

# **AUDIT POLICY IMPLEMENTATION IN NEPAL**

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## **DECLARATION**

I hereby Declared that the thesis entitled "Audit policy Implementation In Nepal" is all my work and the resources of information and material. I have used such materials are fully identified by my sources and knowledge. I confirm that this is my innovative work for award of Master of Philosophy (M.Phil) degree.

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**Contents**  
**CHAPTER I**  
**INTRODUCTION**

<b>Contents No.</b>	<b>page</b>
1. Background.....	1
2. Statement of the problem.....	3
3. Objective of the study .....	6
4. Rationale and significance of the study .....	6
5. Hypothesis.....	7
6. Scope of the study.....	8
7. Limitation of the study .....	8
8. Structure of the study .....	8
9. Conclusion .....	10

**CHAPTER II**  
**REVIEW OF LITERATURE**

1. Introduction.....	11
2. Policy implementation .....	11
3. Different approaches to implementation theory.....	11
3.1 The Classical- Technical Model.....	12
3.2 The Political ( value- Conflict ) model.....	12
3.3 The Top down model.....	12
3.4 The bottom up model.....	13
3.5 Evolutionary Model .....	14
3.6 Synthesizer Model .....	15
4. Audit Policy Implementation in Nepal .....	15
5. Conceptual Framework .....	24
6. Conclusion .....	26

**CHAPTER III  
RESEARCH METHODOLOGY**

1. Introduction.....	28
2. Background.....	28
3. Methodology.....	28
4. Research Design .....	29
5. Case Study .....	31
6. Data Collection .....	32
7. Primary Data.....	32
8. Secondary Data .....	33
9. Field work.....	33
10. Limitations in the field work .....	33
11. Data Analysis .....	34
12. Population and Sample size of study .....	35
13. Dependent and Independent Variable.....	36
14. Conclusion .....	39

**CHAPTER IV  
STATUS OF AUDIT POLICY IMPLEMENTATION**

1. Introduction.....	40
2. Data Analysis .....	40
2.1 Financial Regulations.....	40
2.2 Audit Objection and Financial Regulations .....	41
2.3 Recovery in audit and Financial Regulations.....	42
2.4 Recoverable amount and Financial Regulations .....	43
2.5 Audit Backlog Clearance and Financial Regulation .....	45
2.6 Unsubstantiated amount and Financial Regulation .....	46
3. Conclusion .....	47

**CHAPTER V  
DATA ANALYSIS AND INTERPRETATION**

1. Introduction.....	48
2. Data Analysis .....	48
3. Relationship between Audit policy clarity and financial regulation .....	48
4. Relation between audit Policy consistency and Financial Regulation .....	50
5. Relationship between audit policy simplicity and financial regulation.....	52
6. Relationship between Human Resources and Financial Regulation .....	54
7. Relationship between ICT system and Financial Regulations .....	56
8. Relationship between Budget and Financial Regulations .....	57
9. Relationship between working environment and Financial Regulations.....	58
10. Relationship between discretionary power and Financial Regulation.....	59
11. Relation between organization culture and financial regulation.....	60
12. Relation between Coordination and financial regulation .....	61
13. Relation between risk management and financial regulation .....	62
14. Relation between monitoring and evaluation and financial regulation .....	63
15. Relationship between Exogenous variables and financial Regulation.....	64
16. Conclusion .....	65

**CHAPTER VI  
SUMMARY AND CONCLUSIONS**

1. Introduction.....	67
2. Main Findings .....	67
3. Limitations.....	76
4. Further research issues .....	76
5. Conclusions.....	77

Appendix 1 & 2  
Bibliography



## List of Tables

Table No.	Table's Name	Page No.
Table 3.1	Population and Sample Design	36
Table 3.2	Variables, Research Questions and Item on Survey	37
Table 4.1	Auditing Amount and Audit Objection	42
Table 4.2	Recovered amount in 5 years	43
Table 4.3	Auditing Amount and Objection need to recovery	44
Table 4.4	Audit Objection Backlog and clearance	45
Table 4.5	Unsubstantiated Amounts	46
Table 5.1	Policy clarity on financial process and audit	49
Table 5.2	Policy consistency on financial process and audit	51
Table 5.3	Policy simplicity on financial process and audit	52
Table 5.4	Human resources in audit	54
Table 5.5	ICT in audit	56
Table 5.6	Budget in audit	57
Table 5.7	Working environment in audit	58
Table 5.8	Authority and discretionary power and audit	59
Table 5.9	Organization Culture in Financial process and audit	60
Table 5.10	Coordination with financial process and audit	61
Table 5.11	Risk management in financial process and audit	62
Table 5.12	Monitoring and evaluation in financial process and audit	63
Table 5.13	Exogenous variables in financial process and audit	64
Table 6.1	Summary of the main findings	69
Pie Chart 1.	Different kind of variables	25

## **List of Abbreviations**

CIAA	: Commission on Abuse of Authority
OAG	: Office of the Auditor General
NVC	: National Vigilance Centre
INTOSAI	: International Organization of Supreme Audit Institute
USA	: United States of America
UK	: United Kingdom
ICT	: Information, communication and technology
DR	: Doctor
OAG/N	: Office of the Auditor General, Nepal
AAG	: Assistant Auditor General
TSA	: Central Treasury system of Accounts
SAI	: Supreme Audit Institution
MoUs	: Memorandum of Understanding
PAC	: Public Account Committee
SPSS	: Statistical Package for Social Science
FGD	: Focus Group Discussion
EWP	: Electronic Working Papers
AIMS	: Audit Information management System
FPA	: Financial Procedure Act
M.PHIL	: master in Philosophy
CDPA	: Central Department of Public Administration
PAR	: Preliminary Audit Report
PBIS	: Performance Based Incentive system

# CHAPTER I

## INTRODUCTION

This Chapter deals with general introduction to the public policy implementation related to improve financial regulations through audit as well as compliance of the audit report of the auditor General of Nepal. It deals, generally, with the background, concept, definition and the theories of the public policy standards of audit. It includes statement of the research problem, objectives and research questions of the study, rationale and significance of the study, hypothesis, scope of the study, limitations of the study, structure of the study and conclusions.

### **1. Background**

Financial management is the life vein of the governance. There is positive relation between finance and administration. Finance is an important variable to the development of civilization and humanitarization. If financial position is positive, the various resources are possible to get easily and do not facing the scarcity of resource factors. The manager could manage his time to concentrate other sectors as much as his capacity. Unless, sufficiently use of financial factors, the rate of return of the country would not be high. Manager always fixed their target as the possible resources availability. In the history or the revolution of the management almost all kind of conflict in business are facility concentrate. All kind of innovation in the management field is maximizing the output with the sufficient resources. The resources like money, manpower and material used the manager and gets expected target through his / her managerial skills. In this modernized age, without smooth financial management organization, could not found the objective and goal.

In the process of financial management, we can get the job of audit as checking of the use of resources. Audit finds out and reports about the account keeping. Evaluating the effectiveness of its allocation or efficiently or properly used or not of fund is main job of auditor. While studying about the financial management, it starts from budgeting and goes through income and expenses process, account keeping, financial reporting and

ends at auditing. So auditing is required at the end or final of financial management steps. So that we can say auditing is last stage of the financial management which gives essential recommendations to improve the weakness as the feedback and as well as necessary corrective action for the next year also. In one word, auditing is the evaluation of the financial records, computing it and reporting. The external evaluation, which is mandatory by the system, is as important as water for the fish in the river or sky without sun/moon or pen without ink. In the priority of the system, Auditing took place in the constitution as the one of the tool of the check and balance for the separation of power. While this function is lead by strong and efficient role for the control of the misuse of resources by government as well as the executive manager of the nation. So that supreme audit institution is establishing as a constitutional body in our country. Constitution of Nepal, 2015 says (p.113) that auditor general must audit in accordance with regularity, economy, efficiency, effectiveness and propriety.

The relationship between financial management and auditing is important, while improving the governance of the institution. There is internal audit as the tool of the internal control system, although which is not independent as final audit. The degree of independence is difference as manager could perform which is establishing as their rules and regulations. In the case of final or external or statutory audit, auditor's suggestions are important or useful for coming years programme operations. It is the evaluation of overall financial position which is going smoothly or not. Such financial position is in the line with rule or track or not. The evaluation of audit gives recommendations or suggestion as the prescription of the doctor to the patient or client. Auditor report gives the whole sole picture of the institution so that people could know the institution is going concern or not. In this way auditor's report is for the managers to improve its track or path for the main concern of the stakeholders to get idea for making deep relationship and finally for the people to generate idea about the body. Ultimately the report of the audit is a clean cheat or certificate for smoothly operating organizations and with recommendations for those which has not better performance for go ahead.

Harold A. Khan (1975, p.7) defines the good governance is considerable as the effective responsibility discharged transparency and accountability manner. Good governance meets the need of people as equitable way through a transparent process. Khan (p.10) also says that the administrative dimensions of good governance is related to decentralization, control of corruption, rule of law, transparency, partnership with nongovernmental actors, accountability and impartiality. In this way good governance is depend upon the control of corruption. So that anticorruption bodies like CIAA, OAG, NVC should be strengthening, giving priority and developing wide mandate. Audit is one of the main paths by find out the fraud and corruption to establish good governance. To ensure the good governance, audit is one of the formal institutional systems as a national prioritize policy in the country.

According to constitution of Nepal, 2015 (p.142) Supreme Audit Institution of Nepal is doing his job as a constitutional body with preliminary report to each and every audited entities and Annual report to the President for purpose of Parliamentarian for formal discussion in Public account committee. Implementation of the recommendations of audit is important to improve the financial management. Initial assumptions is that it is very poor situations about fulfillment of the audit recommendations. So non-compliance of the audit report is main problem in public sector financial management.

The role of auditing in our country is so much important. The audit is a such kind of tool which helps to reduce, prevention and control the corruption and irregularities. Moreover it maintains the financial discipline in governments well as other institutions. The scope of the audit is increasing day by day but the manpower and other resources for the audit is limited. In this stage, audit recommendations need to be implemented by all of the audited entity.

## **2. Statement of the problem**

According to the Constitution of Nepal 2015 (p.143), Audit Act 1991 (p.10) audit is mandatory for all government Entity. Iswar Neupane (2013,p.9) says Financial control is important tool for financial administration. He also says that Interim constitution of

Nepal (1951,p.10) has gave the greater role to the auditor General to do audit and report to the president about the financial position of the country. Auditor General of Nepal has focused on the risk area for audit to control the fraud and corruption as well as financial discipline. Nepal is that increasing the audit entity but the limited human resources in the Auditor General office is main obstacle to check and control through all transaction to fulfill the expectations of the people.

According to the **Audit Act (1991,p.2)** the Auditor General of Nepal has the power to examine and report the financial position of the offices. Auditor General Office according to the constitutional mandate and The Institute of Chartered Accountant Act ( 1956,p.2) defines that handling audit profession and its system improvement. Office of the auditor General has important role to the audit and recommendation or suggestions to the government office, Army, Police, Court, Parliament, Election Commission, CIAA and other public entity. Audit is continuous evaluation of the entity each year. The report of the audit is produced as financial year. All of the government office is waiting for auditing assurance from Supreme audit Institutions. In our country final audit is known as external Audit.

Financial Procedures Act ( 1999 sec.2) defines "external audit" means the audit to be performed by the Office of Auditor General; "amount to be recovered" means such an irregular amount as held on audit to be recoverable by the reason that such payment as not to be made pursuant to the prevailing law has been made or payment has been made in excess or that less amount has been recovered, and this term includes any amount that has been misappropriated or embezzled and such other amount or money as payable to the Government of Nepal;

According to Financial Procedures Act (1998, sec.12) says the responsibility for settlement of irregular amount is as follows:

(1) The responsible person shall be accountable for the settlement of irregularities reported by the auditor, by providing evidence/documents thereon or regularizing the legibility of the transaction or recovering the same.

(2) The account responsible officer shall be responsible for supervising whether irregular amounts have been settled or not pursuant to Sub-section (1) and settling, or causing to be settled, the irregular amounts in accordance with the prevailing laws.

Likewise, According to the Financial Procedures Act (1999, Sec.19) Verification and settlement of irregular amounts as follows:

(1) The concerned office shall, in relation to irregular amounts as reported by the Office of Auditor General in the course of audit, have settlement and verification

hereof as prescribed, within **Thirty Five** days from the date of receipt of such irregular amounts.

(2) If there is a reasonable reason for being unable to have verification and settlement of irregular amounts within the time-limit as referred to in Sub-section (1), a request, accompanied by the reason, may be made to the Office of Auditor General for the extension of time-limit, and if such a request is made, the Office of Auditor General may extend the reasonable time-limit.

(3) If the settlement and verification of irregular amounts is not made even within the time-limit extended pursuant to Sub-section (2), the Auditor General shall give information thereof to the accounts responsible officer, and it shall be the responsibility of the accounts responsible officer to take action as set forth in the information so received. If accounts responsible officer fails to take action, the Auditor General shall give information thereof to the departmental minister or minister of state.

In this situation, we can say that audit is regular evaluation by the independent institutions. The recommendation of the audit is necessary to settle within given time period. But present situation is not as those legal provisions. Where are the difficulties to maintain or fulfill this, how the audit policy is implementing in our country. How is the settlement of irregularities? This case study is going to find out the gap or cause in terms of study of the financial regulations which are devoted/stated in the audit report. Audit policy is implemented or not in accordance with law.

