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PROJECT PAPER

ON A

PROPOSED GRANT

IN THE AMOUNT OF US$ 2.3 MILLION EQUIVALENT

TO THE

GOVERNMENT OF NEPAL

FOR THE

NEPAL: STRENGTHENING THE OFFICE OF THE AUDITOR GENERAL PROJECT

December 17, 2011

Financial Management Unit
South Asia Region

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.
ABBREVIATIONS AND ACRONYMS

ASOSAI Asian Organization of Supreme Audit Institutions
CA Constituent Assembly
CAATs Computer-Assisted Audit Techniques
CPA Comprehensive Peace Agreement
EWPs Electronic Working Papers
FCGO Financial Comptroller General Office
GoN Government of Nepal
IDA International Development Association
IDF Institutional Development Fund
INTOSAI International Organization of Supreme Audit Institutions
ISN Interim Strategy Note
IPSAS International Public Sector Accounting Standards
MDG Millennium Development Goal
MDTF Multi Donor Trust Fund
MOU Memorandum of Understanding
OAG Office of the Auditor General
ORAF Operational Risk Assessment Framework
PAC Public Accounts Committee
PDO Project Development Objective
PEFA Public Expenditure and Financial Accountability
PFM Public Financial Management
QA Quality Assurance
SAI Supreme Audit Institution
TSA Treasury Single Account

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Country Director: Ellen A. Goldstein
Sector Director: Onno Ruhl
Sector Manager: Jennifer K. Thomson
Task Team Leader: Leslie I. Kojima
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**NEPAL**

**NEPAL: STRENGTHENING THE OFFICE OF THE AUDITOR GENERAL**

**PROJECT PAPER**

**SOUTH ASIA**

**SARFM**

Date: December 17, 2011  
Team Leader: Leslie I. Kojima

Country Director: Ellen A. Goldstein  
Sectors: Central Government Administration (80%); Public Administration – Finance (20%)

Sector Director: Onno Ruhl  
Themes: Other Accountability/Anti-Corruption (80%); Public Expenditure/Financial Management (20%)

Sector Manager: Jennifer K. Thomson

Project ID: P127040

Lending Instrument: Technical Assistance Grant  
Environmental Category: C

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### Project Financing Data

<table>
<thead>
<tr>
<th>Source</th>
<th>Local</th>
<th>Foreign</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>BORROWER/RECIPIENT</td>
<td>0.08</td>
<td>0.00</td>
<td>0.08</td>
</tr>
<tr>
<td>Grant Financing from MDTF</td>
<td>0.00</td>
<td>2.30</td>
<td>2.30</td>
</tr>
<tr>
<td>Total</td>
<td>0.08</td>
<td>2.30</td>
<td>2.38</td>
</tr>
</tbody>
</table>

**Borrower: Nepal**  
**Responsible Agency: Office of the Auditor General**

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### Estimated Disbursements (Bank FY/US$m)

<table>
<thead>
<tr>
<th>FY</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual</td>
<td>0.10</td>
<td>1.00</td>
<td>0.90</td>
<td>0.30</td>
</tr>
<tr>
<td>Cumulative</td>
<td>0.10</td>
<td>1.10</td>
<td>2.00</td>
<td>2.30</td>
</tr>
</tbody>
</table>

**Project Implementation Period:** January 1, 2012 – December 31, 2014

**Expected Effectiveness Date:** January 15, 2012  
**Expected Closing Date:** June 30, 2015
<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does the project depart from the CAS in content or other significant respects?</td>
<td>[ X ] No</td>
</tr>
<tr>
<td>Ref. PP I.C.</td>
<td></td>
</tr>
<tr>
<td>Does the project require any exceptions from Bank policies?</td>
<td>[ X ] No</td>
</tr>
<tr>
<td>Ref. PP IV.A.</td>
<td></td>
</tr>
<tr>
<td>Have these been approved by Bank management?</td>
<td>[ X ] No</td>
</tr>
<tr>
<td>Is approval for any policy exception sought from the Board?</td>
<td>[ X ] No</td>
</tr>
<tr>
<td>Ref. PP V.</td>
<td></td>
</tr>
<tr>
<td>Does the project include any critical risks rated “substantial” or “high”?</td>
<td>[ X ] Yes</td>
</tr>
<tr>
<td>Ref. PP V.</td>
<td></td>
</tr>
<tr>
<td>Does the project meet the Regional criteria for readiness for implementation?</td>
<td>[ X ] Yes</td>
</tr>
<tr>
<td>Ref. PP VI.</td>
<td></td>
</tr>
</tbody>
</table>

Project development objective **Ref. PP II.A.**
The Project Development Objective is to enhance the quality and impact of public sector audit in Nepal.

Project description **Ref. PP III.A.**
The project consists of four components: (i) enhancing the quality of financial statement audits; (ii) upgrading the capacity to conduct performance audits; (iii) enhancing the impact of audit; and (iv) project management.

Which safeguard policies are triggered, if any?
None.

Significant, non-standard conditions, if any, for:

**Ref. PP IV.A.**
Board presentation: N/A.
Loan/credit effectiveness: None.
Covenants applicable to project implementation:

- **Article II 2.03 (a)** - Form a steering committee no later than one (1) month after Project effectiveness and thereafter maintain throughout the Project, such a committee to meet at least twice annually to: (i) review and approve the annual work plans; (ii) monitor progress in relation to the approved work plans; (iii) monitor achievements in relation to the agreed results indicators; and (iv) provide strategic direction.

- **Article II 2.03 (b)** – Maintain a management committee to meet at least once every two months to monitor the progress of the Project against the agreed Results Framework.

- **Article II 2.03(c)** – Implement and monitor the GAAP throughout the project implementation period.

- **Article II 2.03(a)(i) and (ii)** – new clauses regarding key staff and non-rotation, including the designated Assistant Auditor General appointed as Program Coordinator, the lead financial audit counterpart, and the lead performance audit counterpart.

- **Article II 2.05 (c)** mid term review by June 30, 2013

- **Article III 3.02** – retroactive financing up to $20,000 for expenditures after November 1, 2011.
A. STRATEGIC CONTEXT


1. Nepal has recorded impressive economic and social achievements. Nepal is a developing country with a per capita income of US $ 642 (2011); recent living standard surveys show that poverty has declined by about 30 per cent over the past 15 years. Despite the past conflict, real GDP growth between 2002 and 2011 averaged about 3.8 percent per annum. This growth was achieved in combination with relatively low inflation and stable domestic debt. More remarkable have been its achievements in reducing income poverty and improving social indicators such as life expectancy, fertility control, child mortality, literacy and enrollment rates, which in many cases exceed other countries in the region and outside as indicated by progress toward meeting the MDG goals for 2015.


