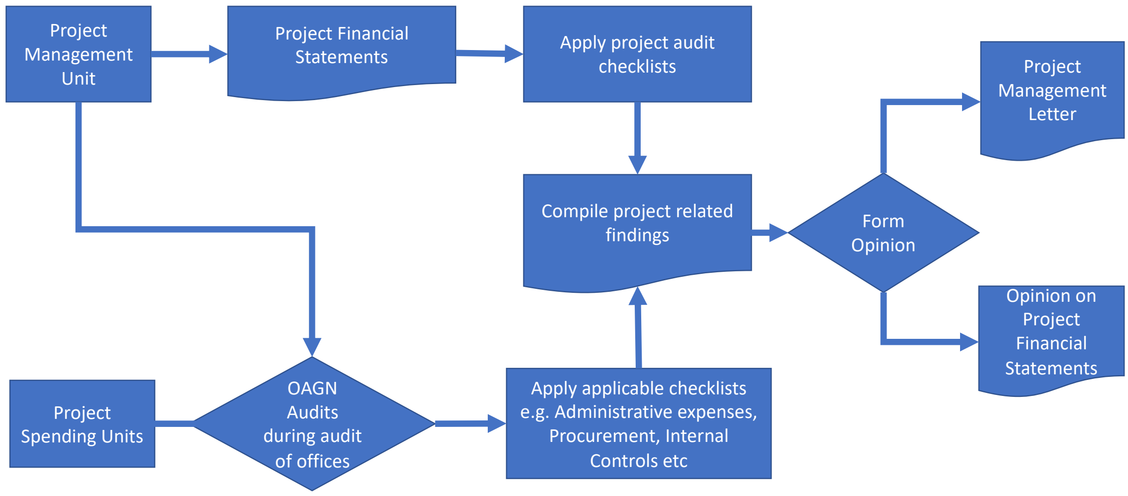
2. When there are other spending units other than the project management unit

Audit of the project when there will be other spending units will be different. All the spending units shall be audited when they are audited as 'office' under the risk based audit selection by the OAGN directorates. However, auditor needs to mark these audits as having relevance to the project audit reporting. As the financial information related with the project in these offices have to be considered for project financial information.

Audit checklists such as administrative expenses, procurement, internal control etc. shall have to be applied in the offices spending on the project activities. The project management unit shall compile the project's special purpose financial statement. Auditor shall have to apply project specific checklists (given in this project audit Guide) for the purpose of the audit.

When finalizing audits audit issues of each spending units and project management unit is compiled and assessed for forming an audit opinion on the project financial statements and inclusion in the project management letter. The process flow will be as follows.

Project Audit Process Flow



4.1 Audit Checklists for audit of the project financial statements

Auditors can tailor make these checklists to suit their audit requirements applying their professional judgement suitable to the circumstances. The following are the illustrative checklists:

4.1.1 Withdrawal Application

The withdrawal application is the process used to receive payment from the development partner(s) under the project agreement. It can occur in following circumstances:

- to reimburse the government for the amount it has paid to the contractor providing good or services;
- when the development partner makes direct payment to the contractor according to the invoices approved by the government; and
- where the development partner issues an agreement to reimburse the beneficiary

Objective of the Audit:

- Withdrawal applications represents the expenditures eligible for the project.

Associated Risks:

- Inappropriately prepared withdrawal application.

SN	Particulars - Audit considerations	Basis of Checking
1	For any loan / grant withdrawals, auditor needs to verify whether the following requirements have been met or not: • The Loan / Grant Agreement has to be declared effective; • The project / programme on behalf of the government has sent to the DP the necessary documents delegating one or more people to sign the Withdrawal Application Forms; • The project / programme has provided the DP with copies of the signed contracts that will be financed by the loan / grant agreement; and • There is provisions for retroactive financing clauses in the project agreement.	Project Document needs to be referred for the required supporting documents for making withdrawal application
2	As the loan/grant amount must be spent according to the procedure prescribed by the agreement, the auditor should give special attention, while checking the withdrawal application, and verify whether: • The amount applied for falls within the scope specified in agreement; • The expenditure was properly authorised and approved; • Prior approval from the development partner (if applicable) has been received; • Documents relating to expenditure are according to the prevalent laws; • The amount agrees with the proportion of share to be borne from the development partner's fund (i.e. correct allocation of expenditure between GoN and DP(s)); • The categories / components maintained is consistent with the categories / components in the agreement; and • The application of foreign exchange rates is in accordance with the agreement	The eligible expenditure indicated in the withdrawal application matches with the financial records
3	Only expenditure eligible for development partner's disbursement should be included. Auditor should verify if expenditures are ineligible for withdrawal considering whether: • Payments made on the basis of duplicate invoices (i.e. absence of original invoices); • Payments made in advance before the receipt of goods or delivery of services, unless these payments are consistent with contractual provisions and established commercial practice; • Payments that should have been made under normal disbursement procedures with full documentation; and • Payments for items that are not procured in accordance with the financing agreement.	The eligible expenditure indicated in the withdrawal application matches with the financial records
4	While the reimbursement or withdrawal is arranged on the basis of SOE, the auditor should ensure whether the expenditure is within the ceiling fixed by the agreement.	Limit / ceiling of withdrawal application as indicated in the project document
5	Withdrawal applications are raised on timely manner in accordance with the schedule (disbursement percentage) indicated in the project agreement.	Timing requirements in the project documents
6	Application if not made regularly worsens, the GoN's fund position and increases requirement of overdrafts. Auditor needs to verify whether:	Reconciliation between the agreed