The research questions for the study are gives directions to analyze and conclusion find out. Research questions will ask to get answer as study will focusing are

in primary and secondary data collections. According to the answer given by the concern persons, the research will get result and possible to give recommendation or suggestions.

The main research question will as follows:

- What is the root cause for low implementation of the policy relating the audit?
- Who is responsible for non-settling the irregularities showing by Audit?

There would be some sub-research questions to find out the role and responsibility of the audit is effective for the audited entity.

### **3. Objective of the study**

For the detail study of the research will fixed the important objective to main road map. The objective of the study is as follows:

- to study the status of implementation the policies of auditing to strengthen the financial management.
- to examine the main cause or key actors of audit policy implementations.

### **4. Rationale and significance of the study**

Today is most competitive age. The public and private sector are growing with their long term goal and mission. Likewise, investment is also growing day by day. Volume of the budget is increasing, so that the omission and errors or fraud and corruption may be also increasing with the same ratio. To the evaluation and recommendation of financial administration, Auditor General is working is constitutional body. According to our constitutional provision, audit is only one single outsider to verify and evaluate the accounts and other documents have directly mandated. The outside third party scrutiny is compulsory to maintain the financial discipline. Auditor has fully mandate to see the all kind of document for audit. The audit is a important component for the check in the control environment. Likewise, audit policy is a important step of the financial regulations or disciplines. So it is necessary to implement accordingly as prescribed in the concern law.



Audit is giving emphasis to analyze the document as possible. In the public sector, the Office of the Auditor General has strategic plan, Audit act, guidelines, directives, auditing standards are existing now. Audit is giving report of irregularities as well as some suggestions. But the settlement of irregularities and compliance of recommendations situation is not satisfactory. So it is difficulties of fraud and corruption control. So the Government is needs to give priority to implement to report settlement sector. Information gathered from various sources will analyzed and it would be useful for Supreme audit institutions of Nepal, Government of Nepal and peoples to improve the system and policy maker to introduce new policy.

## **5. Hypothesis**

According to collected data from primary sources, the hypothesis would be set and analyzed as the dependent and independent variables. The principle or policy of the audit and its practice in the country would be dependent variable. As this analysis the clarity of the audit policy, consistency of the audit policy, simplicity of the audit policy and various causes of the non compliance of the audit policies. The policy is clear or not, activities related to audit are sufficient or not, they would be the independent variables. Likewise, for the independence and dependent variable will analyze as follows:

1. There is no relation between policy clarity, consistency, simplicity of audit and financial regulations or disciplines.
2. There is no relation between human resources, technicality, professionalism of auditors, budget, working environment in the audit office and financial regulations or disciplines.
3. There no relation between authorities, discretionary power, organization culture, coordination, risk management and monitoring and evaluation system and financial regulations or disciplines.
4. There is no relation between audit stakeholders response and financial regulations disciplines.

## 6. Scope of the study

The area of the study will mainly in the focus on auditing sector with regard to the complaining the audit report. In this study primary data collected from interview and questionnaire will be analyze to draw the results. The secondary sources of data collected from the annual and periodically report of the Supreme Audit Institution and other related offices. The analysis and result will be drawn from the study will be discuss with Auditor General Office of Nepal and other related entities. It will be valuable for those offices to develop their policy for the settlement of irregularities in the future.

## 7. Limitation of the study

This study will held at limited time only about 6 month. In this short time it will not possible to study detail. So the study will go ahead only the some questionnaire development and primary data collection. Study will held at different offices in Kathmandu valley only. In case of secondary data will analyze through different published report of office of the auditor general. Secondary data will collect through other various possible means of communications. The Information will verify with concern official of the related office. While conducting the study, formal and informal information would be collect and analyze from various office of government sector and private sector would be possible. Likewise, this study is limited in the audit policy implementation in government sector only. It is impossible to study in private sector in this study.

## 8. Structure of the study

This study will be prepared as six chapters including **Introduction** chapter. First chapter as a background, Statement of the problem, objective and research questions of the study, rationale and significance of the study, hypothesis, scope of the study, hypothesis for the study, scope of the study, limitation of the study and conclusion would be mentioned. Second chapter would be explain as 'theoretical framework named as **review of literature**' focuses as introduction, policy implementation, different

approaches to implementation theories (Classical-technical model, political model, top down model, bottom up model, synthesizer model and evolutionary model), audit policy implementation in Nepal, conceptual framework, auditing provisions to fight with irregularities, finding fraud and corruption related issues in audit and conclusion. Third chapter would focus on **research methodology**. There would be introduction of research design, background, methodology, research design, case study, data collection, primary data, secondary data, field work, limitations in the field work, data analysis, population and sample size of study, dependent and independent variable and conclusion about while conducting the research.

Chapter four will explain about the **status of the audit policy implementation** with introduction, data analysis and conclusion. In the part of analysis the secondary data will be analyzed with policy implementation and regulations. These analysis points are audit objection and financial regulations, recovery in audit and financial regulations, recoverable amount in audit report and financial regulations, audit backlog clearance and financial regulations and unsubstantiated amount in audit report and financial regulations. According to these criteria how financial regulation is poor impact of their services and effectiveness of their work will be analyzed. The chapter five will analyze the dependent factor and independence of the audit offices. In this chapter introduction and data analysis will be take place in starting. After this, the collected data will be analyzed in accordance with the relationship with financial regulation and audit policy clarity, audit policy consistency, audit policy simplicity, human resources, ICT system, budget, working environment, discretionary power, organization culture, coordination, risk management, monitoring and evaluation and exogenous variables will compared. And at last there would be conclusion as summary of this chapter. Sixth or last chapter will explain about the introduction, main findings, further research issues will be mentioned. While conclusion will be drawn and there should be suggestions also in the summary.

## 9. Conclusion

In this introductory chapter, I have presented the outline of the research study. In this chapter I have included the background, statement of the problem, research questions, scope, limitations, rationale and probable structure of the thesis. In proceeding of the chapters, have describing the research study with objectives would have discussed accordingly.

## **CHAPTER II**

### **REVIEW OF LITERATURE**

#### **1. Introduction**

The Policy defines as a course or principle of action adopted or proposed by a government, party, business or individual. In our practice, policies are made by people's representatives. They are authorized by the popular concept of the people under the general framework of constitution and societal values. The legislative, executive and judicial bodies are the horizontally working bodies of the policy making. In the federal States vertically separated bodies are engaged in the policy making. The business of bureaucracy is also engaged in policy making and policy implementation. In the course of policy making activities civil society, professional group, non-governmental organizations and autonomous bodies are also playing indirect role.

#### **2. Policy implementation**

Policy implementation is a phase between policy decision and its operation. There is a gap between policy decision and implementation. After policy decision there will be some circumstances, which is most important as policy decision. Reejal Puskar R.( 1995 p.227) says this is so because of the fact that the content of the policy and its impact on those affected, elaborated or even neglected during the implementation stage. If policy makers are unable to set clear policy outcomes, policy efforts are not sufficient monitored and implementation output and outcomes will not be effective. Implementation theories can use the rational choice theories as those theories are outcome of the rational decision makers at the implementation level.

#### **3. Different approaches to implementation theory**

Implementation theories have different approaches. Some political scientists have described it in terms of the classical – technical model, the political model and the evolutionary model. Some scholars have expanded it in terms of top down model, bottom up model and hybrid approaches. Some theories have explained as

administrative approach, political approach and symbolic approach for implementation. These approaches are study to know the situation of audit policy implementations.

### **3.1 The Classical- Technical Model**

The method is so called powerful approaches to enhancing implementation theories. Gaziel (1994, page 237-252) have advocated for the classical – technical model. According to the classical – technical method, relationship between policy maker and policy implementer is assumed that it is policy decision taken at the upper level and will be implemented in the lower level. The relationship between policy maker and policy implementer in classical model as the principal and agent which will be hierarchical. In this model the agent clearly transfer the specific policy. The implementer could translate the instruction and could establish the means to monitor and ensure compliance. In audit policy implementation, Audit official are trying to implement it but response of the auditee's are quite different.

### **3.2 The Political ( value- Conflict ) model**

According to the political (value and conflict model) there would be regular interactions and negotiations among political leaders, implementers and environment. There would be balance of power and also be political dilemmas that require negotiations and compromise among policy makers and interest groups. Angel R. Aquino (2003,p.41) says uneasiness with the tendency to exclude all conflict between political principles. It is not that I enjoy dissension, but the unchangeable insistence on normative harmony appeared to me to entail some kind of a loss. I sensed that such a position produced distortions in political philosophy in the area of moral philosophy. There are always discussions with auditees and auditors. So it is also useful for the audit policy implementations.

### **3.3 The Top down model**

In this model, Van meter and Van Hon, (1975 p.7) says the policy would implement with degree to which the actors implementing officials and target groups

coincide with the goals embodied in an authoritarian decision. The implementation as the carrying out of the basic policy decision, usually incorporated in a statute but which can also take the form of important executive order or court decision. Van Meter and Van Horn (1975, p.8) says that there are three general sets of factors, they are: tractability of the problem, ability of statute to structure implementation, and non-statutory variables affecting implementation. The top down approach demand clear and consistent policy goal, numerical number of actors, limited extent of change and charge implement action responsibility with an agency sympathetic with the policy goals.

There are three sets of limitations in this top down model. Winter (1985 and 1986, p.10) notes that many implementation barriers are found in the internal stages of the policy making process and to understand policy implementation this process must be studied carefully. Secondly, Top – Down model posits implementation as a purely administrative process and ignore the political aspects. Ibid says Top- Down model emphasize on clarity, rule promulgation and monitoring brings to mind the Weberian bureaucrat making independent decisions based on merit and technical criteria and free from political influence. But it is rarely possible to separate politics from administration P.148). Other one is, Top-down models have been criticized for their exclusive emphasis on the statute framers as key actors. Top down model have been critical from bottom uppers. From a normative perspective, local service deliverers have expertise and knowledge. Therefore, they are in a better position to propose purposeful policy. In the positive perspective that discretion for street level bureaucrats is inevitably so great that is simply unrealistic to expect policy designers to be able to control the actions of these agents. The audit policies are implementing by bureaucratic model.

### **3.4 The bottom up model**

The services deliveries ultimately determine policy is a major level of bottom up models. Ibid the advocates of bottom up model argue that a more

realistic understanding of implementation can be gained by looking at a policy from the view of target population and the service deliveries (, p 148). Berwan (1978, p.157) says that the policy implementation plays role at two level. At the macro level, centrally located actors devise a government program, at the micro implementation level, local organization react to the macro level plans. Central planners only indirectly can influence local actors. Contextual factors within the implementing environment can completely dominate rules created at the top of the implementing pyramid, and policy designers will be unable to control the process. If local level did not get opportunity to decide in locally, it will be fail. Goals, strategies, activities, plans and program could be understood in order to policy implementation. Implementation arises from the interaction of policy actors and environment. At the local level, these are strategies coalition and network of different people and organization which may not presumed at the policy formation stage.

There are some limitations of Bottom up level. Normatively, the public officials elected by the accountable to the people should have string on the policy making and implementation. The flexibility and leverage to the implementers may help to bring about positive results, but if it diverges greatly, the flexibility and autonomy to the implementers may lead to conflicts. The over emphasis in policy making and implementation on local autonomy is also debatable. This model is also useful to know the audit policy implementation in each entity.

### **3.5 Evolutionary Model**

Evolution reform to be build on existing practices, values and client perceived needs. Policies are more complied if they are made to satisfied the clients need. Gaziell (1994, p.240) says that in the evolutionary model , policy is assumed to be a set of multiple depositions to act, the realization of which deposition depends mostly on the characteristics of the implementation setting. In this model the implementers needs to be consider about the difference of culture and sub



culture of the same culture. Each culture and sub culture have a distinct set of beliefs, values interest, norms, traditions, which may be different that one group to another groups. We can say that policy shapes implementations but implementations also shapes policy. These practice is also playing role in audit policy implementation.

### **3.6 Synthesizer Model**

Top down model perspectives are more appropriate in the early planning stages, but bottom up model is more appropriate in the evaluation stages. Policy designer cannot influence the local situational factors. When change is incremental, technology is certain, environment is stable, conflict is low and institutional setting tightly coupled, an implementation plan should follow the levels of the top- down model. According to Matland (1995, p.153), in bottom up strategy, may lead to pursuit of individual goals that run contrary to the policy objectives, and these are often more objectionable. According to the Ingram and Schneider (1990,P.10),the implementation is deemed to be successful if the implementing agencies comply with the directives of the statutes, goal of statute are achieved, and local goals are achieved, and if there is an improvement in the political climate around the program. According to HOOGHE and Gary (2003, p.233-43), policy adopted at the highest level are adapted, implemented, and enforced by actors at lower levels. As a result, policy outcomes crucially depend on the actors to implement the policy and reliable manner.

The top down model and bottom up model are using here to study as synthesizer model.

## **4. Audit Policy Implementation in Nepal**

At the preliminary stage, audit was introduced with hearing accounting activities by the owner. The term audire was famous to check the income and expenses of the saho mahajan. After this era Luca Paccioli( Italy) invent the accounting system. Auditing also introduced together for maintain the control environment. Auditing is

important functions in the financial sector phenomena. Nowadays, there is also paradigms shift in auditing world. The main innovation in this field is that auditing is important domain for essential part to complete the financial cycle. Each and every company institutions, enterprises or organization, there is compulsory provision for audit. In the public sector each and every country has constitutional provision for auditing purpose. Nowadays, the audit which is internal or external, it is providing fact and figure about the organization, where is something wrong. So that audit is weapons to cache the wrongdoing. The system says while auditing will be finished, it gives green signal for go ahead. Where audit is remaining due, the income and expenditure and balance sheet should not approve.