3. Peace dividends have so far been limited. Nepal has not been able to seize fully the opportunity provided by recent political changes. The inability of the parties to negotiate a constitution has stalled the peace process, which has affected planning and implementation of development programs. The business environment remains poor and private sector investment is relatively low, despite opportunities in the hydropower, tourism, garment industry, and agriculture sectors.

4. Impressive social outcomes have been observed over the past decade. The country has outperformed most low-income countries on a range of social indicators. Sustained expenditures on Education and Health have helped to increase gross primary enrollment from 66 percent in 2001 to 92 percent in 2009 and is on track for attaining the MDG target of 99 percent in 2015. Nepal has already attained the MDG of eliminating gender disparity in primary and secondary enrollment. With the sharp decline in infant mortality from 64 per 1,000 live births in 2001 to 46 in 2011, Nepal is largely on track to achieve the targeted two-thirds reduction from 1990 levels by 2015. Food security has improved markedly, even for the very poor.

5. Notwithstanding the achievements the country’s performance falls short of income surges in India and the East Asian economies. Although per capita growth accelerated over the past three decades, the incidence of poverty remains high. To achieve the ambitious poverty reduction objectives and related MDG targets will require (i) maintaining macroeconomic stability; (ii) reorienting the role of the state to facilitate private sector led growth; and (iii) additional investments in infrastructure. More importantly, the pursuit of a more equitable growth agenda requires improving the ability of poor people to participate more fully in the growth process, through access to better quality education, health, water, nutrition and local governance.

A2. Sectoral and Institutional Context

6. Strong institutions of Public Financial Management (PFM) are key to the development of Nepal. Effective fiscal policies and fiscal management can ensure that taxation mobilizes the necessary revenues without major distortion effects on private activity. Prudent fiscal policies can ensure that fiscal deficits and their financing are consistent with fiscal sustainability objectives and good macroeconomic
management. Further, effective allocation and use of resources among sectors and within sectors can ensure financing and implementation of priority programs and activities in the most efficient manner.

7. **Improving Governance and Accountability underpins the agenda of the Government of Nepal (GoN) for building a New Nepal that is prosperous, peaceful and just.** Strengthening Public Financial Management (PFM) is a key element of the GoN’s strategy for strengthening governance, optimizing outputs from public resources, and ensuring inclusive and broad-based development. Development Partners have also been expressing support for effective use of resources provided for development efforts in order to ensure value for money through a sound system of PFM. The GoN’s intention of establishing a sound PFM system that will ensure the transparent, efficient, economical and accountable use of budgetary resources and external funds has resulted in several initiatives to strengthen PFM in Nepal.

8. The GoN conducted a Public Expenditure and Financial Accountability (PEFA) assessment in 2008 to assess the performance of the country’s PFM system in comparison with international benchmarks. The study revealed many opportunities for strengthening PFM, and suggested that **external scrutiny and audit is the weakest link in the budget cycle in Nepal.** Performance indicator 26 on the scope, nature and follow up of external audit scored a D+, primarily because of a D ranking for the timeliness dimension of performance, and a C ranking for evidence of follow up on audit observations.

9. **External audit in Nepal is carried out by the Office of the Auditor General (OAG).** OAG Nepal is a Supreme Audit Institute (SAI) of Nepal and is a member of the International Organization of Supreme Audit Institutions (INTOSAI) and of the Asian Organization of Supreme Audit Institutions (ASOSAI). It was established in 1959 with an aim to enhance good governance by promoting public accountability and transparency through the provision of independent professional audit services to the Nation. The present day office derives its mandate from the interim constitution of Nepal 2007 and Audit Act 1991. The mandate empowers OAG Nepal to audit the accounts of all government offices including fully owned Government undertakings.

10. **The World Bank has supported OAG Nepal through a series of IDF grants (1993-2006).** Through such support, OAG Nepal has developed financial and performance audit guides, conducted training programs, established a Training Division, entered into a twinning arrangement with the Supreme Audit Institution (SAI) of Malaysia, established a website, and improved its overall audit capacity. The last IDF grant to OAG Nepal closed in 2006.

11. **In 2008, OAG Nepal signed a Memorandum of Understanding (MOU) with OAG Norway.** With technical support from OAG Norway, OAG Nepal developed a Strategic Plan and a capacity building initiative for the period 2010-2012. Under the terms of the MOU, OAG Norway has pledged its commitment to continue to support the institutional strengthening of OAG Nepal through August 2013.

12. **Since the date of the PEFA assessment, OAG Nepal has significantly improved its reporting to the Constituent Assembly.** Until its annual report on the 2007-08 public accounts of the Government of Nepal, the Auditor General Annual Report to the Constituent Assembly consisted of up to 5 volumes of reports totaling 1800-2500 pages of detailed audit findings. Further, the annual report was submitted approximately 18 months after the end of the financial year. The AG’s Annual Report on the 2008-09 public accounts, by contrast, consisted of a single volume of only 410 pages (2009-10: 501 pages) of high level audit observations and recommendations to deal with systemic financial management and internal control issues. In addition, the annual report on the 2008-09 public accounts was submitted only 11 months after the end of the fiscal year, or 4 months after the unaudited accounts were submitted for audit (2009-10: 9 months after the fiscal year-end, or 2 months after the unaudited accounts were ready for
audit). This would contribute to upgrading a PEFA ranking for the timeliness dimension of external audit performance.

13. **OAG Nepal is introducing the concept of risk-based auditing.** With the support of Norway SAI, OAG Nepal has begun to conduct comprehensive assessments of the inherent and control risks related to its audit examination of the public accounts of the GoN. Such risk assessments, in theory, are conducted in order to determine the scope, nature and extent of audit testing. To date in OAG Nepal, however, there has been no link between the risk assessments conducted and the scope, nature or extent of audit testing carried out. Instead of concentrating its resources on high volume cost centers, OAG Nepal visits all 4,200 cost centers in every year. Further, it carries out all of its audit work after the year end, rather than conducting any interim or concurrent audits during the year. This creates a year-end “busy season” that necessarily limits the amount of testing that can be done in any given cost center. The amount of audit assurance obtained is therefore driven by time availability rather than by the audit risks.