SN	Particulars - Audit considerations	Basis of Checking
	• Documents required to lodge a withdrawal are regularly collected; • Applications are submitted immediately when disbursements have reached the threshold amount; and • Reconciliation statement is prepared and verified with FCGO's records.	schedule of withdrawal and the actual applications of withdrawal and DP disbursements
7	Applications have to be made in accordance with the development partner's guidelines. Auditor needs to verify whether: • For the preparation of the claims, the project office, is well conversant with the development partner's disbursement procedures so that the claims are properly prepared and submitted so that the claim application do not get returned.	Requirements mentioned in project agreement
8	Applications are processed within the prescribed timeframe. Auditor needs to verify whether: • All claims are submitted within the prescribed timeframe subsequent to the closing date of the credit • The date is closely monitored, as any claim submitted after this date will not be honoured; and • Formal notice is provided to the development partner as soon as the application is submitted.	Reconciliation between the agreed schedule of withdrawal and the actual applications of withdrawal and DP disbursements
9	Submission of expenditure claims incurred after the closing date of the credit. Auditor should verify whether: • Expenditure incurred after the closing date are uniquely marked to avoid confusion with pre-closing dated expenses (e.g. a stamp mark such "AFTER CLOSE" is used)	Requirements mentioned in project agreement

4.1.2 Special (designated) account / Imprest Account

Special accounts are the accounts specially opened for the operation of the project where the development partner contribute its share of contribution. Imprest account is similar to special account but is maintained at certain level for each of cash flow management. When expenditure happens from the imprest account or cash is transferred from such account then the development partner replenishes the imprest account to maintain it at the agreed level.

Development partners have opened special /imprest accounts in some projects in order to expedite fund flow and ease the cash position of GoN. It is opened in the Central Bank. The Guidelines of the development partners describe all the necessary procedures for the operation of the Special/Imprest Account.

Objective of the Audit:

- To ensure that special / imprest account is properly maintained

Associated Risks:

- Inappropriate operation and non-reconciled special / imprest account

SN	Particulars - Audit considerations	Basis of Checking
1	Opening of Special / Imprest Account: Auditor needs to verify whether: • Agreement permits to have a special / imprest account; • It is opened with the application to the development partner; • Procedures are followed in the opening such account in accordance with the project agreement; and • The development partner deposits the agreed amount of funds in the special / imprest account and informs the concerned government's treasury office and the concerned Project or Programme Office.	• Provision for special (designated) account / imprest account in the project account • Decision to open account • Authorised signatories agreed and approved
2	Operation of Special / Imprest / Account: Auditor needs to verify whether: • The operational procedures of the special / imprest account is as described in the agreed Guidelines of the development partner(s); • Such account is opened with the Central Bank or with a bank authorised by the central bank; • Signatories / operators of such account is agreed with the DP; • Special / imprest account balance is maintained above the threshold level. (Balance below this level indicates untimely submission of application for replenishment.); • Correct exchange rate used to convert local currencies into US Dollar that may cause wrong debit in the special / imprest account; • All withdrawals from the special/imprest account are properly authorised by the Project / programme Office.	• Reconciliation of project financial statements and the special (designated) / imprest account • Authorised signatories verified (Timely updating after staff transfers) • Foreign exchange gain or loss appropriately calculated for transfers of amount to treasury and for closing balances
3	Reconciliation of Special / Imprest Account: Auditor needs to verify whether: • Periodic reconciliation of such account is done; • Reconciliation of the special / imprest account is submitted to the development partners along with the financial statements; • Non-reconciled items in the reconciliation statements are investigated and adjusted on timely manner; and • Periodic reconciliation with the loan / grant account maintained with FCGO is reconciled with the special / imprest account	• Periodic reconciliation statements of the special (designated) / imprest account • Reconciliation with FCGO records • Reconciliation with PDMO (if applicable)
4	Transfer of funds to government's consolidated fund: Auditor needs to verify whether; • Amount spent by the government on behalf of the development partner(s) is reimbursed in the form of transfer from special account to the consolidated fund; • The portion of the DP's share in the project / programme is calculated accurately in accordance with the agreement; and • The currency differences from the date of expenditure, date of credit to the consolidated fund is charged / credited to the	• Only eligible amounts are transferred to treasury (refer Project Document and project expenditures) • Foreign exchange gain or loss

SN	Particulars - Audit considerations	Basis of Checking
	project / programme or treated as agreed in the project agreement.	appropriately calculated for transfers of amount to treasury
5	Closing of Special / Imprest Account: The special / imprest account balance is recovered from funds to be replenished towards the end of the project period. Auditor needs to verify whether: • Any fund balances not recovered must be refunded to the development partner which is then adjusted in the total amount of loan / grant.	• Timely closed • Closing balances are treated as per the agreement with the DP(s) • Notify appropriate parties

4.1.3 Loan / Grant account reconciliation

FCGO on behalf of the government separately maintains and accounts for the loans and grant as agreed with the development partner(s). The loan / grant of the project should be periodically reconciled with the following:

- Project financial statements
- Loan / Grant records with FCGO
- Special / Imprest account
- Development partner

Objective of the Audit:

- Loan / grant is reconciled among multiple sources of recording and reporting.

Associated Risks:

- Loan / grant may be recognised, reported and recorded differently at multiple places.

SN	Particulars - Audit considerations	Basis of Checking
1	Frequency of reconciliation. Auditor should verify whether: • The loan / grant amount utilised by the project is reconciled monthly with the disbursement records of the development partner and every three months with FCGO. • The frequency of reconciliation is as per the legal requirement or the project agreement	Reconciliation of the loan/grant accounts • Project records • FCGO records • DP records
2	Loan Optimisation: Government should optimise the loan utilisation. Auditor should verify whether; • When the government is unable to utilise any portion of the credit (loan) within the stipulated time under the financing agreement the remaining loan is cancelled in order to save the commitment charge.	Commitment charges paid (if any) vs Loan utilisation analysed

4.1.4 Budget

Project / programme budget is included in the "source book" of the government at the time of the budget. The budget for the project / programme should be as per the project agreement or as agreed with the development partner. If a project or programme is multiyear then resource allocations done appropriately to each of the year. Any activity not approved in the source book and annual budget requires approval from Ministry of Finance (MoF).

Objective of the Audit:

- Budgetary control of the project / programme is ensured

Associated Risks:

- Non-compliance with the agreement with DP.