In the modern organizational behavior, auditing is in that stage, which could not cross without response, while it, could be internal or external. The four important domains in the financial administration are budgeting, accounting, reporting and auditing. In these four domains first three are within the organization and only last one is the outsider. So, auditing activities are the control tools in the financial management. Irregularities, fraud and corruption could not check without strong external scrutiny. So, one of the enhancing factors of financial management is auditing. Audit is evaluation or check or examine of the financial statement by the outsider. It means that a type of examination that would independent and impartial. Final audit is only the outsider who checks account systematically. It is reliable for all organization, involved all transactions in term of money. Lima Conference of INTOSAI, International Organization Supreme Audit Institute, which has more than 190 member countries, introduced 8 principles for external audit. They are Principles of Effective Legal Framework, Principles of Independence Office Head and Members, Principles of Sufficient mandates, Principles of Unrestricted access of Information, Principles of right and obligation of report, Principles of Freedom to decide on content and timing of the audit period, Principles of Follow-up mechanism, Principles of financial and administrative autonomy. Besides these principles, there are 7 core values of auditing. They are Independence, Integrity, Professionalism, Creditability, Cooperation,

Innovation, and Inclusiveness. Principles of independencies of supreme audit institution says that it is indispensable for a healthy democracy that each country have a supreme audit institution which is independence is guaranteed by law but state institution cannot be absolutely independent so they can be achieve independence through different means. So the principles of audit are concerned with final audit or external audit.

There are some principles of the internal audit also. Internal auditing means an appraisal activity established within the entity as a service to the entity. Its functions include, amongst the other things, monitoring internal control. The Institute of Internal Auditors says 'internal audit is an independent objective assurance and consulting activity designed to add value and improve an organizations operations. It helps an organization accomplished its operation by banding systematic, disciplined approach to evaluate and improve the objectiveness of risk management, control and government process'.

Journal of Modern Accounting and Auditing says davidpublishing.com) says Audit is mainly known as 'Value-added services'. It is found that auditing has evolved through a number of stages. In the mid 1800s to early 1900s, the audit practice was considered as “traditional conformance role of auditing”. However, for the past 30 years, the auditor has been playing an “enhancing role”. Today, auditors are expected not only to enhance the credibility of the financial statement, but also to provide value-added services. Nevertheless, following extensive reform in various countries as a result of the collapse of big corporations, it is expected that the role of auditors will converge. It is evident that the paradigm about auditing has shifted over the years and it is likely to continue shifting in the future.

Mackenzie C.M 1996, p. vii) says in the foreword to the accountability and audit of governments made the following remark: “Without audit, no control; and if there is no control, where is the seat of power?” An analysis of the historical development 7 various countries. According to Leung.p. (2004, p. 24) is that such reform has implicated the auditing profession in the following ways: “(i) The role of

auditors is expected to converge: refocusing on the public interest, redefining audit relationship, ensuring integrity of financial reports, separation of non-audit function and other advisory services; (ii) The audit methods revert to basics i.e. risk attention, fraud awareness, objectivity and independence, and (iii) increase attention on the needs of financial statement users”. In summary, the review of the historical development of auditing has evolved the audit function through a number of stages. Auditing first emerged in the form of ancient checking activities in the ancient civilizations of China, Egypt and Greece. However, the practice of modern auditing did not become firmly established until the advent of the industrial revolution in the mid nineteenth century in the UK. Today, auditors are expected not only to enhance the credibility of the financial statement, but also to provide value-added services, such as reporting on irregularities, identifying business risks and advising management on the internal control environment.

Austria audit service office defines these 6 domains as follows:

- **Integrity:** Integrity and professionalism shape our interaction with our customers and employees. Our success and our reputation is based on common basic values which stand above all for trust, discretion, personal contact and fairness.
- **Responsibility:** We make our decisions on the basis of common values and assume personal responsibility for our actions. We only promise what we can keep to.
- **Discretion:** Confidential information shall also be treated as such. We prevent abuse and the passing on of our clients' information through an optimal control environment.
- **Fairness / Communication:** We pay attention to and respect people and opinions. We communicate openly, respectfully and punctually with external and internal partners.
- **Transparency:** We maintain a constructive, transparent and open dialogue with our clients and employees, which is held up with respect and professionalism. We are constantly striving to adjust this code of values to the developments in business and personal spheres and our ethical base values.

In this way, auditing is a factor that emphasis in the improvement of the financial management. To enhance the financial situation of the related entities, audit is an independent, impartial, outsider or third party evaluator, which is mandatory from the constitution or act or regulations, he gives his views or report with recommendations.

As per the Article 240 of the Constitution of Nepal, the President appoints Auditor General on the recommendation of Constitutional Council along with approval by Parliamentary Hearing Special Committee of Legislature-Parliament after completing the hearing process. As per Article 241, the Auditor General is empowered to carry out the audits of all Federal and Provincial Government Offices, Local level, and other institutions as specified by law in accordance with the procedures determined by law with due regard to the regularity, economy, efficiency, effectiveness and the propriety thereof. The Article 294 stipulates that the Auditor General shall submit annual report to the President. Functions, duties and powers of the Auditor General as specified in the Constitution of Nepal are given below:

- Carrying out audits of all Federal and Provincial Government Offices including the Office of the President, Office of the Vice-President, Supreme Court, Federal Parliament, Province Assembly, Province Government, Local level, Constitutional Bodies & Offices thereof, Courts, Office of the Attorney General, Nepal Army, Nepal Police and the Armed Police Force, Nepal, Give consultation to auditors' appointment for carrying out the audit of a corporate body of which the Government of Nepal or Province Government owns more than fifty percent of the shares or assets. Carry out audits of the Funds, Boards and entities that Examine accounts related documents at all time,—specified in accordance with laws, Approve accounts formats, and Submit Annual Report to the President of the works performed.

Audit Act 1991 (Amended) specifies about the audits methodology, area, and matters to be audited, as well as the matters related to audit of wholly and substantially government- owned corporate bodies. The role of the office is that in

pursuant to focus on good governance. Office of the Auditor General has set its Vision "We strive to be a credible institution in promoting accountability, transparency and integrity for the benefit of the people" and Mission as "Provide independent and quality audit service to assure our stakeholders that the public funds are effectively used." Independence, integrity, professionalism, transparency and accountability are the Core Values of the office.

To promote public welfare through audit, the office has been playing the role of a whippier by highlighting the problems related to financial transactions conducted without complying prevailing laws & directives and weaknesses related to service delivery to people by public entities on the basis of purview of regularity, economy, efficiency, effectiveness and propriety thereof. Consequently, it has helped to maximize the output from resource utilization through stopping from misappropriation, misuse and loss & damage of the country's scarce resources. As a response to the matters pointed out by the office, public moneys that mis- utilized have been recovered and deposited in Consolidated Fund and additional revenues have also been generated to state's treasury as a result of legal, policy and organizational improvements. There are numerous examples where economy and efficiency have been maintained and effectiveness has been brought in service delivery to people. Thus, Office of the Auditor General has been playing a great role in establishing fiscal Regulation.

According to the Audit Act 1991 and other policies, the following are the methods of audit, whether there are committed fraud and error or not as follows:

- The Auditor General may conduct final audit of the financial activities and other activities relating thereto of the offices, bodies or organizations under its jurisdiction, either in detail or sporadically or a random basis and present the facts obtained there from, make critical comments thereon and submit its reports. The Auditor General may, if it deems necessary in course of audit exercise the following powers -

- To check at any time the status of the program and project being operated under the grants obtained by Government of Nepal and examine documents relating to accounts;
- To require contractors of government contracts to produce relevant documents or other evidence relating to the contract, which are supposed to be in his/her possession;
- To hire services of any expert on the task of audit and, if necessary, engage someone under contract with reasonable remuneration.
- Beside this audit Act have important provision about the matters to be audited. The Auditor General, with due regard to the regularity, economy, efficiency, effectiveness and propriety, shall audit following matters to ascertain whether:
  - the amount appropriated in the concerned heads and subheads by the Appropriation Act for respective services and activities have been expended for the specified purposes of designated services or activities within the approved limit;
  - the financial transactions comply with the existing laws and the evidence relating to items of income and expenditure are sufficient;
  - the accounts have been maintained in the prescribed forms and such accounts fairly represent the position of the transactions;
  - the inventory of government assets is accurate and up to date and the arrangement for protection and management of governmental property is adequate;
  - the arrangements for internal audit and internal control of cash, kind and other governmental property against any loss, damage and abuse are adequate and if so, are they pursued;
  - the accounts of revenue, all other incomes and deposits are correct and the rules relating to evaluation, realization and methods of book keeping are adequate and if so, are they followed;

- the accounts relating to public debts, security, deposit, debt relief fund and the amounts set aside for debt services and repayment of debts are accurate;

The accounts of income and expenditure of industrial and business services, and their balance of cash and kind, and the arrangements and rules relating to their financial transactions are adequate and if so, are they observed; the organization, management and job allocation of the office are sufficient and proper and are that operating accordingly;

- Any function is being unnecessarily performed in duplication by any employee or agency or any essential function is being omitted;
- The available resources, means and assets are properly utilized and the maintenance and perspiration thereof against any loss or damage has been properly arranged;
- The progress has been achieved within scheduled time and the quality and quantity of the work is satisfactory;
- The objective and policy of the Office is explicit and the program is delineated conforming to the specified objective and policy;
- The program is being implemented within the limits of approved cost estimate and the proceeds received in comparison to the cost is reasonable;
- The arrangements for maintaining data relating to target, progress and cost are adequate and reliable;

The entities with the most sophisticated **frauds** often were concerned about concealing them from the auditors and particularly about making the numbers and relationships among them 'look right' to the auditors when they reformed their analytical procedures. A favorite technique for accomplishing this was to 'play around' with the numbers, often through the use of non-standard entries, until they 'looked right'. In this way analytical review procedure is important to find out the fraud issues in the audit. For the recent years, auditors have been seeking less and less audit



evidence from detailed substantive testing. Better accounting systems and the greater use of IT by clients has meant that very few material transaction errors are being discovered by external auditors. Therefore, audit emphasis is increasingly being switched away from the detailed examination of the routine processing of transactions and on to the corporate control culture and the potential of risk. Due to the pressure that auditors face, it appears that they have been reassessing what the audit is trying to achieve, and this has resulted in an extensive questioning of how it should be done. Therefore, it is suggested that it may be possible to view developments in terms of a change from audit efficiency to audit effectiveness. There has been resurgence in the emphasis on judgment regarding the assessment of risks and controls, judgment regarding the interpretation of analytical review, and judgment in relation to any (limited) testing. The focus on the high-level risks and controls, together with the justification of very limited amounts of detailed substantive testing based on their risk analyses and analytical reviews, has completely altered previous conceptions of the external audit. AICPA white Paper (November 2012, ) Mentioned that it is clear that external auditors are going through a period of immense uncertainty; as to the outcome of this, only time will tell.

**Finding Fraud and Corruption** related issues through audit is crucial. Public sector bribery, fraud and corruption have become prime concerns for all parliamentarian about poor financial management. The word corruption refers dishonesty or a willful mis-presentation. There are major contributing factors responsible for strengthening financial system. They are: weak internal control and check system, ineffective monitoring and evaluation system, weak investigative and justice system, poor accountability and transparency, expensive social culture behavior, increasing people's expectations and lack of people's awareness and under developed civil society. Shrestha, I.R. ( 2014,p.25) says some of the government operations particularly vulnerable to corruption are collections of taxes and customs revenues, procurements of goods, constructions contracts, sale of public assets, granting permits and licenses, hiring of consultants etc.

## 5. Conceptual Framework

The most of researches in public policy implementation has been conducted in developed countries. Same theory and principle could not be applicable in other part of the world. But theories and model like public policy can use in developing countries. There are very few researches about Audit. There are many dynamic used from the recommendation of audit report and legal changes has been administered over the years, but there is hardly any research conducted to assess the effectiveness of audit.

Implementation of Auditing system is generally auditing and compliance its recommendation in financial arena. It can be studied and analyzed by borrowing some theories and model of Top-downers and Bottom-uppers. The conceptual framework has been design as consideration of policy clarity and consistency as define by **Van Meter and Van Horn**. Factors like goals, strategies, activities, plans and programs of the implementing agencies, central policy makers' influence on implementers, interaction between local implementers and environment are also important variables to be studied and analyzed for the study of the implementation of Auditing system. Different kind of variables is follows:



Pie Chart: 1

Source: Developed By author

Audit is defined as the third party verification of the financial transaction. All auditees should reply about the report with applying recommendations within legally stipulated time frame. The section of the Financial Procedural Act, 2055 has explicitly provided for the legal framework for Audit Report Reply within 35 days from the report received. Implementation of the Audit Recommendation could be measured by supervising of the record in the office of the Auditor general. The report should clear according to the Financial Law, Audit Law, Public Procurement law and other laws of related offices, entities, and institutions.