14. **The need to strengthen financial statement audits is increasing.** Financial statement audits represent the core business of any SAI, including OAG Nepal. In addition, like other SAIs in the region, OAG Nepal is facing the need to audit significantly increased levels of public sector revenues and expenditures, with flat or declining budgets for the audit office. Furthermore, the GoN is undertaking an initiative to enhance its financial reporting by producing comprehensive financial statements in line with international public sector accounting standards (IPSAS), in addition to the public accounts of the GoN which are currently the only financial statements audited by OAG Nepal. GoN has also initiated a new Treasury Single Account (TSA) system that will consolidate and computerize the treasury payment system that is currently decentralized to 4,200 cost centers. It is important for OAG Nepal to introduce computer audit technologies and otherwise to anticipate the changes in GoN accounting and financial reporting so as to be able to provide professional audit assurances to Parliament with respect to the financial statements that are generated by the government.

15. **Demands for performance audits are also increasing.** Most SAIs have discretionary mandates to conduct performance audits. The Interim Constitution of Nepal 2007, however, requires OAG to audit all public monies with due regard to economy, efficiency and effectiveness. This is an extraordinary performance audit mandate that OAG Nepal has been challenged to discharge to date. In recent years, it has conducted 12-15 expanded scope “desk review” performance audits each year, along with one “in-depth” performance audit. The “in-depth” performance audits have primarily responded to demands from donors. Similar demands have begun to be expressed by the Public Accounts Committee, which is the standing committee of Parliament that scrutinizes the Auditor General’s reports on behalf of Parliament.

16. The OAG Strategic Plan 2010-2012 addresses many of the above challenges. Specifically, goal 1 of the Strategic Plan—to provide timely and quality audit services—includes six objectives: (1) to develop and implement a Financial Audit Manual; (2) to enhance the quality of audit through IT application; (3) to strengthen the Quality Assurance function; (4) to develop and use specific audit guidelines for the audits of Boards and State Owned Enterprises; (5) to enhance quality in performance auditing; and (6) to adopt time-bound reporting mechanisms. The project has been designed to support achievement of these strategic objectives.

A3. **Higher Level Objectives to which the Project Contributes**

17. The project supports the cross cutting theme of “governance and accountability” of the Bank’s Interim Strategy Note (ISN) 2011 for Nepal. The ISN identifies governance as a cross-cutting theme to be mainstreamed in all World Bank-supported projects.
18. The project will also contribute towards the GoN PFM reform strategy and the OAG Nepal Strategic Plan—two key elements in the government’s efforts to improve governance and enhance transparency and accountability.

B. PROJECT DEVELOPMENT OBJECTIVE

19. The project development objective (PDO) is to enhance the quality and impact of public sector audit in Nepal. Project beneficiaries and PDO level results indicators over the 3-year implementation period of the project are set out below.

B1. Project Beneficiaries

20. The direct beneficiaries of this project are the two highest formal institutions of accountability in Nepal: OAG Nepal and the Public Accounts Committee (PAC). The staff of OAG Nepal will be provided with hands-on support from OAG Norway supplemented by consultants financed through the project, in planning and conducting actual financial and performance audits that will be reported to Parliament. Direct support will also be provided to the PAC secretariat to conduct more efficient and effective hearings and to draft the committee reports to Parliament. Parliament—or the people of Nepal—will thereby indirectly benefit from the project. In addition, the Executive can strengthen country systems of PFM through implementation of audit recommendations. Therefore the Executive is also considered an indirect beneficiary of the project.

B2. PDO Level Results Indicators

21. The key project indicators are shown below, together with baseline and end-of-project (2015) target values. Intermediate indicators according to the four components of the project are shown in Annex 1.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Note</th>
<th>Baseline</th>
<th>End-of-Project Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audits substantially meeting OAG financial statement auditing standards</td>
<td>1</td>
<td>35%</td>
<td>60%</td>
</tr>
<tr>
<td>Number of in-depth performance audits reported to Parliament per annum</td>
<td>2</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Current year audit observations implemented by the Executive within 1 year</td>
<td>3</td>
<td>&lt;35%</td>
<td>50%</td>
</tr>
</tbody>
</table>

Notes:
1. Performance to be measured by the sample of audit working paper files selected by the OAG Quality Assurance team and found to substantially or fully meet OAG standards for financial statement audits.
2. OAG Nepal currently conducts 1 “in-depth” and approximately 15 “desk review” performance audits each year. The project aims to triple the number of “in-depth” performance audits reported to Parliament each year.
3. The indicator measures implementation of audit observations contained only in the immediately previous year’s annual report of the Office of the Auditor General. Note that the low baseline value is in spite of a provision in the Financial Procedure Act 1999 which requires audit queries to be settled with 35 days.
C. PROJECT DESCRIPTION

C1. Project Financing

22. The project will be financed under Window 1: Recipient Executed Activities of the Multi-Donor Trust Fund for Strengthening Public Financial Management in Nepal (TF071617).

23. The project costs and IDA financing are summarized in the following table:

<table>
<thead>
<tr>
<th>Component</th>
<th>Project Cost (US$ million)</th>
<th>Grant Financing through MDTF (US$ million)</th>
<th>GoN Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Component 1: Enhancing the quality of financial statement audits</td>
<td>1.00</td>
<td>1.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Consultancy costs</td>
<td>0.67</td>
<td>0.67</td>
<td>0.00</td>
</tr>
<tr>
<td>Study tours, peer review</td>
<td>0.10</td>
<td>0.10</td>
<td>0.00</td>
</tr>
<tr>
<td>Goods</td>
<td>0.23</td>
<td>0.23</td>
<td>0.00</td>
</tr>
<tr>
<td>Component 2: Upgrading the capacity to conduct performance audits</td>
<td>0.73</td>
<td>0.73</td>
<td>0.00</td>
</tr>
<tr>
<td>Consultancy costs</td>
<td>0.70</td>
<td>0.70</td>
<td>0.00</td>
</tr>
<tr>
<td>Conferences, seminars and training</td>
<td>0.03</td>
<td>0.03</td>
<td>0.00</td>
</tr>
<tr>
<td>Component 3: Enhancing the impact of audit</td>
<td>0.50</td>
<td>0.50</td>
<td>0.00</td>
</tr>
<tr>
<td>Consultancy costs</td>
<td>0.50</td>
<td>0.50</td>
<td>0.00</td>
</tr>
<tr>
<td>Component 4: Project management</td>
<td>0.15</td>
<td>0.07</td>
<td>0.08</td>
</tr>
<tr>
<td>Incremental operating costs</td>
<td>0.15</td>
<td>0.07</td>
<td>0.08</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2.38</strong></td>
<td><strong>2.30</strong></td>
<td><strong>0.08</strong></td>
</tr>
</tbody>
</table>

C2. Project Components

24. The project comprises four components: (1) enhancing the quality of financial statement audits; (2) upgrading the capacity to conduct performance audits; (3) enhancing the impact of audit; and (4) project management. These components are discussed in turn below.