SN	Particulars - Audit considerations	Basis of Checking
1	Direct payments and budget: Auditor needs to verify whether: • All direct payments made by the project have been be reflected in the annual budget (so that actual project expenditure is not understated).	• Project budget indicates provisions for direct payments
2	Changes in disbursement percentage. Auditor needs to verify whether: • Budget preparation is based on the percentage of funding by GoN and the development partner. Any change in the funding ratio should be taken into account immediately after such changes coming into effect	Percentage of contribution of the GoN and DP(s) as indicated in the project document • Any amendments documented and verified
3	Annual Work Plan and budget. Auditor needs to verify • Whether the annual work plan and the annual budget is reconciled or not	• Project budget, AWP and LMBIS data reconciled
4	Changes in budget: Auditor needs to verify whether: • Changes in the budget is only done in agreement with the development partners. • Underutilised budget of one period is transferred to other period in agreement with the project document and budget is • Expenses in component/ category do not exceed budget	• Authorisation of budget amendments • Project budget and LMBIS updated •
5	Budget Vs Actual: Auditor needs to verify whether • Project / programme financial statements has a statement of budget Vs actual comparison	• Utilisation of budget analysed • Underutilisation, insufficiency, virement justified

4.1.5 Statement of Expenditure (SoE)

Statement of Expenditure (SoEs) depicts of utilisation of the fund of the project / programme in the form of expenditures as per the agreed categories and components for the specified period.

It is also a part of the reimbursement system. Normally, applications for reimbursement of expenditure should be accompanied by supporting expenditure documents. The types of expenditure that can be covered by SoEs are described in the Agreement. The project /programme should keep all supporting documents for later audit of SoEs or for review requirements of the development partner. Specimen record of SoE is given in OAGN Form no 231.

Objective of the Audit:

- Statement of Expenditure is properly prepared

Associated Risks:

- Expenses may be in appropriately classified or ineligible expenses may be claimed in the SoE

SN	Particulars - Audit considerations	Basis of Checking
1	SoE should be prepared with adequate supporting documents. Auditor needs to verify whether • All expenses are supported by adequate and appropriate supporting documents - Original invoices (if required by the law tax invoices) - All expenses are approved and authorised - Contracts and agreements with the providers with goods and services	SoE reflects the underlying project records such as • expenditure ledgers and • supporting documents
2	Only eligible expenditure needs to be charged to the SoE. Auditor needs to verify whether: • Expenses are eligible when - Expenses are within the authorised budget - Expenses are charged to appropriate account heading - The categories and components are classified in accordance with the project agreement - Actual expenditures are charged to SoE - Only expenses pertaining to the project / programme are charged to the agreement	• Budget subheadings and economic codes matches with the eligibility criteria of the project documents • Expenditure are aligned with the activities and components indicated in the project document
3	Withholding taxes on payments: Auditor needs to verify whether: • Withholding taxes in accordance with the prevalent tax laws have been deducted before making payments to goods and services received by the project / programme. - Remuneration - Services - Consultants payments - Procurement of goods - Rent	• Provisions of Income Tax Act 2058 for WHT • Accurate computation • Timely deposits
5	Foreign exchange transactions: Auditor needs to verify whether: • Any payments made in foreign currency has been charge using appropriate exchange rate.	• Appropriate exchange rates as published by NRB

4.1.6 Retention money

Project retains money from contractors providing goods and services to the project / programme. The retention money is paid or settled with the contractors fulfils the performance obligation under the agreement to provide goods and services. Since this money is not paid, but withheld, to the contractor the amount should not be claimed in the withdrawal application.

Objective of the Audit:

- Retention money is appropriately treated.

Associated Risks:

- Retained money claimed under withdrawal application or settled late.

SN	Particulars - Audit considerations	Basis of Checking
1	There may be a possibility of claiming retention money from the supplier of goods and services being claimed in withdrawal application. Auditor need to verify whether: • Retention money is deducted from the total invoice amount to avoid the risk of claims on this amount; • Amount pertaining to retention money is claimed under withdrawal application.	Contract agreement between the suppliers or contractors
2	Retention money may be due to the suppliers long after the closing date of the project. Auditor need to verify whether: • Retention money payable under the contract to is paid / settled within the time / period stipulated in the agreement with the supplier and paid / settled before the project closure.	Date of acceptance of goods or services and date of repayment / adjustment of the retention money

4.1.7 Advances

Project / programme provides advances to the contractors supplying goods and services to the project. The contract agreement for supplying such goods and services may have provisions for provision advances to the supplier. Such disbursements to the contractors should be allowable under the project agreement. The contract with the supplier should also contain modality for settlement of advances.

Objective of the Audit:

- Advance is provided to contractor only if it is specifically allowed.

Associated Risks:

- Delayed settlement of advance.

SN	Particulars - Audit considerations	Basis of Checking
1	Advances for expenses are claimed from the development partners. Auditor need to verify whether: • Only advances provided in the supplier agreement has been claimed; • Advances are allowable expenditure under the project agreement. (GoN follows cash basis of accounting, therefore advances do account for expense (payment)); • Advances provisions is explicitly provided for in the supplier contract; and • There is a system to separate expenditure actually incurred and advances.	Advance provisions in the project document
2	Advances made in foreign currency is appropriately accounted for both at the time of disbursement and settlement and exchange difference appropriated treated in the project financial statements.	Exchange differences if applicable account for in project financial statements
3	Appropriate settlement of advances should be done. Auditor need to verify whether: • Advances are deducted while making payments on the bills/invoices submitted by the supplier; and • Advances are timely settled or liquidated as per the contractual provisions. • Performance guarantee is taken from the contractor before making advances (if such provisions are in the procurement Guidelines)	• Timely settlement of advances • Advances backed by performance guarantee • PG period coverage • Appropriate settlement of advances

4.1.8 Payment to contractors

The bill / invoice under a contract is to be submitted by the supplier of goods and services in the currency as specified in the contract document between the supplier and the project / programme. If any portion of the contract bill is to be paid in a foreign currency, it is to be paid at the exchange rate specified in the contract document or at the prevailing rate.