The research dealt with compliance especially of compliance of audit report with a study on the casual relationship between policy mandates, institutional

capacity and responsibility of the entities taking into consideration of the intervening variables. The constructed independent variable is the policy mandate is defined as the legal authority provided to the entity to implement public policy. Financial Procedural Act, 1999 and Financial Regulations 2007, are the fundamental legal instruments to implement Audit policy. The extant model of implementation theories have focused on policy goal clarity, consistency and simplicity.

The constructed predictor variable are institutional capability of Office of the Auditor General is known as the ability of the Audit Office to enforce the laws. The Institutional capacity includes adequacy, competency and commitment of the audit officials, sufficient financial resource, and information communication and technological (ICT) infrastructures.

There is relation or not between policy clarity, consistency, simplicity of audit and financial regulations or disciplines. There is relation or not between human resources, technicality, professionalism of auditors, budget, working environment in the audit office and financial regulations or disciplines. Next aims is, there is relation or not between authorities, discretionary power, organization culture, coordination, risk management and monitoring and evaluation system and financial regulations or disciplines. Likewise, there is relation or not between audit stakeholders response and financial regulations disciplines will be analyze in this study.

## **6. Conclusion**

Policy implementation is the execution of the officially decided policies, decisions and changes initiatives. It is the stage if policy cycle where government organizations execute the formally adopted policies. Laws in order to bring about desired outcomes. Public policy implementation theories are primarily premised on principle agent theories in which the Principal requires the assistance of the agent to achieve particular outcome. Implementation depends on to what extent and how accurately understanding the policy mandate. Hence the implementers must understand what policy maker envisioned about. However, sometimes, implementing agent may

selectively perceive, understand, and interpret policy to fit their own agendas, interests and resources.

Nepal's Auditing report compliance policies focus on creating a financially discipline regime through compliance of audit recommendation. Audit recommendation compliance objectives are to maintain the financial regulations regularly, economically, efficiently and effectively. The resource of the government should be used properly in targeted field. The main focus and objective of the study to ascertain the relationship between policy mandates and institutional factors of government entities fulfillment of the responsibilities. The relevancy of the study is quite high as the study is focused on identify, understand and analyze the causes of under compliance of audit recommendations policies on the part of various government entities as well as other public institutions.

## **CHAPTER III**

### **RESEARCH METHODOLOGY**

#### **1. Introduction**

This chapter is concentrated with design and methodology of the research. It is main outline frame for doing a scientific research. Research design has mentions the research method, definition of the population and sample, strategies for data analysis and validation of the findings. Rajendra kumar says (2008,p.17) "Research is an intensive and purposeful search for knowledge and understanding of social and physical phenomena." Research can be termed as an inquiry into the nature of the reasons for, and consequences of any particular set of circumstances whether these circumstances are experimentally controlled or regarded just as they accrue. So research is a study which is necessary to meet certain target.

#### **2. Background**

Research needs in-depth study about the topics. From the role of auditor to tackle the fraud and corruption as well as other kind of irregularities, how it is possible and effective, I am going to describe in these topics as the study of audit policy implementation. The study had been mentioned in the proceeding topics in this section.

#### **3. Methodology**

Research Methodologies is important to follow the research process logically to get the result of the study. Methodology is the systematic, theoretical analysis of the methods applied to a field study. It comprises the theoretical analysis of the body of methods and principles associated with a branch of knowledge. Typically, it encompasses concepts such as paradigm, theoretical model, phases and quantitative or qualitative techniques. A methodology does not set out to provide solutions - it is, therefore, not the same as a method. Instead, a methodology offers the theoretical underpinning for understanding which method, set of methods, or so-

called “best practices” can be applied to specific case. In this study I will follow the qualitative and quantitative research method both. The ontological questions about clearance and non clearance behavior of the audities have been understood and analyzed by applying both rationalist (survey, logical interpretation and justification with secondary data and empiricist (interview) approaches. So we can apply mixed research method. Research can be either experimental research or non experimental research. Experimental research makes changes in independent variables and studies their effects on dependent variable under controlled conditions.

C.Rajendra kumar (2008p.28) also says that research can be either experimental research or non experimental research. Experimental research makes changes in independent variables and studies their effects on dependent variable under controlled conditions. We also use philosophical assumptions, use of quantitative and qualitative approaches, and the both approaches. The mixed method is used for deeply and wide study of the given problem in both quantitative and qualitative study. The deductive approach would be employed to test the extant theories on policy implementation. Which is the factor theories on policy implementation. The factor like the policy mandates reflects the top-downer and the institutional interest taken account into by the bottom-up are in the proposed study about the giving clearance and presenting supporting document of the Audit Report. Studies may include theory deductively in quantitative theory testing and verification on inductively theory used in mixed method. Research is conducted with the 'quan-qual' sequence. So that, in first time, quantitative approach, semi structural interview with official of audit office and the auditor and policy level of audit office organized in order to qualitative data. The qualitative data were collected and analyzed in the final stage of the study to draw a conclusion from the results of the quantitative study or analysis.

#### **4. Research Design**

This study went through descriptive and analytical methods to find out the result. The social research followed the base on descriptive method. "Research can

be either Applied or it may be fundamental Research. The Applied research aims at finding a solution for an immediate problem facing a society whereas research of Fundamental is primarily concerned with generalizations and with the formulation of theory. Kothari C.R.(1988, p.33) says fundamental theory research at times is also known as basic. In the process of research design is including the means of obtaining the information, the availability and skills of the research staff and methodology. The objective of the descriptive method collect the information through various analyzed the information and concludes the results. Kothari C.K. (1988, p48)also mentioned about the various sequential steps of Research Methodology. Tentative selection of problem, initial survey of literature, defining the selected research problem, extensive literature survey, formulating the hypothesis, design the research project, sample design, collection of data, construction of questionnaire, execution of the project, analysis of data, testing the hypothesis, arriving at generalizations, preparation of the report are the main steps of the research.

In this method describes the relationships of the person, groups and other phenomenon. I choose this descriptive method because in this research it would get data from primary and secondary sources, easy to analyze the data and reach to get conclusions. In this study I would clear to make questionnaire to fulfill the objectives.

In this study role Supreme Audit Institution, establishing system to control the fraud and corruption as well as other compliance issues enhancing financial regulation and discipline is the dependent variable and the relationship with the principles of the audit and the policy, human resources, budget risk management are the independent variable. It is important issue in the national phenomenon and improvement of this gives positive impact to the society. The audit findings of last 5 years and its clearance, recovery of the irregularities amount and would collect the perception of peoples towards the OAG/N will analyzed in this study. To get conclusion of the entire objectives, I need to collect the data, interview, open discussion, Interactions and with official, business persons and general peoples.



Any description of a means of calculation of a specific result is always a description of a method and never a description of a methodology. It is thus important to avoid using *methodology* as a synonyms for *method* or *body of methods*. A methodology is the design process for carrying out research or the development of a procedure and is not in itself an instrument, or method, or procedure for doing things.

## 5. Case Study

In a qualitative research, in case study is a through holistic and in-depth exploration of the social phenomenon. Alexander L.G. Andrew Benett (p.6) says "The case study approach, the detailed examination of aspects of a historical explanation that may be generalized in other event"

It means that case study is a social research in a particular instance or carefully selected cases are studied intensively. Burns says (1497, P.364) "It must be bounded system." Stark and Torrance (2011,P.33) says Case study assumes that 'social reality' is created through social interaction, and seeks to identify and describe before trying to analyze theorize. It assumes that things may not be as they look and hence it emphasizes on the in-depth and objective observation and study of the case. This approach to cases on understanding the case in detail horizontally and vertically. The case study approach to study on the compliance of financial policy rules and regulation seeks to understand, analyze, and interpret its volume and clearance of those irregularities which is directly policy in a particular circumstance. Paudel, Narendra Ra says (2012,P.53) generally the policy implementation researches were dominated by the case study methods.

However, the case study approach to scientific research in social, political, administrative phenomenon may suffer from the ideology of the researchers and the group engaged in the organization under the study. It could be positively or negatively for the organization. The other epistemological issue to be addressed by the case study method is where to draw the boundaries or what should be include or exclude. All the

organizations have their own histories, culture, and evolutionary development path and so that auditory system is also its self history, hence the researcher, under case study approach should have in depth knowledge about social and historical circumstances of Audit system for financial administration to study the Audit policy compliance. The status of audit and compliance it's report of 5 years are studied in this report.

## 6. **Data Collection**

In order to produce objective and valid conclusion, data were collected from two main sources from primary and secondary sources. I agree that qualitative research should try to use as many different sources as possible. Yin R.K. (1994,p.18) This is on the general observation that no single source has complete advantage of all other sources ( Yin, 1994). Interviews are suitable when there is the need to gather detailed data and information from very few respondents, but the researcher would have to decide whether or not the study needs the type of information and if it will be possible to rely on the information these few respondents would provide the researcher with. Detailed discussion of the types of data, their sources and instruments used for their collection is presented as below.

## 7. **Primary Data**

The primary data gathered directly from respondents. Primary data is recognized as data that is gathered for specific research in response to a particular problem through interviews, questionnaires and observations. They were collected through frequent visits made to the offices. Thus the researcher got the opportunity to observe policy implementation activities and a kind of relationship and coordination that existed between them and their clients. The researcher was also able to confirm the existence of policy procedures and their functions through the frequent visits. To facilitate easy collection of the primary data questionnaires were self-administered by the researcher and both structured and unstructured interviews were conducted with key personnel in the selected offices. Primary data will be collect from questionnaire to

various sector involving persons, interview to audit and account related persons, discussion with public services involved persons, group discussion with related persons and other means of data collections.

## **8. Secondary Data**

The secondary information is required to describe the environment in which the selected case study organization operates. The data which is mainly historical data concerns work done on the subject matter under study and write ups on the concept of policy formulation, implementation and monitoring in the public service institutions as well as commentaries made on the conceptual and theoretical framework of the subject of study. Data gathered from this source were obtained from various kinds of documents including annual reports, annual progress reports of the Office of Auditor General, Auditing journals and articles, news papers, Ministry of Finance, Controller of Accountant General, Nepal Rastra Bank will be collected to this study. Collecting data I will consider in to the truthfulness, accuracy, correctly will be evaluated.

## **9. Field work**

The research questionnaires were administered personally and interviews with the key respondents were all conducted personally by the researcher with the assurance to the Audit official, Account office and related ministries to maintaining the confidentiality of information provided.

## **10. Limitations in the field work**

The data collection work meets with certain constraints which impeded the efforts of the researcher. These obstacles included time and financial constraints. The researcher could not meet the official due to their critical and tighter work schedules that might have occupied them out of their seats to field audit or other works of their offices. The researcher however managed to overcome this by resorting to telephone conversation which also on some occasions was associated problems. Another constraint was the untimely receipt of questionnaire from the respondents. Responses

to questionnaires were not received on time. For this reason and off course to be able to meet the schedule period for the research work the researcher had to put in more extra hours of work to get the work completed. Scheduled interviews had to be rescheduled due to frequent changes in the official programs of officers. Notwithstanding these problems, the data collection was generally successful, and as a matter of fact, the limitation factors on the study are quite inimical to affect the study report in any way. It is therefore possible to adopt the method used in this research by other independent researcher with similar objectives to produce comparatively similar findings.

## **11. Data Analysis**

As stated by Saunders et al, (2007), data analysis is seen to consist of three concurrent flows of activities or three stages of processes namely, data reduction, data display and conclusion drawing and verification. Data reduction is about “summarizing” and simplifying the data collected and/or selectively focusing on some parts of this data. Thus, the data reduction as an integral part of data analysis is carried out to sharpen, sort, focus, discard and organize the data in a way that will allow for final conclusion to be drawn and verified. Data display organizes and assembles the reduced material (data) into figures or tables to get an easier overview of the results since they can be hard or unfriendly to analyze as extended text. The data collected from the field through the responses of the questionnaire and interviews were grouped under appropriate headings. To ensure consistency the responses were checked against the various groupings. The quantitative data gathered were put into tables and where possible charts and graphs were produced out of some of the quantitative data. The simple regression model had been followed to analyze the data. After that, there had made on the various tables, charts and graphs.

## 12. Population and Sample size of study

The total numbers of units and size from which study sample drawn is called the population and small groups of units for required number of information generated is called sample. There are different stakeholders and participants in the implementation of audit policy, viz. the government agencies, tax payers, contractors, business house, civil society and others. These actors are government side, third party, or business side, and general peoples. The total 5,508 audit units in fiscal year 2015/16 are supposed to be the population for the study of the audit policy implementation relating to the audit report implementation. There are 3,944 government offices and authorizes and the auditor general office is one in kathmandu. In 2017 April, there are Rs. 1,67,49,27 lakhs volumes of irregularities amount in the one year period only. The recoverable amount Rs.40,43,89 lakhs or 42.28 %.

The population was heterogeneous with respect to the volume of program at different geographical location in the country. How the ministry has different type of work and volume of irregularities is also different but clearance is compare. Mixed methods research demands a comprehensive and detail data collection over the period. The data were collected and analyzed by employing systematic sampling technique. In this technique we can use random and non random sampling design.