**Component 1: Enhancing the quality of financial statement audits (USD 1.0 m)**. This component will include the following main activities:

- **Provide technical advice in the preparation of the annual audit plan**. This activity will build upon OAG Nepal’s preliminary efforts to implement risk-based auditing, in order to ensure that the risk analyses carried out determine the nature, scope and extent of audit testing. It is envisaged that practices such as sampling of cost centers selected for audit in a given year and introduction of concurrent or interim audits (rather than conducting all audit fieldwork after the
end of the fiscal year) would be developed. Such practices, in turn, would help create the necessary space that audit teams require to gather sufficient audit evidence in relation to high risk audit areas during the year-end “busy season.”

- **Conduct pilot financial statement audits.** This activity builds on an ongoing initiative that is being supported by Norway SAI, to compile a comprehensive and upgraded Financial Audit Manual. The activity will serve a number of purposes. First, the pilot audits will provide the means for gathering case study materials that can be used to design more practical and relevant training courses in financial audit. The first of two rounds of pilot audits that will be conducted under the project will primarily serve this purpose. Second, the pilots will serve to field test and identify the needs for refining the Financial Audit Manual. Third, the pilot audits will provide the opportunity for on-the-job training for the pilot audit teams (planned to be 10 in year 1; 15 in year 2). Fourth, the pilot audit experiences and the pilot audit teams will supply the materials and the trainers for a comprehensive training course to be designed and delivered to all auditors in year 3 of the project. Although the internal audit function is beyond the scope of the project, one batch of 10-15 internal auditors will also be provided with this financial audit training. The selected internal auditors will be developed as “trainers” that can be utilized by the FCGO to train other internal auditors. Norway SAI will participate in the design and delivery of training and in the revisions to the Financial Audit Manual.

- **Support the Quality Assurance (QA) arrangements in OAG.** In 2009, OAG developed a QA Handbook based on the INTOSAI Development Initiative guide for QA review. This activity will support the QA team in selecting, conducting and assessing the results of its QA reviews, and in designing and implementing appropriate actions to address identified deficiencies. The activity will generate the data for measuring progress against the key results indicator for this component of the project, and will provide greater assurance of sustainability of results after the close of the project.

- **Provide for a peer review by a sister SAI.** One peer review of OAG by an agreed SAI will be conducted and the results will be compared to the peer review that was conducted by SAI Malaysia in 2006. The peer review will be timed to provide input to the mid-term review of the project which will be due June 30, 2013.

- **Provide advisory services to the Auditor General.** Consultants engaged under the project will be available for consultation by the OAG management on policy and topical issues and specialist areas of audit on which the Auditor General may wish to seek advice. Examples of areas of audit and issues where advice may be sought include the audits of municipalities and village development committees, audits of public schools, audits of donor-assisted projects, provisions to be included in a new Audit Act, and how to adapt the audit function to a federal state.

- **Introduce the use of computer audit technologies.** During year 3 of the project, a pilot will be conducted to determine the practicality and feasibility of introducing electronic working papers (EWP) and computer assisted audit techniques (CAATs) to OAG Nepal. This activity may include exchange visits with an SAI in the region that extensively uses EWP and CAATs in its financial audit practice.

**Component 2: Upgrading the capacity to conduct performance audits (USD 0.73m).** This component will include the following main activities:

- **Conduct in-depth performance audits.** OAG Nepal is facing intense demands to discharge its Constitutional duty to provide performance audit services. A primary constraint to meeting this demand is a lack of experienced performance auditors—a constraint that will be addressed through this activity. Consultants and experienced performance auditors from Norway SAI will provide on-the-job training to OAG Nepal performance audit teams in planning, conducting and
reporting the results of actual performance audits reported to Parliament. In selecting the performance audits to be supported, priority consideration will be given to programs implemented by the ministries of education, health, roads, and local government.

- **Support strategic planning by the Performance Audit Division.** This activity will form a part of the process of selecting performance audits to be conducted in activity 1. It will include systematic consideration of the technical audits conducted and planned by the National Vigilance Center as well as the management audits carried out by the Ministry of General Administration. A multi-year perspective will be introduced to the selection process, and a plan prepared to reduce the number of “desk” performance audits conducted each year in order to free resources to conduct the “in depth” performance audits that this component of the project aims to support.

- **Support “theme topics” selected by OAG management.** In every year as a part of the audit planning exercise, management selects a current high profile topic that it instructs every audit directorate to incorporate into its financial audit plans. This activity will support the performance audit division to develop the audit objective, audit criteria and audit procedures that audit directorates may use when following this direction. The activity may include orientation training to the audit directorates, and it will include support in summarizing and reporting the audit findings.

**Component 3: Enhancing the impact of audit (USD 0.5m).** This component comprises the following major activities:

- **Provide technical support to the Public Accounts Committee (PAC) secretariat.** The PAC conducts examinations into any matters concerning the Public Accounts, including but not limited to items raised in the Auditor General’s Report. During year 1, this activity will support a research study to compare the Nepal audit legislation to the INTOSAI Mexico Declaration on SAI Independence, and to recommend ways of strengthening the SAI of Nepal. The activity will also provide assistance to the PAC secretariat in drafting PAC reports to the Parliament, and in providing such briefings to the Committee as may be required. In subsequent years, activities for inclusion in the annual work plan will be agreed with the secretariat in order to respond to current priorities and needs.

- **Summarize key recommendations from audit reports.** This activity will support a review of audit observations raised in recent years’ audit reports, to identify major recommendations dealing with systemic issues that have the potential for significantly enhancing country systems of governance and accountability. The activity will include support in preparing the Auditor General’s annual report to Parliament in order to emphasize recommendations on improving public financial management, including reporting on the status of Executive implementation of prior years’ recommendations.