Objective of the Audit:

- Contractual payments have been appropriately made.

Associated Risks:

- Ineligible payments to the contractor.

SN	Particulars - Audit considerations	Basis of Checking
1	Procurement Guidelines: Auditor need to verify whether: • The procurement Guidelines of the development partner have been adhered to while contracting and paying the supplier. (Note: Project agreement or document can exempt compliance with procurement laws and regulations.)	• If DP's Guidelines are applicable refer to those Guidelines • If Public Procurement laws

SN	Particulars - Audit considerations	Basis of Checking
	• When the project document does not specifically provide and required local laws to prepare compliance of procurement laws is made or not: ○ *REFER: Procurement Audit Guide* where procurement act and rules need to be complied	and applicable refer OAGN procurement audit checklist
2	Contract payments • Supplier contract is undertaken within the provisions of the project agreement; • All contract payments have been done in accordance with the contract document agreed with the contractor including the agreed schedule of payments; • The currency of the payment and the exchange rates to be applied are also taken into consideration; and • Payment is done only after satisfactory delivery of goods and/or services under the contract with the supplier.	• Supplier / contractor agreement • Receipt of goods / services documented • Proper authorization of payments
3	**Withholding taxes:** Auditor need to verify whether: • Withholding tax requirements for applicable project payments are adhered to; and • Withholding has been deducted, short deducted or not paid or paid with delay into the stipulated revenue account.	Withholding provisions of the Income Tax Act 2058

4.1.9 Reimbursements

Disbursement of development partner's funds is either done directly by the development partner or by way of reimbursement to the government treasury after the government makes the payment on behalf of the project. After expenditure is incurred, the project submits withdrawal application for reimbursement for that the development partner has committed in the project agreement. This should be done promptly and according to the procedures laid down by the development partner.

After project expenditure is incurred periodic transfer of fund happens from the special / imprest account to the consolidated fund (treasury). The development partner then replenishes such amounts to the Special / Imprest account on the basis of the withdrawal application from the project. This acts as a revolving fund for the project duration. The portion which is not in compliance with the provisions of the agreement or the percentage to be met from the development partner's fund is deducted before making such replenishment. The amount not replenished is notified by the development partner to the project for record.

Objective of the Audit:

- All reimbursements of the project expenditure on behalf of the development partner have been timely received by the government.

Associated Risks:

- Reimbursement not timely claimed and received.

SN	Particulars - Audit considerations	Basis of Checking
1	Timely reimbursement of expenditure made by the government on behalf of the development partner. Auditor need to verify whether: • The claim for reimbursement has been lodged to the development partner on timely manner	• Timely claim of reimbursements • Reimbursement / replenishment documentations
2	Overdue reimbursements: Auditor need to verify whether: • Reimbursements have accrued but not received have been identified by the project / programme • The reasons for non-reimbursement is investigated and communicated with the development partner	Communication documentation • Justification for delays

4.1.10 Direct payments

There will be instances where payment for goods and services for the project / programme is done directly by the development partner through transfer of funds into the bank accounts of recipient supplier, contractor and consultant, on the submission of an application by the project.

The development partner issues a commitment letter to pay to the supplier through a letter of credit or similar instruments. The objective of such arrangements is to curtail delay in payment from the DP to the project and through it, to the recipients.

The currency of direct payment is determined by the agreement. The exchange rate for accounting purpose should basically be followed as per agreement, and, if agreement does not provide for this, the exchange rate at the date of transaction should be applied.

Objective of the Audit:

- Direct payments have been recognised in the project financial statements.

Associated Risks:

- Direct payments may be omitted from project accounts.

SN	Particulars - Audit considerations	Basis of Checking
1	Direct payments should be provided in the project agreement. Auditor needs to verify whether: • Direct payments have been provided for in the project agreement; and • The direct payment is made on the application by the project office.	• Project document provision for direct payments
2	Goods and services received by the project / programme Direct payments should be included in the project financial statements: Auditor needs to verify whether: • Goods and services for which the development partner has made direct payments have been included in the project / programme budget;	• Copy documents of direct payments received from the DP • Receipts of goods and services

SN	Particulars - Audit considerations	Basis of Checking
	• Goods and services obtained under direct payment modality is included in the project financial statements. Project receives adequate documentation from the development partners for such inclusion.	documented by the project
3	Currency of direct payment: Auditor needs to verify whether: • Appropriate rate of exchange used to recognise goods and services under direct payment method has been; • Date of transaction is used as the basis for the application of foreign exchange rates.	• Currency of direct payment and its impact on project financial statements

4.1.11 Financial covenants

Project agreement (the contract document) will have provisions related with the financial aspects of the project such budgeting, financing, claims, reimbursements, procurement, contract payments, accounting records, reporting requirements, audit and internal controls.

The project agreement may also indicate the financial reporting framework and formats that is to be followed for preparation of project financial statements. It may also indicate the audit requirements and the compliance with standards equivalent to international standards applicable to public sector to ensure quality of the audit.

Auditor is required to report on aspects of the project which the project agreement explicitly provides for relating to the financial aspects.

Objective of the Audit:

- The project is in compliance with the financial covenants of the agreement.

Associated Risks:

- Conditions of the project agreement may not be complied with.

SN	Particulars - Audit considerations	Basis of Checking
1	Auditor should read the project agreement (the contract) in detail to identify the applicable financial covenants that the project and the auditors needs to comply.	Project document provisions
2	Auditor should list the financial covenants that are to be complied by the project. Areas can be • Budgeting controls • Expenditure periodic reporting • Recording and documentation of financial records • Accounting and financial reporting requirements • Procurement • Contract payments • DLI (Disbursement Linked Indicators) Auditor should verify whether the covenants have been complied with or not.	• List of applicable covenants • Tracking of compliance of the covenants (supporting documents) • Fulfilment of DLIs

SN	Particulars - Audit considerations	Basis of Checking
3	Auditor should list the financial covenants that are to be complied by the project • The project agreement or document may require auditor to apply certain audit procedures and report on certain specific matters. • Agreement may also prescribe the auditing standards to be applied for the project audit to ensure audit quality.	Evaluate compliance evidence

4.1.12 Project Assets

Project / programme may procure, build assets as the principal objective of the project / programme or as its ancillary activity. This will be as provided in the project / programme agreement.