The population is stratified into audit officials, Account officials, public account committee members, policy makers in order to make the population homogeneous for sampling purpose. the population stratified and systematic sample size were under as:

Table 3.1 Population and Sample Design

S.N.	Group	Population	Sample	Percent
Questionnaires				
1	Director Level Auditor	86	10	
2	Officer Level Auditor	167	17	
3	Officer level staff in	30	10	

	TSA			
4	Total no.of audit entities	4500	10	
5	Other stakeholders		5	
Total questionnaire cases			52	
Interviews				
1	Audit officer	1	1	2
2	Account Officer	1	1	2
3	AAG	1	1	2
Total interview cases		3	3	6

### 13. Dependent and Independent Variable

The research on survey emphasis both deductive and inductive method. The adaptive theory includes conceptual and a theoretical element that is contains the extent to which different elements are connected with in the same theory. The audit arising issue has been to solve problem in the financial administration. The mixing and adopting of both approaches could help to find out in detail some of the audit policy implementation problems. **Dependent variable are** the provision of the audit act, rules, regulations as well as the auditing principles. Likewise, corruption control and tackling by audit policy implementation is the dependent variable in the study. The study presented the extent of the policy implementation activities. The main aim of the audit policy is to minimize the irregularities and fraud and corruption control in the country. The aim of low fraud and corruption to implement the audit plan and policy is will be analyzed to evaluate how the above objectives are met. This will depend on the assessment of whether audit has capability to find the fraud and corruption or not, whether planning is made in such line to audit or not, whether audit is conducted in line with planning or not and whether OAG/Nepal is capable to control the fraudulent phenomenon in the country or not may be the questions for dependent variables study.

Independent variables are factors that causes to dependent variables. Independent variables are factors by which the financial regulations are clear, simple

and consistent or not by which audit policy implemented. According to these variables we can say about the dependent variable. The independent variable will be the manpower, infrastructure, budget, and working environment. The intervening variables are Authority and discretion, organization culture, coordination, risk management and monitoring and evaluation. There are also the exogenous variables like auditees response etc. are used in this study. Some examples of variables are used study and in policy implementation are:

1. Expression of audit opinion on the compiled financial statement of controlling entities as policy clarity, consistency and simplicity.
2. Clarity, consistency and uniformity in developing and categorizing audit observations,
3. Awareness generated among the stakeholders as area of exogenous variables.
4. Increased credibility and trust among the stakeholders with balanced report exogenous variables.
5. Initiation to establish relation with SAIs and other organizations by signing MoUs and cooperation agreements as intervening variables.
6. Online information on audit clearance and regular communication of irregularity as policy clarity and consistency.
7. Preparation of database of audit observation and PAC decision as policy clarity and consistency.
8. Ministry-wise exit meeting conducted in the matter of audit results as policy clarity and consistency..
9. Communication policy approved and implemented to the exogenous variables.

**Table 3.2 Variables, Research Questions and Item on Survey**

Variables	Research Questions	Item on survey
Dependent Variable	What do the volume of irregularities in Auditing system mean? What factors it embrace?	Question B1 to B10 deal with the different dimension of compliance with financial procedure law in terms of

		Audit Report figures.
<p>Independent Variables</p> <p>policy mandate:</p> <ol style="list-style-type: none"> <li>1. policy clarity</li> <li>2. policy consistency</li> <li>3. policy simplicity</li> <li>4. Institutional capability</li> </ol> <ul style="list-style-type: none"> <li>• Authority and Discretion</li> <li>• Coordination</li> <li>• Risk management</li> <li>• Monitoring and Evaluation</li> </ul>	<p>To what extent the financial policy mandate affects on enhancing Account transaction without irregularities in terms of Audit findings? where the institution are capable to implement financial procedure laws to deter non-irregularities in Audit Report</p>	<p>Questions from CPC1.1 to CPC1.12 are related with policy clarity from CPC 2.1 to CPC 2.11 with policy simplicity relating to financial in term of Audit report.</p> <p>Questions from CICH 1.1 to CICH 1.6 are related to human resource, from CICI IRA 2.1 to CICI NPRA 2.5 with infrastructure, from ICCB 3.1 to 3.2 with Budget and IC WI 4.1 to 4.2 for working environment.</p>
<p>Intervening Variables</p> <ul style="list-style-type: none"> <li>• Authority and discretion</li> <li>• Coordination</li> <li>• Risk Management</li> <li>• Monitoring and Evaluation</li> </ul>	<p>To what extent the intervening variables affect to the financial procedure law compliance as well as the implementation capabilities of the institutions ?</p>	<p>Questions from DAD 1.1 to 1.2 relate with authority, DOC 2.1 to 2.2 with coordination, DCO 3.1 to 3.2 with Risk management and from DME 5.1 to 5.2 with monitoring and evaluation.</p>
<p>Exogeneous Variables</p>	<p>To what extent the exogenous variable affect to the Financial procedure law compliance as well as to the implementation capabilities of the institutions ?</p>	<p>Questions from E1 to E5 are related with exogeneous factors like effect of the other authority, ambiguity, peer and group affect, overall governance and effects of follow the financial laws.</p>



## 14. Conclusion

This study examines the effects of audit plan implementation to get the transparency and control the fraud and error manner to enhance the financial regulation or discipline in the country. This study has gone **through** the research methodology development. These studies applying the audit office are more active to find out the falsified case. In which method Audit could find out such case, this study gives roadmap. In this study, the audit process evaluation for fraud and corruption control is important dependent variable and the capability of audit office like sufficient independencies, smart planning, quick logistics support, and positive concept to implementation of the report as well as recovery of the fraudulent amount, Timely discussion on the Public account committee is the independent variables. By finding these variables and collection of data from stakeholders from audit and account phenomena using phenomenology of data collection system, evaluating the report from descriptive methods using SPSS programmer also and concluding the report with suitable suggestions and recommendations.

The research is conducted by applying mixed method approach in which mixing of quantitative and qualitative methods of data collection and analysis have been done. The research is done by following "Quan – Qual" sequence in that quantitative analysis was done followed by qualitative investigation on research questions. For the collection of primary data used method like: Questionnaires, interview, and FGD was conducted. The validity and reliability of research is maintained by applying unbiased and scientific tools and techniques.

## CHAPTER IV

### STATUS OF AUDIT POLICY IMPLEMENTATION

#### 1. Introduction

This chapter is full of analysis and interpretation of secondary data. The test variable "financial regulations" is analyzed based on the secondary data. Compliance of financial regulations is observed by the audit. Office of the Auditor General is active to implement the audit policy in the financial administration sector. Audit office is doing regular observations of the financial statements and supporting documents as a third party evaluator. According to the financial procedures act and rules, it is responsibility of the offices, projects and programs to give reply about audit objection. Such offices are responsible to take clearance letter from audit office by giving reply with supporting documents. In this chapter, position of audit objection and audit backlog clearance would be analyzed according to secondary data.

#### 2. Data Analysis

The Primary and secondary data have been analyzed with a objective of finding the position of government entities as their responsibility or duty to take clearance from the constitutional audit authority and actual position of remaining irregularities. This is the clear picture or status of audit policy implementation in our country. It also shows the non prioritization of audit policy implementation to control fraud and corruption in the field of financial management.

##### 2.1 Financial Regulations

Financial regulation or discipline denotes the financial activity according to the financial law, rules and regulations. It is not totally nil but it could be minimize by various administrative action. Audit is external evaluation of the financial activities of the entities. While financial regulation or discipline is effective the audit objection would be minimize. So test objective "Financial regulation" is compared with expected targets. Audit office is maintaining document of audit objections. The provision of

Financial Procedures Act, 1999 Section (1) and (2) says "The Office of the Financial Comptroller General shall carry out, or cause to be carried out, the internal audit as prescribed. Each office shall submit accounts and financial statements of all kinds of incomes and expenditures as prescribed and get the external audit of the same to be carried out by the Office of Auditor General." For implementation audit policy related provision, Office of the auditor general does this job since 59 years. Constitution of Nepal, 1958 has also separate provision for audit. After this, all of the constitution has this kind of separate provision. Office of the auditor general has submitted 54 annual Audit report. It has centrally located one office is in Kathmandu. By implemented the audit related policy, office is giving preliminary audit gave report and gave many recommendation to improve the report and final report to the management. All total audit objection backlog amount is Rs. 3,96,25,61 lakhs according to office of the auditor general's annual reports. Some evaluations are as follows:

## **2.2 Audit Objection and Financial Regulations**

Audit Act, 1991 Section (12) gives mandate to the auditor general that necessary legal action shall be taken in respect of the faults and irregularities observed during the audit of income and expenditure and other financial matters of Government of Nepal according to the prevailing laws. It means that Auditor can audit. Audit Act Section (8,p) also gives authority that the Auditor General shall submit its annual audit report, including his/her comments and opinions thereon, to president on the final audit of Government Offices and other offices and organization prescribed by prevailing laws, which are subject to audit by the Auditor general. Audit Act also emphasis that the Auditor General may submit a report if he deems necessary at any time to take immediate action against any loss or damage already happened or impending upon to the national assets. In such kind of Constitutional mandate and responsibility, Auditor General could implement the audit policy to maintain the financial regulations or to improve the financial discipline. According to this mandate office of the Auditor general

audits all public funds. Audit report explains the position of financial regulations and disciplines.

**Table 4.1: Auditing Amount and Audit Objection**

<b>Fiscal Year</b>	<b>Auditing Amount ( in lakh )</b>	<b>Audit Objection amount ( in lakh )</b>	<b>Audit Objection in Percent</b>
2011/12	<b>7,42,59,43</b>	<b>27,96,96</b>	<b>3.77</b>
2012/13	<b>8,04,85,73</b>	<b>28,75,94</b>	<b>3,57</b>
2013/14	<b>8,53,94,64</b>	<b>37,40,57</b>	<b>4.38</b>
2014/15	<b>10,43,23,84</b>	<b>48,77,88</b>	<b>4.67</b>
2015/16	<b>12,95,44,92</b>	<b>88,85,59</b>	<b>6.86</b>

*Source: Annual Report of OAG, Nepal, 2013 to 2017*

The study indicated that (Table 4.1) in comparison with total audited amount 3.77 % is Audit objection amount in 2011/12 while it increases up to 6.86% in 2015/16. This is surprising figure that most of the organizations in public sector are not within financial roadmap in Nepal according to the report of OAG Nepal. So audit policy implementation is not in line with financial regulations or not in the way of financial regulations. Because of their increasing trend of audit objection, it is necessary to get improvement in the field of audit policy implementation.

### **2.3 Recovery in audit and Financial Regulations**

Financial Procedures Regulations ,2007 says that if any remark is made in carrying out examination pursuant to these rules, the Office In-charge or Departmental Head, shall take action as follows and give information thereof to the Department of the Auditor General and the Office of the Financial Comptroller General. In cases where record of cash and goods in-kind is omitted to be established, to require to establish the inventory within three days. In cases where the inventory of cash and goods-in-kind has been maintained in haphazard way causing loss and damage to the Government of Nepal, to recover the amount of such loss within fifteen days, and to forthwith recover it immediately as governmental dues pursuant to the prevailing law. In this way related financial policy is strong. In Audit, if there is any over payment, payment without enough supporting evidence, income has not deposited in revenue

account. If auditor finds out such cases, the concern employees should pay those amounts immediately and deposited into the national revenue. In reality, we are loosely implementing the financial regulations. We find out that government is benefited by implementing audit policy.

**Table 4.2 Recovered amount in 5 years**

<b>Fiscal Year</b>	<b>Recovered amount in Audit ( Amount in lakhs )</b>
2011/12	<b>96,89</b>
2012/13	<b>2,50,41</b>
2013/14	<b>2,06,06</b>
2014/15	<b>2,57,28</b>
2015/16	<b>2,08,98</b>

*Source: Annual Report of OAG, Nepal, 2013 to 2017*

Table 4.2 indicates that the detailed analysis of recovered amount through audit policy implementation. The recovery amount is revenue generation which is depositing in the national fund. Audit professionals are giving security or value added service to the government. It could get positive opinions by audit policy implementation verifying financial regulations.

## **2.4 Recoverable amount and Financial Regulations**

According to the Financial Procedures Regulations, 2007, number (1) it shall be the obligation of the Accounts Responsible Officer to see whether the Office In-charge or the responsible person has settled the irregularities or not, and get the same settled pursuant to the prevailing law, if they have not been settled. It shall be the obligation of the responsible person or the Office In-charge to settle the irregularities set from the audit by submitting evidence or by regularizing or recovering the same. Where the responsible person or the Office In-charge or employee with the obligation to settle the irregularities has to leave the Office by being transferred, promoted or retired, he shall hand over the details of the irregularities yet to be settled and all the details on the action relating to the transactions to successor, and the successor shall also take over the

inventory of the irregularities yet to be settled and all the details on the action relating to the transactions, and settle, and cause to be settled, the irregularities on the priority basis.

In respect of auditor's finding, audit office has divided such irregularities of the audit report in different heads. Some amounts needs to recovery from related employees or some of them need to recover from the authorized persons, and some of them would be necessary to show the evidence and some of them may be advance.

**Table 4.3: Auditing Amount and Audit Objection need to recovery**

<b>Fiscal Year</b>	<b>Auditing Amount (in lakh)</b>	<b>Audit Objection in recoverable amount (in lakh)</b>	<b>Percent</b>
2011/12	<b>7,42,59,43</b>	<b>3,38,33</b>	<b>12</b>
2012/13	<b>8,04,85,73</b>	<b>2,87,80</b>	<b>10</b>
2013/14	<b>8,53,94,64</b>	<b>3,46,15</b>	<b>10</b>
2014/15	<b>10,43,23,84</b>	<b>4,33,62</b>	<b>9</b>
2015/16	<b>12,95,44,92</b>	<b>40,43,89</b>	<b>43</b>

*Source: Annual Report of OAG, Nepal, 2013 to 2017*

The study table 4.3 indicates that 8.60 % to 42.48 % of Audit objections amount are need to recover according to audit report or audit objections. According to the irregularities separation system, lower recoverable amounts in 2014/15 and highest recoverable amounts in 2015/16. This is surprising situation in different two years. In such amount the financial policy implementation is quiet wrong. But auditing policy is very important and effective. So, financial policy implementation is not in right track. Because of the audit objection as recovery amount is upto 42%, it is necessary to implement strong step in the field of financial policy implementation. Because of the bureaucratic nature of most policies implemented evaluated by OAG, it gives negative impact on the output and outcome of the policy implementation.