- **Design and implement a communications strategy.** This activity will include consultations with major stakeholder groups including the PAC, the Executive, civil society and the media and will include developing a Communications Policy for more effective interaction with various stakeholders. Measures to improve the means of communicating audit results will be developed and supported. It is envisaged that that the format of the Auditor General’s annual report and the OAG website will be key areas for review and possible enhancement. This activity will specifically work with the demand side project to be supported by the PFM MDTF, in order to identify ways of engaging civil society in this field.

- **Redesign and computerize the databank of audit and PAC recommendations.** This activity will support monitoring of the status of implementation of audit and PAC recommendations by the Executive. It will include review and upgrading of the system of archiving older audit and PAC reports. Implementation of this activity will include development of a web-based portal so
that civil society groups may have access to this information as per the Right to Information Act. Linkages with the demand side project will be explored to enhance the impact of this activity.

**Component 4: Project management (USD 0.15m).** This component includes (1) the procurement of the goods and services required under the project; (2) preparation of annual work plans; (3) preparation of inception, mid-term and final reports; and (4) monitoring and evaluation of all aspects of the project. The Bank will provide from its preparation and supervision budget a procurement consultant to provide additional guidance and support to the OAG to facilitate the process of recruiting the international consulting firm or SAI to manage project activities.

### C3. Lessons Learned and Reflected in the Project Design

25. Previous IDF grant assistance to OAG Nepal (Annex 3) followed a traditional approach to capacity building that was focused on the design of audit procedures manuals and guides that were based on international auditing standards. Such guidance materials were subjected to field testing to ensure their suitability to local field conditions, and classroom training was provided to auditors on the field-tested manuals. However, the traditional approach did not provide for extensive technology transfer during the terms of the grants.

26. The project is designed to complement the approach that is being followed by OAG Nepal in its current capacity building initiative that is being supported by OAG Norway. In particular, the project design requires extensive piloting of the financial audit and procedures audit guidance materials that have been or are being designed. This will provide for a relatively large number of pilot audit teams to “learn by doing” through extensive on-the-job training in addition to the classroom training that they will receive in the new audit procedures.

27. The primary focus on pilot audits also provides for greater assurance that the activities of the project will not be perceived as standalone activities that are supportive of but separate from the main work of OAG Nepal. All of the audit reports from the pilots will be reported to Parliament. In fact, all of the activities included in the project design were developed with OAG Nepal in order to support critical management functions. Together with the implementation arrangements described below, this design provides greater assurance that the work plans of the project will be fully integrated and coordinated with the broader work plans of OAG Nepal.

28. A feature of the project design that reflects lessons learned from similar projects in Nepal and elsewhere, is that the project design is selective and focused on results. The final project design supports the OAG’s Strategic Plan and was developed in close consultation with OAG Nepal to focus on the key immediate priorities of OAG Nepal related to the quality and impact of audit. In addition, the project design recognizes that OAG Nepal has addressed the timeliness of its audit reports (see para 13 above) and focuses on the other main reason for a poor overall PEFA score for PI-26: evidence of follow up on audit observations. One of the three key proposed PDO level results indicators will specifically monitor progress against this dimension of PEFA performance, and a separate research piece on “Implementation on Audit Recommendations” is being conducted in part to inform the detailed work program that will be developed for implementation of component 3 of the proposed project.

29. The project design anticipates that all activities be conducted by an international partner (consulting firm, SAI, or combination of the two) that will be required to field a team of international and local consultants to deliver all services required, including workshops, classroom training, on-the-job training, training of trainers, revisions of financial and performance audit guides, overseas study visits, the peer review by a sister SAI, and the introduction of electronic working paper and CAAT technology including procurement of software and laptop computers. The firm will be procured using the Fixed
Budget Selection method of procurement, and the lump sum contract will provide for payments based on agreed milestones and deliverables. Firms will be encouraged to collaborate with an SAI, and SAIs will also be eligible to submit proposals to provide the services. Prior experience in Nepal and in other countries in the region has shown that there are a number of international consulting firms and SAIs capable of managing an assignment of this complexity, and capable of fielding teams of consultants with the requisite qualifications and experience. In the previous IDF Grant managed by OAG, the same approach was followed and KPMG Malaysia in association with SAI Malaysia provided the wholesale support which turned out to be a good practice. By including all services in a single contract, there is greater assurance that the various components and activities of the project will be coordinated to synergistic effect. In addition, this design provides for flexibility to adjust the work plans of the consultants/SAI in order to accommodate the inevitable changes in ground realities during the term of the project.

D. IMPLEMENTATION

D1. Institutional Arrangements

30. OAG Nepal will form a high level Steering Committee within one month of project effectiveness. The committee will be chaired by a Deputy Auditor General. Members will include representatives from the Ministry of Finance (Joint Secretary of the Foreign Aid Cooperation Division), FCGO (Joint Financial Comptroller General), the Public Accounts Committee of the Parliament (PAC Secretary), and the private sector auditors (Chairman of the Auditing Standards Board). An Assistant Auditor General will be nominated as the Program Coordinator; the Program Coordinator will be a member of the Steering Committee, and will serve as its Member Secretary. The Steering Committee will meet at least twice annually to: (i) review and approve the annual work plan; (ii) monitor progress in relation to the approved work plan; (iii) monitor achievements in relation to the agreed Results Framework; and (iv) provide strategic direction. OAG Norway may observe meetings of the Steering Committee. Minutes of the Steering Committee meetings will be prepared and circulated to all key agencies including the National Planning Commission, as well as OAG Norway and the World Bank.

31. At the working level, a Management Committee chaired by the Program Coordinator will meet at least once every two months. The Management Committee will include one other Assistant Auditor General, two Audit Directors, and one Audit Officer. The Management Committee will monitor the progress of the project against the Results Framework and will document agreed actions as necessary to ensure smooth implementation and achievement of the development objective. Minutes of Management Committee meetings, after clearance by the Auditor General, will be distributed to Steering Committee members and to OAG Norway and the World Bank.

32. The Program Coordinator (designated Assistant Auditor General) will serve as the primary focal point and liaison person for the day-to-day operation and implementation of the audit reform program.