Project agreement generally provides specific Guidelines for the purchase of the assets or purchase of good and services for construction of assets. In absence of such Guideline the public procurement act and regulation shall be applicable.

Objective of the Audit:

- Project assets and properly recorded, safeguarded and maintained.

Associated Risks:

- Assets may not be properly safeguarded, or procurement norms may not be followed for purchasing assets or purchasing goods and services for construction of such assets.

SN	Particulars - Audit considerations	Basis of Checking
1	Procurement of assets: Auditor need to verify whether: • The procurement Guidelines as mentioned in the project agreement has been followed or not; • In absence of specific Guidelines in the project agreement, laws and regulations related to public procurement has been followed or not: • The assets are charged to the proper accounting category or component as agreed in the agreement; • Expenses of current nature have been charged to the assets (except for inventory).	Procurement Guidelines of the DP or the Public Procurement Law (as applicable)
2	Safeguard of the project assets: Auditor needs to verify whether: • Control is established for access and use of the assets so that the assets are used only for the purpose of the project / programme; • Access or custodian is assigned to each of the assets; • Assets are insured whenever there is risk of potential loss or damage considering the cost and benefit of the insurance policy • Assets are recorded properly in assets register in sufficient detail so as to identify - when the asset was ready to use - identifiable description of the asset	Internal Control system implemented by the project • Physical verification • Custodian • Asset register

SN	Particulars - Audit considerations	Basis of Checking
	- class of the assets - cost of the asset	

4.1.13 Project Closure

Project is termed as the activity that has a beginning and that has an end. The closure of the project will have impact on the audit procedures. Generally, the closure procedures are provided for in the project agreement document.

The closure procedure involves winding up of the project office, retrenchment of the project staff, assets transfer, account closures etc.

Further the audit report for the closed project can be for less than whole of the year, i.e. from the end of the previous year to the date of the closure. For audit it has to be ensured that all assets are accounted for and all liabilities and obligations of the project settled.

Objective of the Audit:

- Proper and orderly closure of the project is ensured.

Associated Risks:

- Haphazard project closure and non-compliance with project document.

SN	Particulars - Audit considerations	Basis of Checking
1	Closure of the project activities: Auditor need to verify whether: • Closing procedures have been completed as stated in the project document or as per the development partner Guidelines • If specifically, not t provided in the project document auditor shall verify whether: - All personnel and / or contractors have completed their assignments; - Major item of equipment, asset or any other deliverable has been delivered or installed and meet the satisfactory specification; - Final work plan submitted as completed; - Project completion report or project termination report is finalised. - Financial truncations are closed - Final budget revision approved - Close special / imprest account - Transfer the remaining fund to the DP or the consolidated fund as provided in the project agreement	Project closure documents • DP's approval • Closure procedures as indicated in the project document
2	Property management: Auditor needs verify whether • Custody and ownership of the assets are transferred to the government as indicated in the project agreement; or • Assets that are to be transfers back to the development partner is transferred accordingly; or	Project closure documents • DP's approval • Closure procedures as

SN	Particulars - Audit considerations	Basis of Checking
	• Assets which under the project agreement liquidated / sold are auctioned off as provided in the project document.	indicated in the project document

4.1.14 Project Financial Statements

Project Financial Statements are special purpose financial statements prepared in accordance with the agreement between the development partner(s) and the government. The agreement itself provides the basis for preparation of the financial statements. The financial statements are prepared for the special need / requirement of the development partners.

Objective of the Audit:

- Financial Statements are prepared in accordance with the identified special purpose framework.

Associated Risks:

- Financial statements not confirming with the project document.

SN	Particulars - Audit considerations	Basis of Checking
1	Financial reporting framework: Auditor needs to verify whether • The financial statements comply with the provisions of the project documents; • The financial statements contain the information and elements as required by the project document; • The financial statements cover the period and discloses balances accurately; and • Accounting policies and other explanatory notes accurately and adequately explains the financial statements to meet the reporting requirements of the project documents	• Project document – section relating with the financial statement preparation and presentation • Project financial statements • Bank certificates • Balance confirmation
2	Reconciliation with underlying records: Auditor needs to verify whether the financial statements confirm with the underlying records such as ledgers, vouchers and supporting documents.	• Financial statements elements verified with the ledgers, balances, and statements • Ledgers are verified with the vouchers and supporting documents
3	Reconciliation with FCGO: Auditor needs to verify whether • The financial statements reconcile with the records with FCGO, especially in relation with the loan / grants from the development partners; and	• A reconciliation is prepared for what has been reported in the financial statements and

SN	Particulars - Audit considerations	Basis of Checking
	• There is a reconciliation in relation to the transfers to and from treasury and project related accounts such as special / imprest account and project financial statements. • The SDR (Special Drawing Rights) reporting in the project financial statements (if applicable) reconciles with the FCGO records	what is in FCGO records • Differences are analysed and justified
4	Grant / Loan segregation: Auditor needs to verify whether • The financial statements segregate the grant portion and the loan portion for the financing received from the development partners	• Project document gives the grant and loan portion of the financing • Grants and Loans are separately indicated in the financial statements
5	FMRs (Financial Monitoring Reports) and Annual Project Financial statements are prepared in accordance with the project document	• Project agreement / project doc • FMRs • Unaudited FS

4.1.15 Additional Matters

Supreme Audit Institution like OAGN are required to report in addition to the opinion on financial statements on other matters. The additional reporting requirement on the project depends on the project document agreed between the government and the development partner and the legal requirements.