## 2.5 Audit Backlog Clearance and Financial Regulation

Section 99(1) of Financial Procedures Regulations 2007, says that "After a letter has been received from the concerned auditor or the Office carrying out the audit in respect of the irregularities detected from the internal audit or the final audit, the irregularities shall be settled within the time-limit, if any, specified in that letter and within thirty-five days if no such time- limit is specified in that letter, by regularizing the irregularities if they have to be regularized, by submitting necessary evidence, if any evidence has to be submitted or by recovering them, if they have to be recovered or by giving clear reply if they have to be made clear through such reply; and a reply to that letter shall be given to the auditor or the Office carrying out audit within thirty-five days. Policies are implemented to achieve specific aims. This is provision of financial regulation; however, offices have not clear the unlawful amount in time. There are many irregularities from 3-4 decades. We can see the clearance ratio of entities, which is the negative map of policy implementation.

**Table 4.4: Audit Objection Backlog and clearance.**

<b>Fiscal Year</b>	<b>Total amount of Audit backlog</b>	<b>Clearance</b>	<b>Clearance Percent</b>
2011/12	54,36,02	16,78,40	31
2012/13	65,54,50	21,26,81	32
2013/14	72,97,02	19,40,31	27
2014/15	90,87,46	27,23,78	30
2015/16	1,12,41,38	33,77,87	30

*Source: Annual Report of OAG, Nepal, 2013 to 2017*

According to the above figure (Table 4.4) only 27 to 32 percent of the total backlog audit objection amount has been cleared in the whole year. What about irregularity amount of the 68 to 73 percent every year, nobody can give answers. It is going to be collecting in the record. It means financial policy is not properly implemented. In this concern, Financial Procedure Act,

1999 section 14(3) says that the responsible person shall submit the accounts of transactions and related documents to the concerned office or auditor as prescribed. But above situation into the audit policy implementation is not taking care to follow the financial regulation.

## 2.6 Unsubstantiated amount and Financial Regulation

According to Constitution of Nepal the public accounts and of all public offices or organization shall be audited and reported on by the Auditor General. For this purposes the Auditor-General or any person authorized or appointed for the purpose by the Auditor General shall have access to all books, records, returns and other documents including documents in computerized and electronic form relating to or relevant to those accounts. The Auditor-General should check the public accounts; all offices and institutions in such a form as the Auditor General shall approve and shall be subject to review. An internal auditor of an organization or body shall submit a copy of each report issued because of internal audit work carried out to the Controller General. All financial and accounting systems in respect of the accounts shall be subject to submit for audit. Any head of a public institution or other body subject to auditing by the Auditor General who fails to comply with this is liable or defective internal controls and auditing.

**Table 4.5 Unsubstantiated Amounts.**

<b>Fiscal Year</b>	<b>Total Audit Amount</b>	<b>unsubstantiated</b>	<b>Percent</b>
2011/12	27,96,96	8,51,00	30
2012/13	28,75,94	7,92,09	28
2013/14	37,40,57	11,80,24	32
2014/15	48,77,88	14,96,64	31
2015/16	88,85,59	18,14,25	20

*Source: Annual Report of OAG, Nepal, 2013 to2017*

According to the above figure (Table 4.5), upto 32 percent Audit objection amount or irregularities are without supporting documents or without



proper evidence. It means financial policy implementation is not sufficient and audit policy is required to strengthening.

### **3. Conclusion**

Financial regulation can be measured by revenue generation and physical Infrastructure development of the country. Economic activities are mile stone of the development. If fiscal regulation is strong, other sector of the development would go ahead smoothly. Fiscal activities are very important activities in the country. There are many of interest of human being. Everyone needs more money. Everyone needs easy money. So government has developed different policies. Audit is a checking of the transaction of the investors. Auditor General is appointed as constitutional body to check the national funds. Recommendations of the auditor's suggestions are useful for the auditees. The non-capability of the auditor is important risk for the government. The frequency analysis of the responses and the secondary data analysis show the different results. The relationship between audit objection amounts, recovery amount in the audit period, non-clearance of backlog amount, expenditure without supporting evidence shows the evaluation of the financial documents by audit policy implementation. Such findings are from secondary data. It shows the importance of the audit policy implementation.

## **CHAPTER V**

### **DATA ANALYSIS AND INTERPRETATION**

#### **1. Introduction**

This chapter is full of analysis and interpretation of primary data. The test variable "financial regulation" is analyzed based on the predictor variables like policy mandate, policy consistency, policy simplicity and other institutional capability taking into consideration. Some intervening variables on enhance financial management through audit. For evaluation of the audit policy implementation, the data were analyzed by employing SPSS and the outcomes of the deductive analysis have been further analyzed inductively in order to verify the results, and end up with a conclusion of results.

#### **2. Data Analysis**

The Primary data have been analyzed with a objective of finding relationship between constructed test and predictor variables. While financial regulation or discipline is effective the audit objection would be minimize. So test objective "Financial regulation" is compared with expected targets. The financial regulation would evaluate by audit with auditing through economy, regularity, efficiency, effectiveness and propriety. Various secondary data from audit with comparison is made chapter four, which indicate the financial regulation more with their budget proportion. Moreover, in this chapter, financial regulation of the government offices, agencies and all public organization depends upon the clarity, consistency, and simplicity of the audit policies, laws, and on institutional factors like organizational culture, coordination, risk management system, and monitoring and evaluation system of OAG, the constitutional body, for audit.

#### **3. Relationship between Audit policy clarity and financial regulation**

Auditing Policy is guided by Constitutional provision, which provision related to check and balance system for democratic values. As a constitutional body,

Auditor General is independent. The audit policy implementation is free from interference of the side if the executive. The responses from the respondents are analyzed under following table. The hypothesis test as under:

**Table 5.1 Policy clarity on financial process and audit**

Independent Variables	b	t	p-value
Constant		-1.493	.146
Financial Procedure regulation have clear about Financial process.	.029	.131	.896
Legal provision related to audit system are clearly understood.	.103	.493	.626
provision relating to Audit objection clearance are define detailly.	-.045	-.248	.806
Audit clearance ambiguously spelled out presenting documents.	.463	2.177	.038**
The Legal provision for internal audit and internal control are useful for internal control.	-.184	-1.028	.312
The Legal provision relating to submission of financial statement are clearly spell out in the law.	.847	4.557	.000*
The audit period and time for submission document are suitable and economical.	.465	1.124	.270
The Audit report is clear, simple and easily understood.	-.289	-.637	.529
The procedures for Audit reply are simple and easy to follow.	-.312	-.480	.635
The procedures to take more time for Audit reply is suitable.	.172	1.414	.168
The reporting system and time of OAG Annual report is suitable.	-.073	-.445	.660
The procedure for PAC decision implementation are clear and complete.	-.141	-.985	.333
R square	.746		
F	7.084		
Durbin Watson	2.02		

*Questions: Auditing system and clearance of audit objections in terms of policy clarity. In the given statement 1- refers to completely disagree, 2-partly disagree, 3-partly agree, 4-completely agree and 5- I don't know. In these 1 is lowest of the scale and 5 is the highest of the scale.*

*Source: Field study, 2017, N=52*

*Level of significant 5 % \* \* and 1% is \**

The R2 value of the model fits in this study suggests that the model explains 74.6 percent of the variance in the dependent variable auditing principles in Nepal. The F value of this model is 7.084. Number of questions about the position of financial management and audit were asked. These questions are financial process define, legal provision related to audit system, audit objection and clearance process, internal control and internal audit, submission of financial statement, audit report and its simplicity and clearness, procedure of audit reply, reporting system of OAG and procedure of PAC decision implementation. The study revealed that the Legal provisions relating to submission of financial statement are clearly spell out in the law was highly significant at the 5 percent level of significance. Audit clearance ambiguously spelled out presenting documents was also found to have significance relationship with financial regulation at 5 percent level of significance. The rest of the activities were insignificant. The procedures to take more time for Audit reply, audit period and time for submission document and the legal provision for internal audit and internal control are useful for internal control, the procedure for PAC decision implementation are clear and complete etc. are in position but insignificant at 5 percent level of significance. Financial procedure regulation and process, legal provision related to audit system, provision relating to Audit objection clearance, simplicity of the audit report, the procedures for Audit reply, reporting system and time of OAG Annual report were not accomplished as required. Therefore, these activities had negative relationship with implementation of financial regulation.

#### **4. Relation between audit Policy consistency and Financial Regulation**

The consistency in policy affects the effective implementation of the policy. The policy consistency variable includes different factors relating to stability in

legal provisions, compulsory auditing and improve in line with its recommendations. Timely reply the audit objections, submit the supporting documents with audit reply are guided with the audit policy consistency. The responses from the respondents are analyzed under following table. The hypothesis test as under:

**Table 5.2 Policy consistency on financial process and audit**

Independent Variables- policy consistency	b	t	p-value
Constant		1.417	.166
The definition of financial Procedures law and audit law is consistent over the last 25 years.	-.156	-.969	.340
The legal provisions relating to Audit mandate are consistent.	-.260	-1.221	.231
Legal provision about the Audit compulsory are steady.	.484	2.866	.007*
Legal provision about the Audit report submission is constant.	.910	3.886	.001*
The legal provision relating to report discussion is PAC is same.	-.701	-4.283	.000*
Legal provision about the budget revenue and financial administration are consistent.	-.500	-1.946	.061***
Financial penalties chargeable to the non-clearance of the Audit irregularities are consistent over 25 years.	.511	2.451	.020**
Act relating to financial fraud and corruption are effective or not since 25 years.	-.190	-1.247	.222
Financial administration related public procurement Act are steady.	.260	1.376	.179
The legal provisions with Audit clearance are constant.	.325	1.810	.080***
R square	.626		
F	5.194		
Durbin Watson	1.901		

*Questions: Audit mandate, legal provision and procedure, procurement system, audit objection clearance as policy consistency. In the given statement 1- refers to completely disagree, 2-partly disagree, 3-partly agree, 4-completely agree and 5- I don't know. In these 1 is lowest of the scale and 5 is the highest of the scale.*

*Level of significance: 10 % \* \* \*, then 5 % \* \* and 1% is \**

*Source: Field study, 2017, N=52*

Questions were asked regarding the activities prescribed by Financial Procedures Act, Financial Procedures Regulations and Audit Act for financial management consistence which are related the auditing activities. Among these activities legal provision relating to report discussion is PAC, Legal provision about the Audit report submission, Legal provision about the Audit compulsory and financial penalties chargeable to the non-clearance of the audit irregularities are over 25 years have significant relationship with financial regulation. Furthermore, Legal provision about the budget revenue and financial administration and the legal provisions with Audit clearance are positive since these are not accomplished as required. The definition of financial Procedures law and audit law over the last 25 years, The legal provisions relating to Audit mandate, act relating to financial fraud and corruption since 25 years and financial administration related public procurement steady have some few negative relationship with implementation of financial regulation. Thus, the financial regulation relating to audit are partially implemented the rules and regulations prescribed by law.

## 5. Relationship between audit policy simplicity and financial regulation

The simplicity of policy affects the effective implementation of the policy. The policy simplicity variables include simple and easy provisions for financial management as well as audit. It is also emphasized that the audit process, report receiving and reply with evidence. The responses from the respondents are analyzed under following table. The hypothesis test as under:

**Table 5.3 Policy simplicity on financial process and audit**

Independent Variables	b	t	p-value
Constant		2.402	.022
The definition of the financial terms in constitution, Audit Act, financial procedure Act, public procurement Act are simple.	-.026	-.106	.916
Legal provisions relating to financial administration are easy.	.343	1.763	.088***
Legal provision relating to Audit are straight forward	.638	3.652	.001*

and uncomplicated.			
The process, means and deadline for clearance of Audit irregularities are suitable and economical	.113	.477	.637
The Audit report is easy and simple to understand.	-.631	-2.790	.009*
There is a Legal provision to non clearance of Audit Query relating to PAC decision.	-.542	-3.235	.003*
There is an easy and clear provision to get clearance from Audit.	.382	2.339	.026**
There is an easy to get recorded of the previous year audit report in such activities.	.646	2.361	.025**
The legal provision for follow up audit are clear.	-.443	-2.395	.023**
The Directives relating to internal audit, internal control and physical inspection are simple and easy to implement	.080	.471	.641
R square	0.583		
F	4.341		
Durbin Watson	2.438		

*Questions: Audit mandate, legal provision and procedure, procurement system, audit objection clearance as policy simple. In the given statement 1- refers to completely disagree, 2-partly disagree, 3-partly agree, 4-completely agree and 5- I don't know. In these 1 is lowest of the scale and 5 is the highest of the scale.*

*Level of significance: 10 % \* \* \*, then 5 % \* \* and 1% is \**

*Source: Field study, 2017, N=52*

The next hypothesis of this study was the accomplishment of simplicity of the relating to provision of financial act, regulations and audit act. The present design of the auditing principles, constitutional system, audit as per audit act preliminary audit report, accumulating amount of audit objections are treated as dependent variables. The definition of the financial terms in constitution, Audit Act, financial procedure Act, public procurement Act are simple, Legal provisions relating to financial administration are easy, The process, means and deadline for clearance of Audit irregularities are suitable and economical etc. were questions relating to financial regulations as well as audit. Among these activities Legal provision relating to Audit, Legal provision to non clearance of Audit Query relating to PAC decision,

legal provision for follow up audit, get record of the previous year audit report in such activities, the audit report is easy and simple to understand and provision to get clearance from Audit have significant relation with financial regulation or they agree the provisions are simple. Legal provision relating to financial administration is positive although it could not comply the required 5 percent level of significance. However, the definition and simplicity of the financial terms in constitution, audit act, financial procedure act public procurement act, the process means and deadline for clearance of Audit irregularities and directives relating to internal audit internal control and physical inspection are found insignificant to the financial regulations. They found complicate to implement. So that financial regulations are partially simple according to the study.