33. OAG Nepal will contribute counterpart staff, some interpretation and translation services, office space, office furniture, local transportation, telephone, fax and internet facilities which all are in the form of incremental operating costs for project management.
D2. Governance and Accountability

34. A Governance and Accountability Action Plan (GAAP) has been agreed upon with the OAG. Key governance issues include coordination with the Public Accounts Committee and other government stakeholders, and capacity building of OAG and PAC. Transparency and access to information about project activities are other important issues. The GAAP addresses these issues and other critical operational concerns related to project management. The GAAP also identifies key risks to the Project and proposes actions for each of these risks with timelines for each action and responsible agency for implementation. It also seeks to ensure stability and predictability in staff deployment in project activities. The GAAP will be a living document and will be strengthened, as necessary, based on lessons learned during the implementation of Project activities. In addition, the OAG website (www.oag.gov.np) will post information related to the implementation of the project components, including procurement details, trimester Implementation Progress Reports (IPRs), and Annual Audit Reports.

D3. Results Monitoring and Evaluation

35. The results framework presented in Annex 1 will be the basis for measuring progress toward achievement of the project development objective. The Head of the OAG Monitoring and Evaluation Unit will have overall responsibility for ensuring that data on the selected indicators are collected as part of OAG's work program. Project activities include support for developing computerized databank of audit observations and for providing the information required to measure the selected indicators. The consulting firm/SAI to be recruited will work with the Monitoring and Evaluation unit to strengthen capacity and facilitate timely reporting.

36. The Management Committee will be responsible for monitoring and evaluating progress against the indicators shown in Annex 1. All indicators will be measured on an annual basis, except for the peer review by a sister SAI, which will be timed to inform the Mid Term Review. The findings of the annual performance assessment will be incorporated into the subsequent annual work program as appropriate, and the exercise will be scheduled to provide timely information for the semi-annual meetings of the Steering Committee. Outcome level results and intermediate results, while formally measured on an annual basis, will be monitored and assessed by the Management Committee and by the Project Steering Committee on a more frequent basis (every two months and twice annually, respectively) as detailed in Annex 1. The Mid-Term Review will assess results to June 30, 2013, and may propose restructuring to revise the results framework if appropriate.

37. In addition, periodic assessments of project performance and results will jointly be carried out by the Management Committee, OAG Norway, and the World Bank during 6-monthly implementation support missions. Such support missions will enable key issues in implementation to be identified and actions to be agreed on a timely basis, thus allowing for adaptive program management in the event that ground realities during implementation dictate a need to adjust project activities and targets.

E. APPRAISAL SUMMARY

E1. Institutional

38. The preceding section of the Paper on implementation arrangements mentions that a Management Committee will be formed to monitor progress on a two-monthly basis, and to decide on timely corrective
actions as necessary. All members of the Management Committee are already on staff at OAG. Further, the members of the Management Committee were all involved in the design of the project, and are aware of the broader objectives and work plans of the OAG. The Program Coordinator is similarly already on board and familiar with all aspects of the project.

39. The project Steering Committee is to be formed within one month of project effectiveness.

E2. Financial Management

40. The FM risk is assessed as “Moderate”. The Project will fully align with the government’s financial management system. A separate budget head will be created for this Project in FY2012/13 when full implementation is expected to start. The OAG will form a dedicated team headed by an Assistant Auditor General for the overall coordination of the Project. A full time Accounts Officer will be designated for the purpose of managing and reporting on usage of the project funds. Disbursements will be report based under which two trimester equivalent of cash forecast will be provided to the Designated Accounts. The Project will submit the Implementation Progress Report which will include Financial Monitoring Report on a trimester basis. Audited Project Accounts will be required for the Project to be submitted within six months after the end of the fiscal year. A reporting format for Implementation Progress Report, including the financial monitoring report and procurement management report, has been agreed. Detailed FM assessment is available in the project files.

E3. Procurement

41. Procurement for the proposed operation will be carried out in accordance with the World Bank’s “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” published by the World Bank in January 2011 (“Procurement Guidelines”), in the case of goods and non-consulting services; and “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” published by the World Bank in January 2011 (“Consultant Guidelines”) in the case of consultants’ services, and the provisions stipulated in the Legal Agreement. For each contract to be financed under the Credit/Grant, procurement methods or consultant selection methods, the estimated costs, prior review requirements and time frame have been agreed between the Borrower and the Bank in the Procurement Plan prepared by OAGN for the period August 2011 to July 2014. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

42. An assessment of the capacity of the implementing agency to implement procurement actions for the project was carried out in July 2011. The assessment reviewed the organizational structure for implementing the project and conducted interaction with the staffs who will be involved in project procurement management. Though the staffs do not possess hands-on procurement experience, being an overseeing agency, they have good knowledge of procurement policy, rules and guidelines and experience of financial/procurement audit. Based on the assessed procurement capacity of the implementing agency and in view of only one procurement activity to be managed, the overall project risk for procurement is rated as “substantial”. With support from an IDA-provided procurement consultant to assist the OAG project procurement team, and after applying the mitigation measures as suggested, the residual procurement risk would be “MODERATE”. Detailed procurement assessment is available in project files.

E4. Sustainability
43. Sustainability is an issue. While the government has demonstrated a commitment to PFM reforms in general, it has not shown that it views audit to be high amongst current government priorities. The post of Auditor General has been vacant since 2007, and draft audit legislation to provide the OAG with the independence and powers of a modern SAI has yet to be considered by the Executive and placed on the legislative order of business. Recently, in order to resolve this outstanding issue, the government has decided to appoint the Auditor General, along with other vacant constitutional heads, through an open competitive process. To this effect, an advertisement was publicly announced and the deadline for application recently closed. This step is expected to resolve the leadership vacancy problem in the near term.

44. At the technical level, there is greater assurance of sustainability. In April 2011, three vacant Deputy Auditor General posts were filled. All of these persons were involved in the preparation of the project design, and it is expected that they will also be involved during project implementation. These persons were also the primary architects of the OAG Strategic Plan, on which the project design is based. In addition, the extensive use of pilot audits will provide for a relatively large number of auditors with experience in applying the new financial and performance audit procedures.

E5. Key Risks

45. The overall project risk rating is Substantial as detailed in Annex 2, the Appraisal Stage Operational Risk Assessment Framework (ORAF).

46. The risk of a continued vacancy in the post of Auditor General has been greatly reduced through the recent competitive advertisement to recruit a suitable candidate. In addition, the project design does not require the Auditor General post to be filled during the term of the project in order to result in enhanced quality and impact of public sector audit. Nonetheless, there is a residual risk that the person nominated to head the SAI may not support implementing the International Standards for Supreme Auditing Institutions in Nepal. The probability of this risk materializing is Low, but its impact would be High, and hence the overall risk rating is Substantial.