Objective of the Audit:

- Other matters are appropriately reported

Associated Risks:

- Reporting requirements of other matters may not be complied.

SN	Particulars – Audit considerations	Basis of Checking
1	Cost benefit analysis: Auditor needs to verify whether • The cost of the project and the benefit to be derived from the projects matches to ensure that cost does not outweigh the benefits	Quantitative and qualitative techniques are applied for cost benefit analysis
2	Project outputs and outcomes: Auditor needs to verify whether • Project outputs are timely achieved • There is a measurement log frame to measure outputs and the outputs are monitored and reported in project progress report • Project outputs matched with the financial progress of the project • Outcomes of the project are measurable / ascertainable	• Output log frame • Monitoring and evaluation reports • Periodic review assessment reports

SN	Particulars – Audit considerations	Basis of Checking
3	Achievement of development objectives: Auditor needs to verify whether • The project is successful in meeting the development objectives of the country • Project activities are not duplicated by other development partner or government programmes	• DP mapping with the government's development objectives
4	Value for money and sustainability proposition: Auditor needs to verify whether • Project has applied economy in its implementation • Project has been efficiently implemented • And project activities have been effective for achieving intended results	• Project document • Project procurements • Project progress reports
5	Gender, Socio-Economic and Environmental impact: Audit needs to verify whether • Gender impact of the project has • Socio economic of the project • Environmental impact of the project	• Project document • Project progress reports • Gender based reports • Socio-economic impact reports • Environmental impact reports

4.2 Sector-wide Approach (SWAp)

4.2.1 Introduction

SWAps are mechanisms by which development partners collaborate to support sector programs that are based on a country's long-term vision for its development. SWAps aim to strengthen government ownership and coordination of projects, facilitate budgeting of sufficient funds to cover operating costs, integrate capital investment budgets in overall country budgets, and support policies and efforts to build domestic capacity.

A SWAp is a borrower-managed approach by which development partners support country-led programs whose scale is greater than that of traditional projects. It typically encompasses an entire sector, or large portions of one. In general, SWAps are characterized by the following:

- ***Country ownership***: Development partners come together to support the government's own program for the development of a particular sector;
- ***Partnership and consultation***: The government directs the program and coordinates the participation of development partners and the involvement of other stakeholders. Partners are committed to openness, consultation and sharing of information;
- ***Comprehensive sector policy framework***: This framework typically includes a medium-term (five years) strategy articulated in a program of specific interventions for the short term (two to three years);
- ***Expenditure framework and resource envelope***: Derived from the sector policy framework and integrated into the government's overall medium-term expenditure framework, the expenditure framework and resource envelope identify prioritized activities and plans. Developing partners resources are channeled increasingly through government systems; and
- ***Uniform implementation structures and procedures***: As circumstances permit, partners aim to synchronize their own processes through joint appraisal, programming, review, monitoring and evaluation. There is an emphasis on using and strengthening government institutions, procedures, and staff, rather than establishing parallel systems. The aim is to have a single reporting and auditing system for all activities in the sector.

4.2.2 Pooling of funds

The main feature of SWAps is the pooling of development partner and government funds for disbursement through jointly agreed channels (that is, a Foreign Exchange Account and government treasury system) rather than use of special purpose bank accounts for individual development partner funds. Funds are deposited into and disbursed from a Foreign Exchange Account, with development partners participating in the pool to finance agreed proportions of the overall sector program. The fund in the Foreign Exchange Account needs to be reconciled with the expenditures.

The main objectives of SWAps are:

- to provide reasonable assurance that the program's resources are used for their intended purpose;
- better contribute to the development of sustainable borrower capacity in financial management and procurement; and
- Significantly reduce costs to borrowers of meeting the diverse requirements of development partners.

4.2.3 Reporting

Ad-hoc and regular financial reports should be produced for program management. Also, trimester financial monitoring reports and audited annual financial statements should be prepared and submitted to the development partners for the purpose of monitoring program implementation. There should be adequate procedures to ensure full compliance with the reporting requirements that have been agreed with the development partners. The contents of financial monitoring reports should include, but not limited to, the following:

- Financial Reports that include a statement showing for the period and cumulatively (program life or year to date) inflows by sources and outflows by main expenditure classifications; beginning and ending cash balances of the program; and supporting schedules comparing actual and planned expenditures. The reports will also include cash forecasts for the next two trimesters;
- Physical Progress Reports that include narrative information and output indicators (agreed during sector preparation) linking financial information with physical progress, and highlight issues that require attention; and
- Procurement Reports that provide information on the procurement of goods, work, and related services, and the selection of consultants, and on compliance with agreed procurement methods. The reports will compare procurement performance against the plan agreed at negotiations or subsequently updated, and highlight key procurement issues such as staffing and building borrower capacity.

4.2.4 Audit requirements

The borrower would be required to have consolidated (or sector) financial statements audited by an auditor acceptable to all development partners appointed on terms of reference ('TOR') acceptable to all such participating developing partners, with remedies to be applied if misuse of funds is identified.

According to the Constitution of Nepal, the Auditor General is the auditor for audits of all public expenditures in Nepal.

All development partners should agree on a set of applicable auditing arrangements. The arrangements should include the scope of the audit, criteria for selection of auditors, period for submitting audit reports, and arrangements for reviewing and following up on audit findings, including recommendations made by the auditors in the management letter. While audit reports should normally be provided annually, they might be required more frequently where particular risks have been identified.

4.2.5 Audited annual Financial Statements

The audited annual financial statements should include:

- a Consolidated Statement of Sources and Uses of funds (by disbursement/ procurement category/by activity, showing sources of funds);
- statements reconciling the balances on the various bank accounts to the bank balances shown on the Consolidated Statement of Sources and Uses of funds; and
- Notes to the Financial Statements.