## 6. Relationship between Human Resources and Financial Regulation

Human resources of the organization are important factors for enhancing institutional capacity of the organization. Adequate computer literate professional and committed staffs are the key for organizational efficiency and effectiveness. The questions relating to audit works and its capability are the professional human power to maintain the financial discipline through audit. The linkages between Performance Based Incentive System (PBIS) and employee's performances and linkage between employee's performance and performance appraisal system of the Office of the Auditor General were asked to the respondents. In this survey, the question of sufficient staffs in OAG and the capability of the officials were also asked. The responses from the respondents are analyzed under following table. The hypothesis test as under:

**Table 5.4 Human resources in audit**

Independent Variables – Human Resources	b	t	p-value
Constant		3.047	.004
Audit officials are sufficient to give Audit service.	-.121	-.535	.596
Audit officials are computer literate and information	.004	.022	.983



technology friendly to Audit and reporting.			
Audit officials are professional and committed to enhance Audit service (Audit plan, Audit execution, Report writing, and follow-up service).	.254	1.066	.294
Audit official are capable to undertake Audit field work, report writing, record maintain, and Audit reply implementation.	.018	.067	.947
The performance Appraisal in liked with employee's performance	.205	1.046	.302
R square	2.104		
F	.855		
Durbin Watson	.106		

*Questions: Audit professionals are sufficient, they are committed professional, capable and their performance appraisal is linked with PBIS. In the given statement 1- refers to completely disagree, 2-partly disagree, 3-partly agree, 4-completely agree and 5- I don't know. In these 1 is lowest of the scale and 5 is the highest of the scale.*

*Source: Field study, 2017, N=52*

A number of questions about audit service were asked. They are: "Audit officials are sufficient to give audit service, audit officials are computer literate and information technology friendly to Audit and reporting, audit officials are professional and committed to enhance audit service (audit plan, audit execution, report writing, and follow-up service), Audit official are capable to undertake Audit field work, report writing, record maintain, and Audit reply implementation and the performance appraisal in linked with employee's performance". The study revealed that those activities about audit are insignificance at the 5 percent level of significance. Although Audit officials are professional and committed to enhance audit service (audit plan, audit execution, report writing, and follow-up service) and the performance appraisal in linked with employee's performance are not very low but they could not accomplished as required at the 5 percent level of significance. Main of the provisions about human resources in OAG Nepal is needed to improve.

## 7. Relationship between ICT system and Financial Regulations

The physical and information, communication, and infrastructure organization is important factor for the organizational efficiency and effectiveness. Under the predictable variable, ICT is in the priority of the office of the Auditor General. There is **AUDIT MANAGEMENT INFORMATION SYSTEM** and **ELECTRONIC WORKING PAPER** system established. For this purpose the survey has been conducted. The responses from the respondents are analyzed under following table. The hypothesis test as under:

**Table 5.5 ICT in audit.**

Independent Variables –Infrastructure	b	t	p-value
Constant		6.349	.000
The existing Audit report binding system are effective to Audit Record keeping and clearance.	.402	2.222	.032**
The capacity of Information, communication and Technology of OAG is strong.	-.292	-1.348	.186
The Audit official and auditees are physically and virtually connected with each other to make communication easy.	-.036	-.153	.879
Audit management Information system (AMIS) related to audit (EWP) and record keeping is general by OAG.	.097	.433	.667
R square	.136		
F	1.459		
Durbin Watson	1.852		

*Questions: The infrastructures of the office of the Auditor General and its information and communication system as well as electronic working papers used. In the given statement 1- refers to completely disagree, 2-partly disagree, 3-partly agree, 4-completely agree and 5- I don't know. In these 1 is lowest of the scale and 5 is the highest of the scale.*

*Level of significance: 5 % \* \**

*Source: Field study, 2017, N=52*

Questions were also asked regarding to the infrastructure of the auditing office. They are : "The existing Audit report binding system to Audit Record keeping and clearance, the capacity of Information, communication and Technology, the Audit official and auditees are physically and virtually connected with each other to make communication and Audit management Information system (AMIS) related to audit (EWP) and record keeping by OAG". Among those questions the existing audit report binding system and audit record keeping and clearance system is significant at the 5 percent level of significance. But the capacity of information, communication and technology, the audit official and auditees are physically and virtually connected with each other and audit management information system (AMIS) related to audit (EWP) and record keeping were insignificant. It means the relationship with financial regulations is negative. Thus, almost all of the information and technology system are necessary to improve.

## 8. Relationship between Budget and Financial Regulations

Budget is compulsory to mobilize the human resources. It is also necessary to manage the communication and technological aspects. Budget factors are base for organizational efficiency and effectiveness. Under the predictable variables, this study has question for sufficiency. The optimum level of budget is key players for efficient audit and irregularities settlement. The responses from the respondents are analyzed under following table. The hypothesis test as under:

**Table 5.6 Budget in audit**

Independent Variables – Budget	b	t	p-value
Constant		9.118	.000
Audit office have sufficient budgetary support to implement Annual Audit plan.	-.349	-1.862	.070***
The Audit office has allocated program Budget for interact with auditee.	.550	2.937	.006*
R square	0.181		
F	4.312		
Durbin Watson	1.461		

*Questions: Auditing system and clearance of audit objections in terms of policy clarity. In the given statement 1- refers to completely disagree, 2-partly disagree, 3-partly agree, 4-completely agree and 5- I don't know. In these 1 is lowest of the scale and 5 is the highest of the scale.*

*Level of significance: 10 % \* \* \* and 1% is \**

*Source: Field study, 2017, N=52*

Questions were also asked about activities performance by budget. questions were: " Audit office have sufficient budgetary support to implement Annual Audit plan and The Audit office has allocated program Budget for interact with auditee." Among those questions the audit office has allocated program budget for interaction with auditee is significant. This means there is positive relationship with this statement. The office have sufficient budget to implement plan is not significant. This means there is some few negative relationship between budgetary support and improvement of financial regulations. Thus, it is necessary to improve budgetary support into the audit policy implementation.

## 9. Relationship between working environment and Financial Regulations

Working environment is intervening variables to perform the audit. If government and other agencies or stakeholders gives priority to the audit, to settle the audit objections or submission the financial statement, audit could get better performance. There is a lot of irregularities remaining to settle. Working environment is main concern to improve the financial regulations. The responses from the respondents are analyzed under following table. The hypothesis test as under:

**Table 5.7 Working environment in audit**

Independent Variables – working Environment	b	t	p-value
Constant		4.011	.000
The Government and other agencies related to audit are giving prorty to implement audit report.	.244	1.408	.167
The government and department are risking remark to the officers and project chief, while repeating same issue every year.	.121	.661	.513
The government have any evaluation basis according	-.163	-.839	.407

to the volume of irregularities to give promotion and other opportunity.			
Audit office is free from other environment or conflict of interest from auditees	.062	.379	.707
R square	.071		
F	.710		
Durbin Watson	1.964		

*Questions: Auditing system and clearance of audit objections in terms of policy clarity. In the given statement 1- refers to completely disagree, 2-partly disagree, 3-partly agree, 4-completely agree and 5- I don't know. In these 1 is lowest of the scale and 5 is the highest of the scale.*

*Source: Field study, 2017, N=52*

In this study there are some questions about working environments. These questions are: "The Government and other agencies are giving priority to implement audit report; risking remark to the officers and project chief, evaluation basis according to the volume of irregularities, audit office is free from conflict of interest from auditees." Among these questions non of them have get significant at 5 percent level of significance. It means there is negative relationship within these situation and financial regulations. It shows that there is no priority to implement audit report; no evaluation basis according to the volume of audit, audit office is not free from conflict of interest. Thus, it is necessary to improve outside and inside environment by the audit office.

## 10. Relationship between discretionary power and Financial Regulation

Intervening variables affects the both positively and negatively. There are some variables that may affect the financial discipline in the financial management. For research we find out that Authority and discretionary power of the authorities is as intervening variables. Audit has not such kind of discretionary power at all. Audit works only the verification of the system. The responses from the respondents are analyzed under following table. The hypothesis test as under:

**Table 5.8 Authority and discretionary power and audit**

Intervening Variables – Authority and discretion	b	t	p-value
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Constant		4.941	.000
The responsibilities and authorities of the Audit officials are clear and adequated.	.389	2.548	.015**
Audit has a discretionary power to produce Audit irregularities.	.004	.029	.977
R square	.152		
F	3.505		
Durbin Watson	2.375		

*Questions: Authority and discretionary power affects to the financial regulations or discipline is the main statement. In the given statement 1- refers to completely disagree, 2-partly disagree, 3-partly agree, 4-completely agree and 5- I don't know. In these 1 is lowest of the scale and 5 is the highest of the scale.*

*Level of significance: 5 % \* \* .*

*Source: Field study, 2017, N=52*

The study asked questions about the authority and discretionary power of the auditor. The questions were: "The responsibilities and authorities of the Audit officials are clear and adequate and Audit has a discretionary power to produce audit irregularities." In these questions the responsibilities and authorities of the Audit officials are clear and adequate and it was significant. Which means the responsibilities and authorities are clear. But audit has a discretionary power to produce Audit irregularities is not significant at the 5 percent level of significant. Thus audit has not discretionary power to produce audit irregularities is insignificant.

## 11. Relation between organization culture and financial regulation

The organization behavior of the office of the auditor general makes a difference in the clearance of the audit objection. The office culture gives positive incentive to the auditees. In the study, the test of hypothesis is measured through organization culture. The responses from the respondents are analyzed under following table. The hypothesis test as under:

**Table 5.9 Organization Culture in Financial process and audit**

ntervening Variables – Organization culture	b	t	p-value
Constant		5.393	.000

Audit office accords high importance to encourage auditee to clear audit query.	.287	1.551	.129
Auditors behaviours are audit oriented.	-.039	-.213	.833
R square	.071		
F	1.500		
Durbin Watson	2.176		

*Questions: Auditing system Is applying organizational culture . In the given statement 1- refers to completely disagree, 2-partly disagree, 3-partly agree, 4-completely agree and 5- I don't know. In these 1 is lowest of the scale and 5 is the highest of the scale.*

*Source: Field study, 2017, N=52*

To the study about organizational culture, there are two questions have been developed: "Audit office accords high importance to encourage auditee to clear audit query and Auditors behaviors are audit oriented." Among those questions none of them have significant at the 5 percent level of significance. Audit office accords high importance to encourage auditee to clear audit query is not significance. But it is not so negative. There are negative relationship between auditor's behavior and financial regulations. Thus it is necessary to improve the auditor's behavior.

## 12. Relation between Coordination and financial regulation

The coordination within different directorate of the office of the auditor general creates synergic outcomes in the organizations. The respondent was asked to rate the assessment as there is a coordination system with organization. It encourages entities to settle the audit objections as quickly as possible. The responses from the respondents are analyzed under following table. The hypothesis test as under:

**Table 5.10 Coordination with financial process and audit**

Intervening Variables – Coordinations	b	t	p-value
Constant		6.316	.000
There is coordination system within OAG and auditees to comply audit query.	-.119	-.523	.604
There is coordination system between auditees to comply the financial laws.	.251	1.108	.275
R square	0.034		

F	.692		
Durbin Watson	1.677		

*Questions: Audit management needs coordination. In the given statement 1- refers to completely disagree, 2-partly disagree, 3-partly agree, 4-completely agree and 5- I don't know. In these 1 is lowest of the scale and 5 is the highest of the scale.*

*Source: Field study, 2017, N=52*

Two questions about coordination system in OAG have been asked. They were: "there is coordination system within OAG, the coordination system between auditees to comply the financial laws." Among those questions, both are insignificant at the 5 percent level of significance. The financial regulations and coordination system have negative relationship. Thus, coordination needed to improve.