47. There is also a High risk that the current climate of political instability and overall delay in taking decision on procurement may lead to undue delays in the procurement of the international partner. This risk is mitigated through provision of a procurement consultant using the Bank’s preparation and supervision budget, in order to provide guidance and support to OAG throughout the procurement process. In the event of undue delays that threaten successful implementation of the project, the Government may request that the Bank execute the procurement directly, on an exceptional basis.

48. Project level risks are generally Low. The project design reflects an approach and methodology that has been successfully applied in SAI strengthening initiatives in other countries in the region and in the world. Project activities have been selected from the OAG Strategic Plan, and thus have a high degree of ownership. The risk of over-extending the OAG Nepal’s capacity to absorb change has been mitigated through full ownership of OAG Nepal and partnership of Norway SAI in the project design, and through implementation arrangements that will ensure that all reform initiatives are fully aligned and coordinated under the direction of OAG Nepal.
Annex 1: Results Framework and Monitoring

Project Development Objective: To enhance the quality and impact of public sector audit in Nepal.

Results Framework

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Baseline and 2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>Frequency</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PDO Level Results Indicators</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audits substantially meeting OAG financial statement auditing standards</td>
<td>35%</td>
<td>40%</td>
<td>50%</td>
<td>60%</td>
<td>Annual</td>
<td>OAG QA team records</td>
</tr>
<tr>
<td>In-depth performance audit reports submitted to Parliament in year</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>Annual</td>
<td>OAG Nepal website</td>
</tr>
<tr>
<td>Current year audit observations implemented by the Executive within 1 year</td>
<td>&lt;35%</td>
<td>40%</td>
<td>45%</td>
<td>50%</td>
<td>Annual</td>
<td>OAG Nepal records</td>
</tr>
</tbody>
</table>

**Intermediate Results (Component One): Enhance the quality of financial statement audits**

| | | | | | | |
| Office-wide audit plan implements risk-based concepts | N | N | Partly | Y | Annual | OAG Nepal records |
| Numbers of financial audit teams included in pilot audits | 0 | 5 | 10 | 15 | Annual | OAG Nepal records |
| Peer review recommendations by an SAI | N | N | Accepted | Implemented | Annual | OAG Nepal records |

**Intermediate Results (Component Two): Upgrade the capacity to conduct performance audits**

| | | | | | | |
| Strategic plan for performance audit division prepared and updated | N | Y | Y | Y | Annual | OAG Nepal records |
| Lessons learned from current year pilots documented and reflected in revised audit guides and training materials | N | Y | Y | Y | Annual | Consultant progress reports |

**Intermediate Results (Component Three): Enhance the impact of audit**

| | | | | | | |
| Current year audit observations accepted by the Executive within 35 days | 60% | 65% | 70% | 75% | Annual | OAG Nepal records |
| Strategy document prepared with actions for improving relations with Executive, PAC, media and other stakeholders | N | Y | Y | Y | Annual | OAG Nepal records |
Computerized databank of audit observations produces monthly status reports  

<table>
<thead>
<tr>
<th>Annual work plan approved by Steering Committee</th>
<th>N</th>
<th>Y</th>
<th>Y</th>
<th>Y</th>
<th>Annual</th>
<th>SC Minutes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inception report approved by Steering Committee</td>
<td>N</td>
<td>Y</td>
<td>N/A</td>
<td>N/A</td>
<td>Annual</td>
<td>SC Minutes</td>
</tr>
<tr>
<td>Mid Term Report approved by Steering Committee</td>
<td>N</td>
<td>N</td>
<td>Y</td>
<td>N/A</td>
<td>Annual</td>
<td>SC Minutes</td>
</tr>
<tr>
<td>Final Report approved by Steering Committee</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td>Y</td>
<td>Annual</td>
<td>SC Minutes</td>
</tr>
</tbody>
</table>

**Intermediate Results (Component Four): Project Management**

Monitoring

1. The Results Framework above specifies the project outcome and intermediate results indicators that will be used to measure the extent to which the project is on track to achieve the project development objective. It also specifies the baseline and target values by year, frequency of data collection, and source of the data.

2. Monitoring against the Results Framework will take place at two levels. At the working level, a Management Committee chaired by the Program Coordinator will meet at least once every two months. The Management Committee will include one other Assistant Auditor General, two Audit Directors, and one Audit Officer. The Management Committee will monitor results against the agreed Results Framework and will document agreed actions as necessary to ensure smooth implementation of the project and achievement of the development objective. Minutes of Management Committee meetings, after clearance by the Auditor General, will be distributed to Steering Committee members and to OAG Norway and the World Bank.

3. At the senior management level, a high level Steering Committee will be formed, to be chaired by a Deputy Auditor General. Members will include representatives from the Ministry of Finance (Joint Secretary of the Foreign Aid Cooperation Division), FCGO (Joint Financial Comptroller General), the Public Accounts Committee of the Parliament (PAC Secretary), and the private sector auditors (Chairman of the Auditing Standards Board). The Assistant Auditor General nominated as the Program Coordinator will also be a member of the Steering Committee, and will serve as its Secretary. The Steering Committee will meet twice annually to: (i) review and approve the annual work plan; (ii) monitor progress in relation to the approved work plan; (iii) monitor achievements in relation to the agreed Results Framework; and (iv) provide strategic direction. Norway SAI may observe meetings of the Steering Committee. Minutes of the Steering Committee meetings will be prepared and circulated to all key agencies including the National Planning Commission, as well as Norway SAI and the World Bank.

4. The OAG currently has the information systems required to report on the selected indicators except for the computerized databank of audit observations. Project activities include support for developing this databank and for providing the information required to measure the selected indicators. The Head of the OAG Monitoring and Evaluation Unit will have overall responsibility for ensuring that data on the selected indicators are collected as part of OAG's work program. The consulting firm/SAI to be recruited will work with the Monitoring and Evaluation unit to strengthen capacity and facilitate timely reporting.
5. A mid-term progress review will be carried out jointly by GON, WB, Norway SAI, by June 30, 2013. A final evaluation will be carried out by March 31, 2015 to document final project achievements.