Annexures

Annex A: Audit Opinion Illustration for Project Financial Statements

A. Unqualified

AUDITOR GENERAL'S REPORT ON THE AUDIT OF PROJECT FINANCIAL STATEMENTS

[*Appropriate Addressee*]

Opinion

We have audited the financial statements of [*name of the project*] which comprise of [*name of the project financial statements*] for the [*indicate the period it covers or pertains to*]

In our opinion, the accompanying project financial statements of the Project for the year ended [*appropriate date or period*] are prepared in all material respects, in accordance with the financial reporting provisions of [*quote appropriate Section*] of the agreement dated [*date of the contract/agreement*] between Government of Nepal and [*name the development partner(s)*] hereinafter referred to as "the agreement". We found that the expenditures and any other resources incurred for the Project are utilized for the intended purpose as per the Financing Agreement of the project. We further assure that all financial covenants are complied with as per the Project agreement.

Basis for Opinion

We conducted our audit in accordance with Nepal Government Auditing Standards (NGASs) that are substantially in compliance with INTOSAI Framework of Professional Pronouncements. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Project in accordance with the ethical requirements that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

[*Indicate the matter that is being emphasised, if there is anything auditor needs to emphasise*] [*DELETE THIS SECTION IF IT IS NOT REQUIRED*] We draw attention to [*Indicate the matter*] to the financial statements. [*describe the emphasis*]. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the project Financial Statements

Management is responsible for the preparation of the project financial statements in accordance with the financial reporting provisions of [*refer to the Section / provision of the financing agreement*] of the contract and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the project financial statements, management is responsible for assessing the Project's ability to continue as agreed, disclosing matters as applicable, unless management either intends to liquidate the Project or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the project financial statements of the current period. Those matters were addressed in the context of our audit of the project financial statements and in forming our opinion thereon, and we do not provide a separate opinion on these matters. [*Include description of each key audit matter in relation to this audit*]

Auditor's Responsibilities for the Audit of the Project Financial Statements

Our objectives are to obtain reasonable assurance about whether the project financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Other responsibilities of the auditor and description of audit process under NGAS are given in [*give link address to the OAGN website where such document is maintained under the standards*]

Report on the compliance with applicable legal requirements and "the Contract"

[*Report the material compliance issues identified during the course of the audit, those that do not have direct and material effect on financial amounts and disclosures of the project that would require qualification but auditor has the responsibility to report under laws, regulations and "the Contract".*]

[Signature]

[the name of the auditor]

[Auditor address]

[Date]

B. Qualified Opinion

AUDITOR GENERAL'S REPORT ON THE AUDIT OF PROJECT FINANCIAL STATEMENTS

[*Appropriate Addressee*]

Opinion

We have audited the financial statements of [*name of the project*] which comprise of [*name of the project financial statements*] for the [*indicate the period it covers or pertains to*]

In our opinion, except for the effects of the matter described in the Basis of Qualified Opinion section of our report, the accompanying project financial statements of the Project for the year ended [*appropriate date or period*] are prepared in all material respects, in accordance with the financial reporting provisions of [*quote appropriate Section*] of the agreement dated [*date of the contract/agreement*] between Government of Nepal and [*name the development partners*] hereinafter referred to as "the Agreement". We found that the expenditures and any other resources incurred for the Project are utilized for the intended purpose as per the Financing Agreement of the project except as mentioned in Para …. We further assure that all financial covenants are complied with as per the Project agreement.

Basis for Qualified Opinion

[*Describe the qualification in this para, the reason, i.e. the departure from the applicable financial reporting framework or legal requirements or requirements of "the Contract" or any limitation of scope. Also include the amount of qualification and quantified impact of the qualification, to the extent practicable, along with the qualitative description. If quantification is not practicable indicate why it is not practicable*]

We conducted our audit in accordance with Nepal Government Auditing Standards (NGASs) that are substantially in compliance with INTOSAI Framework of Professional Pronouncements. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Project in accordance with the ethical requirements that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

[*Indicate the matter that is being emphasised, if there is anything auditor needs to emphasise*]. [*DELETE THIS SECTION IF IT IS NOT REQUIRED*] We draw attention to [*Indicate the matter*] to the financial statements. [*describe the emphasis*]. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the project Financial Statements

Management is responsible for the preparation of the project financial statements in accordance with the financial reporting provisions of [*refer to the Section / provision of the financing agreement*] of the contract and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the project financial statements, management is responsible for assessing the Project's ability to continue as agreed, disclosing matters as applicable, unless management either intends to liquidate the Project or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the project financial statements of the current period. Those matters were addressed in the context of our audit of the project financial statements and in forming our opinion thereon, and we do not provide a separate opinion on these matters. [*Include description of each key audit matter in relation to this audit*]

Auditor's Responsibilities for the Audit of the Project Financial Statements

Our objectives are to obtain reasonable assurance about whether the project financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Other responsibilities of the auditor and description of audit process under NGAS are given in [*give link address to the OAGN website where such document is maintained under the standards*]

Report on the compliance with applicable legal requirements and "the Contract"

[*Report the material compliance issues identified during the course of the audit, those that do not have direct and material effect on financial amounts and disclosures of the project that would require qualification but auditor has the responsibility to report under laws, regulations and "the Contract".*]

[*Signature*]

[*the name of the auditor*]

[*Auditor address*]

[*Date*]

C. Auditor's responsibility to be included in OAGN website

As part of an audit in accordance with NGASs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the (consolidated) financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the (consolidated) financial statements or, if such disclosures are inadequate, to modify our opinion. our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

[***To adapt accordingly*** *– the going concern concept may not be relevant to an audit of the government entity. Paragraph A2 of ISSAI 2570 on considerations Specific to Public Sector Entities states going concern risk may arise, but are not limited to, situations where public sector entities operate on a for-profit basis, where the government support may be reduced or withdrawn, or in the case of privatisation).*

- Evaluate the overall presentation, structure and content of the (consolidated) financial statements, including the disclosures, and whether the (consolidated) financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the (consolidated) financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Annex B: Illustrative example of Management Letter

Reference No.: Date:

Subject: Audit Report of …. .

The secretary,
…….. ,
……………. .

I wish to draw your attention towards enclosed audit findings regarding audit of ….. (Project name) under your ministry for the fiscal year ... These findings have been selected from the Preliminary Audit Report sent to you through our letter in different dates, after taking into consideration the responses received from the concerned Project.

I also state that none of the contents of this enclosure will have any material effect on the Audit Report and opinion of this Office sent to you on …. (Date of audit opinion letter)

Cc:
The Office of the Financial Comptroller General,
Anamnagar, Kathmandu.

…. (Project Chief),
…. (Project name),
….. (Address)

(…..)
Assistant Auditor General

Ministry of ….
….. (Project name)
Funded under the ….
Audit Observations
FY ….

1. Introduction

<<>>

1.1. Background of the Project

<<>>

1.2. Scope of the audit

<<>>

2. Current Period Observations and Recommendations

<<>>

2.1. Comments and observations on the accounting records, systems and internal controls.

<<>>

2.2. Specific deficiencies and areas of weaknesses in the system and make recommendations for improvement.

<<>>

2.3. Compliance with the applicable legal requirements.

<<>>

2.4. Economy, efficiency, regularity and propriety has been observed in implementation of the project / programme.

<<>>

2.5. Highlight to the development partner any other matter that the auditor considers pertinent or necessary.

<<>>

3. Compliance Status of Previous period’s audit observations.

<<>>

4. Compliance status of the financial covenants in the financing agreement and/or project document.

<<>>

Guidelines for management letter

1 Background

Give a brief background of the project.
- Objective
- Development partners
- Major Activities
- Funding arrangement
- Financial Progress and Project outputs

2 Scope of work

What is the scope of the audit (as applicable)?
- Express an opinion on project financial statements
- Review and report on matters as required by the project document

3 Observations on the accounting records, systems and internal controls

Audit findings in relation with the accounting records, accounting system. Observations on the adequacy and effectiveness of the internal control system of the project.

4 Areas of weaknesses in the system and recommendations

Areas of weaknesses in the system and recommendations (if applicable)

5 Compliance with the applicable legal requirements.

Observations of non-compliance of legal requirements

6 Economy, efficiency, regularity and propriety compliance

Comments on whether the project has applied economy, achieved efficiency in project implementation and followed regularity and propriety in its conduct of operations

7 Other matters

Any other matters required by the project document or in the auditor's judgement needs to be needs to be reported in the Management Letter

8 Status of Previous periods' audit observations

List down the observations and comments and recommendations made in the previous management letter and audit report and report on the status of compliance on them whether they are fully complied, partially complied nor not complied

9 Compliance status of the financial covenants

Project document generally have financial covenants to be followed by the project. Auditor needs to list down those covenants and report on the status of their compliance.

महालेखापरीक्षकको कार्यालय
Office of the Auditor General
बबरमहल, काठमाडौं, नेपाल
Babar Mahal, Kathmandu, Nepal
नीति योजना तथा जनशक्ति विकास महानिर्देशनालय

पत्र संख्या २०७७।७८ च नं ०३ मिति २०७७।४।१६

विषय नेपाल सरकारी लेखापरीक्षण मानको कार्यान्वयन सम्बन्धमा

श्री सबै विभागहरु

श्री सबै महानिर्देशनालयहरु

श्री सबै निर्देशनालयहरु

महालेखापरीक्षकको कार्यालय ।

उपरोक्त सम्बन्धमा लेखापरीक्षण ऐन, २०७५ को दफा २९ ले दिएको अधिकार प्रयोग गरी महालेखापरीक्षकले गर्ने लेखापरीक्षणलाई वस्तुपरक, विश्वसनीय र भरपर्दो बनाई लेखापरीक्षणको गुणस्तर अभिबृद्दि गर्न साविकमा स्वीकृत भएका सरकारी लेखापरीक्षण मानदण्ड एवं सरकारी लेखापरीक्षण नीति मानदण्ड खारेज गरी सर्वोच्च लेखापरीक्षण संस्थाहरुको अन्तर्राष्ट्रिय संगठनले जारी गरेका अन्तर्राष्ट्रिय लेखापरीक्षण मान (INTOSAI Framework for Professional Pronouncements, IFPP) मा आधारित "नेपाल सरकारी लेखापरीक्षण मान" (Nepal Government Auditing Standards, NGAS) २०७७।४।१६ मा स्वीकृत गरिएको छ । अत कार्यालयबाट यस वर्षदेखि लेखापरीक्षण गर्दा तपसीलका नेपाल सरकारी लेखापरीक्षण मानको कार्यान्वयन गर्नु हुन अनुरोध छ ।

तपसील

NGAS नम्बर	नेपाल सरकारी लेखापरीक्षणमानको नाम
INTOSAI-P 1	The Lima Declaration
INTOSAI-P 10	Mexico Declaration on SAI Independence
INTOSAI-P 12	The Value and Benefits of Supreme Audit Institutions- making a difference in a life of citizens
INTOSAI-P 20	Principles of Transparency and Accountability
ISSAI 100	Fundamental Principles of Public-Sector Auditing
ISSAI 130	Code of Ethics
ISSAI 140	Quality Control for SAIs
ISSAI 200-299	FInancial Audit Principles
ISSAI 300-399	Performance Audit Principles
ISSAI 400-499	Compliance Audit Principles
ISSAI 2000-2899	Financial Audit Standards
ISSAI 3000-3899	Performance Audit Standards
ISSAI 4000-4899	Compliance Audit Standards

जानकारीको लागि

माननीय महालेखापरीक्षकज्यू ।

भवदीय

(घनश्याम पराजुली)
नायव महालेखा परीक्षक

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email: aag.mgmt@oagnep.gov.np Web Page: www.oagnep.gov.np
"जनहितका लागि जवाफदेहिता, पारदर्शिता र निष्ठा प्रवर्धनमा विश्वसनीय लेखापरीक्षण संस्था"