Annex 2: Operational Risk Assessment Framework (ORAF)

NEPAL: STRENGTHENING THE OFFICE OF THE AUDITOR GENERAL PROJECT

<table>
<thead>
<tr>
<th>Project Development Objective(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The project development objective (PDO) is to enhance the quality and impact of public sector audit in Nepal</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PDO Level Results Indicators:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Audits meeting OAG financial statement auditing standards</td>
</tr>
<tr>
<td>2. Number of in-depth performance audits reported to Parliament per annum</td>
</tr>
<tr>
<td>3. Current year audit observations implemented by the Executive within 1 year</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Risk Category</th>
<th>Risk Rating*</th>
<th>Risk Description</th>
<th>Proposed Mitigation Measures</th>
<th>Timing for Mitigation: Prep/Impl</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PROJECT STAKEHOLDER RISKS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stakeholder Risks</td>
<td>S</td>
<td>Strengthening accountability and oversight institutions is not in the interests of the Executive.</td>
<td>Component 3 of the project includes designing and implementing a communications strategy including consultations with all major stakeholder groups</td>
<td>I</td>
</tr>
<tr>
<td>Institutional Risk</td>
<td>H</td>
<td>The government has not demonstrated a commitment to a strong independent SAI. The post of AG has been vacant since 2007, and audit legislation has not been introduced to Parliament.</td>
<td>(1) Project includes consultant support to OAG management on policy and topical issues. (2) One activity specifically to enable PAC to report to Parliament on an Audit Act.</td>
<td>I</td>
</tr>
</tbody>
</table>

| **IMPLEMENTING AGENCY RISKS** |
| Capacity Risk | S | OAG Nepal has a limited number of experienced procurement staff to effectively manage the project. | Procurement consultant will be engaged using IDA funds to provide additional implementation support to OAG. | P I |
| Governance Risk | S | Auditor General post vacant since 2007 | | |

<p>| <strong>PROJECT RISKS</strong> |</p>
<table>
<thead>
<tr>
<th>Risk Category</th>
<th>Risk Rating*</th>
<th>Risk Description</th>
<th>Proposed Mitigation Measures</th>
<th>Timing for Mitigation: Prep/Impl</th>
</tr>
</thead>
<tbody>
<tr>
<td>Design Risk</td>
<td>L</td>
<td>Project design is selective and focused on results, provides for flexible adaptation during the term of the project</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social and Environmental Risks</td>
<td>L</td>
<td>Social and environmental safeguards do not apply to this project</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program and Donor Risk</td>
<td>L</td>
<td>Project forms a part of the MDTF for PFM. There are sufficient commitments to cover estimated costs.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delivery Quality Risk</td>
<td>S</td>
<td>Technical and institutional capacity of OAG Nepal to sustain project results after the close of the project is limited</td>
<td>Extension of bilateral MOU with Norway SAI will be explored, or entering into a similar MOU with another SAI</td>
<td>I</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Overall Risk Rating at Preparation</th>
<th>Overall Risk Rating During Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>S</td>
<td>S</td>
</tr>
</tbody>
</table>

* Risk Ratings:
L  =  Low
M  =  Moderate
S  =  Substantial
H  =  High
Annex 3: List of IDF Projects to support the Office of the Auditor General, Nepal

<table>
<thead>
<tr>
<th>Loan</th>
<th>Project</th>
<th>Development Objectives and Results</th>
<th>Approval</th>
<th>Closing</th>
<th>Original Amount</th>
<th>Cancelled</th>
<th>Disbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td>TF 28716</td>
<td>IDF-NEPAL INSTITUTIONAL DEVELOPMENT FOR OAG</td>
<td>Set up a stage for institutionalizing the audit procedures and practices. The project contributed the five manuals which was immediately put in use. A few policy decisions were made during the tenure of the project making departure from conservative approach to a more demand approach. The first IDF was rated “unsatisfactory” at exit.</td>
<td>2-Feb-93</td>
<td>1-Feb-95</td>
<td>397,000.00</td>
<td>1,984.97</td>
<td>395,015.03</td>
</tr>
<tr>
<td>TF 28856</td>
<td>IDF-NEPAL OFFICE OF THE AUDITOR GENERAL</td>
<td>Follow on project which was deemed essential to carry on with the activities initiated during the first IDF, to continue to build the momentum, and to appreciate the Bank’s support to whatever marginal achievements were attempted. The project continued to focus on improving auditing of development projects and public enterprises, and provide training to staff. Performance improved as compared to the first IDF. Outcomes achieved during the second IDF are becoming sustainable. It was rated “Partially Satisfactory” at exit.</td>
<td>6-Jan-95</td>
<td>8-Dec-96</td>
<td>390,000.00</td>
<td>4,074.87</td>
<td>385,925.13</td>
</tr>
<tr>
<td>TF 27575</td>
<td>STRENGTHENING PERFORMANCE AUDIT</td>
<td>Support OAG build a performance auditing capability as its contribution to improving the financial management of public sector projects was rated “Highly Satisfactory”. A strong commitment demonstrated by the Auditor General and ownership taken by him enabled to fully achieve the development objectives. Performance Audit Manual was developed, staff were trained, twinning arrangement with Malaysian OAG was arranged, and performance auditing capacity has been internalized.</td>
<td>15-May-98</td>
<td>3-May-00</td>
<td>300,000.00</td>
<td>917.57</td>
<td>299,082.43</td>
</tr>
<tr>
<td>Loan</td>
<td>Project</td>
<td>Development Objectives and Results</td>
<td>Approval</td>
<td>Closing</td>
<td>Original Amount</td>
<td>Cancelled</td>
<td>Disbursed</td>
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<tr>
<td>-------</td>
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</tr>
<tr>
<td>TF51913</td>
<td>PUBLIC AUDIT REFORM AND CAPACITY BUILDING OF OAGN</td>
<td>The main objective of the Grant is to assist in strengthening the institutional capacity of OAGN with a view to deliver quality public audit and adapt to the international standards on auditing. All expected outputs were delivered during the project period. There was clear evidence on the tone set by the Auditor General for changing the audit approach as learned through the Malaysian experience. OAGN produced sets of new audit guidelines prepared in accordance to INTOSAI standards. OAGN staffs learned systematic audit planning and identification of audit risks, and improving analytical capability of audit evidences and documenting such evidences. They also learned to improve reporting only on materiality issues. At closing, the Project was rated “Highly Satisfactory”.</td>
<td>11-Mar-03</td>
<td>10-Mar-06</td>
<td>478,000.00</td>
<td>400.31</td>
<td>477,599.69</td>
</tr>
</tbody>
</table>