### 13. Relation between risk management and financial regulation

Auditing system is required to maintain the risk register to know how the risk. The auditor are not giving priority to settle the audit objection and there is high risk to non-compliance the recommendations. For the study purpose, the respondent were asked as to the whether OAG has developed the sophisticated system to manage the risk. The responses from the respondents are analyzed under following table. The hypothesis test as under:

**Table 5.11 Risk management in financial process and audit**

Intervening Variables – Risk management	b	t	p-value
Constant		5.110	.000
OAG has developed a sophisticated system to identify to compliance risk in financial management.	.183	1.114	.272
The non-compliance of Audit Report Risk mitigation managed by OAG.	.268	1.631	.111
R square	0.149		
F	3.403		
Durbin Watson	2.004		

*Questions: Audit office need to design risk management system. In the given statement 1- refers to completely disagree, 2-partly disagree, 3-partly agree, 4-completely agree and 5- I don't know. In these 1 is lowest of the scale and 5 is the highest of the scale.*



Source: Field study, 2017, N=52

To study the risk management system in the office of the auditor general, here are two questions. they are: " OAG has developed a sophisticated system to identify to compliance risk in financial management and the non-compliance of audit report risk mitigation managed by OAG." None of them are significant. Audit report risk management is better position although it is also not in required level at 5 percent level of significance. First question is also more insignificance. Thus, it is necessary to improve the risk mitigation system in the audit office.

#### 14. Relation between monitoring and evaluation and financial regulation

Monitoring is a evaluation process and tool for facilitating implementation of the plans and policies. Evaluation of the policies, plans and programs has implemented with assisting the some guidelines and formats. In the study, the auditing system has appropriate mechanism to evaluation and monitoring. The responses from the respondents are analyzed under following table. The hypothesis test as under:

**Table 5.12 Monitoring and evaluation in financial process and audit**

Intervening Variables – Monitoring and Evaluation	b	t	p-value
Constant		7.415	.000
The OAG has developed a well network and E-based internal reporting and monitoring system	.068	.326	.746
OAG internal monitoring system is linked with PBIS and other reward system	.215	1.032	.308
R square	0.071		
F	1.483		
Durbin Watson	1.785		

*Questions: Implementation of audit report is supported by monitoring and evaluation system. In the given statement 1- refers to completely disagree, 2-partly disagree, 3-partly agree, 4-completely agree and 5- I don't know. In these 1 is lowest of the scale and 5 is the highest of the scale.*

Source: Field study, 2017, N=52

There is two questions about monitoring and evaluation system in auditor general's office. Such questions are: " OAG has developed a well network and E-based internal reporting and monitoring system and OAG internal monitoring system is linked with PBIS and other reward system." Among those, none of them are significant at the 5 percent level of significance. It is negative relationship between e base internal reporting system and internal monitoring system linked with PBIS reward system and financial regulation and discipline. Thus, to improve financial discipline, it is necessary to developed a well network and e based monitoring system and the monitoring system system would linked with PBIS and other reward system.

### 15. Relationship between Exogenous variables and financial Regulation

Exogenous variables affects to the validity of the audit report, others environment to audit implementation. There are some variables that may affect the **Financial Regulation**. For research we find out that Legal provision relating to CIAA, Auditee's over look the Preliminary audit report, report implementation behavior of auditees, government initiation to implement the report, social priority for the audit report are show as the exogenous variables. The responses from the respondents are analyzed under following table. The hypothesis test as under:

**Table 5.13 Exogenous variables in financial process and audit**

Exogenous Variables	b	t	p-value
Constant		2.845	.007
Legal provision relating to related CIAA and others has effected to audit and audit inquiry and follow up system.	.226	1.191	.241
Auditee may overlook and mix up provisions to preliminary report and annual report and decision related to PAC .	.134	.824	.416
Auditees report implementation behavooour is effected by other behaviour of other auditees.	.176	.823	.416
Auditees report implementation behavooour is inspired by over all governance system.	-.144	-.662	.512

Knowledge about audit and its report is getting low priority in social respect.	.100	.515	.609
R square	0.162		
F	1.389		
Durbin Watson	2.203		

*Questions: Auditing system has affected by the behavior of the other entities is the main statement. In the given statement 1- refers to completely disagree, 2-partly disagree, 3-partly agree, 4-completely agree and 5- I don't know. In these 1 is lowest of the scale and 5 is the highest of the scale.*

*Source: Field study, 2017, N=52*

The last hypothesis was about the external factors to non response the audit report. The study asked the questions: "Legal provision relating to related CIAA and others has effected to audit, Auditee may overlook and mix up provisions to preliminary report and annual report and also decision related to PAC, Auditees report implementation behavior, auditees report implementation behavior is inspired by over all governance system so that getting low priority in social respect." Among these questions All of them are not significance at the 5 percent level of significance. Thus, Financial regulation has negative relationship and so that getting low priority from the government and other stakeholders. So Exogenous Variables major factor to clearance the irregularities or audit objections or recommendations to implement the financial regulations.

## **16. Conclusion**

Financial regulation can be measured by revenue generation and physical development of the country. Economic activities are mile stone of the development. If fiscal regulation is strong, other sector of the development would go ahead smoothly. Fiscal activities are very important activities in the country. There are many of interest of human being. Everyone needs more money. Everyone needs easy money. So government has developed different policies. Audit is checking the transaction of the investors. Auditor General is appointed as constitutional body to check the national funds. The recommendation of the auditor's is suggestions for the

auditees. The non-capability of the auditor is important risk for the government. The frequency analysis of the responses and the secondary data analysis shows the different results. The relationship between audit objection amount, recovery amount if the audit time, non-clearance of backlog amount, expenditure without supporting evidence shows the evaluation of the auditors. Such findings are from secondary data. Likewise, relation between policy clarity and financial regulation is significant. Accordingly the consistency in policy, ICT situation of the Audit office, audit risk managed by OAG, auditors capabilities, monitoring and evaluation system is significantly related to national Financial regulation.

## **CHAPTER VI**

### **SUMMARY AND CONCLUSIONS**

#### **1. Introduction**

This section presents main findings from the study, summary and conclusions that would address the audit policy implementation to improve financial regulations in public sector, especially about the audit recommendations implementation arises from the office of the auditor general of Nepal. The research emphasis on the audit related financial policy and its clarity, consistency and simplicity. Likewise, research analyzed about the sufficiency of the human resources and information, communication and technology system, risk management strategies and monitoring and evaluation of the policy of the Office of the Auditor General Nepal.

#### **2. Main Findings**

The study indicated that there is some lapses for audit policy implementation. Audit objection clearance position is not into the priority which brought impacts in the financial management. So that there are many cases about fraud and corruption simultaneously. Audit policy implementation in the financial administration is fitted to control the unnecessary activities or transaction. Office of the Auditor general, an audit policy implementer, is working as independent third party evaluators of the public sector. This research analysis found some challenges in the compliance of audit report in accordance with financial act, rules and regulations. The main impact of these difficulties found in the practice that the performance of daily administration and development activities are getting poor rather than strengthening the financial regulations.

However, the official procedure for audit policy implementation is affected by attitude of the personnel of such offices. Audit policy implementation behavior should be change by applying highly controlled environment as well as

capability of the audit offices also enhanced accordingly. According to the secondary data analysis, auditee's priority goes to settle new budget rather than clearance of previous year audit objection or irregularities, which is more than Rs.396 Arba. This amount is not small figures. It is necessary to get clearance according to national laws. Every year the audit objection amount is arising near 7 % of the audit amount, recovery in audit as fraud amount is more than Rs.2 arba every year. Auditors finding amount needed to recovery is more than Rs.40 arba in fiscal year 2015/16 only. Audit report of last financial year says that transactions without necessary supporting document are more than Rs.18 arba. The speed of the clearance of backlog objection is quiet slow. Its maximum range is 32 % each year.

According to the primary data analysis in the research that audit office is constitutionally independent, the audit related acts and regulations are consistence last 25 years and not so changes. Likewise, audit policy is simple and steady. Office of the Auditor General is raising issues or auditing issues are sufficient, the report of the audit office is necessary to comply. Financial rules and regulations are also clear, consistent and simple. Human resources in audit office are not sufficient and capable. ICT system, budget, infrastructure and working environment of the supreme audit institutions are not sufficient as independent variables. The authority and discretionary power of the auditor, organizational culture, coordination, risk management and monitoring and evaluation system of the SAI's office is needed to enhance as intervening variables. Others agencies like CIAA, NVC have not interfered in the business of auditing of the auditor general of Nepal. The finding says that as exogenous variables, auditee's response to clear the audit recommendations or audit objections or irregularities is not positive. Auditee's priority to implement the audit recommendations is not sufficient. Social respect to the persons who is living with high volume of irregularities is not difference than other general peoples. So it could conclude that auditing policy is sufficient but the policies of the clearance of the audit objections are not implementing properly.

Because provisions for clearance of audit objections are not effective. Repeating the same issues every year is also not in controlled. Authorized personnel can get transfer, promotion and retirement without clearing audit objections in his name or in his office. So audit policy implementation research proves that the audit objection clearance policy is not implementing properly.

**Table 6.1 Summary of the main findings**

S.N.	Evaluations	Decision
<b>Secondary Data Analysis</b>		
1	Comparison and analysis between total audited amount and audit objections.	The study indicated that audit objection amount is 3.77 % of total audited amount in fiscal year 2011/12, while it increases up to 6.86% in fiscal 2072/73. This increasing ratio is surprising. So that most of the organizations in public sector are not within financial roadmap.
2	Comparison and analysis between recoveries in audit process.	The recovery amount in audit process which is deposited in revenue account to the national funds is more than Rs. 200 millions. This money is treated as fraud and corruption amount. It shows the position of financial policy failures and importance of audit policy implementation.
3	Comparison and analysis between recoverable amount mention in the in audit report.	We found that 8.60 % to 42.48 % of Audited amount is needed to recover to the national revenue account as audit has been objected. It is lower amount in fiscal year 2014/15 and highest amounts in fiscal year 2015/16. This amount is surprising in different years. In means financial

		policy implementation is going to wrong directions.
4	Comparison and analyzing audit Backlog Clearance	The research found that only 27 % to 32% of the total backlog audit objection amount has been cleared. But what about the 68% to 73% irregularities amount every year. It means financial policy is not properly implemented.
5	Comparison and analyzing unsubstantiated amount of the transaction.	The research found that up to 32 percent Audit objection amount or irregularities are without supporting documents or without proper evidence. It means financial policy implementation is not sufficient. But audit policy is implementing.

**Table 6.2 Data Analysis**

S.N.	Test of Hypothesis	Regression Analysis Results	Decisions
1	Ho: There is no relationship between Independent Variable policy clarity and financial regulation.	<b>P value .002 &lt; 0.1 @ 10 % level of significance</b>	Ho accepted. There is a significant model over all fit. There is no relationship policy clarity and financial regulations.
2	Ho: There is no relation between Independent Variables Policy consistency and financial regulation.	<b>P value .002 &lt; 0.1 @ 10 % level of significance</b>	Ho accepted. There is a significant model over all fit. There is no relationship policy consistency and financial regulations.



3	Ho: There is no relationship between Independent Variables policy simplicity and financial regulation.	<b>P value .018 &lt; 0.1</b> <b>@ 10 % level of significance</b>	Ho accepted. There is a significant model over all fit. There is no relationship between policy simplicity and financial regulations.
4	Ho: There is no relationship between Independent Variable human resources and financial regulation.	<b>P value .105 &gt; 0.1</b> <b>@ 10 % level of significance</b>	Ho rejected. There is relation with human resources in OAG and financial regulation and model is not over all fit.
5	Ho: There is no relationship between Independent Variables ICT system in audit and financial regulations.	<b>P value .559 &gt; 0.1</b> <b>@ 10 % level of significance</b>	Ho rejected. There is relation with Information, communication and technology in OAG and financial regulation and model is not over all fit.
6	Ho: There is no relationship between Independent variables budget and financial regulations.	<b>P value .240 &gt; 0.1</b> <b>@ 10 % level of significance</b>	Ho rejected. There is relation with budget in OAG and financial regulation and model is not over all fit.
7	Ho: There is no relationship between independent variables working environment and financial regulations.	<b>P value .365 &gt; 0.1</b> <b>@ 10 % level of significance</b>	Ho rejected. There is relation with working environment in OAG and financial regulation and model is not over all fit.
8	Ho: There is no relationship between Intervening variables authority and discretionary power and financial regulation.	<b>P value .079 &lt; 0.1</b> <b>@ 10 % level of significance</b>	Ho accepted. There is a significant model over all fit. There is no relationship between authority and discretion and financial regulations.
9	Ho: There is no relation between intervening	<b>P value .175 &gt; 0.1</b> <b>@ 10 % level of</b>	Ho rejected. There is relation with organization

	Variables organization culture and financial regulation.	<b>significance</b>	culture in OAG and financial regulation and model is not over all fit.
10	Ho: There is no relation between intervening variables coordination and financial regulation.	<b>P value .470 &gt; 0.1 @ 10 % level of significance</b>	Ho rejected. There is relation with coordination in OAG and financial regulation and model is not over all fit.
11	Ho: There is no relation between intervening variables risk management and financial regulation.	<b>P value .013 &lt; 0.1 @ 10 % level of significance</b>	Ho accepted. There is a significant model over all fit. There is no relationship between risk management and financial regulations.
12	Ho: There is no relation between intervening variables monitoring and evaluation and financial regulation.	<b>P value .096 &lt; 0.1 @ 10 % level of significance</b>	Ho accepted. There is a significant model over all fit. There is no relationship between monitoring and evaluation and financial regulations.
13	Ho: There is no relationship between Exogenous variables as other institutions, report implementation priority and financial regulation.	<b>P value .100 = 0.1 @ 10 % level of significance</b>	Equal

In summary, according to the above hypothesis test, the policy clarity of the audit system is in positive position. Likewise, consistency of the policy and process in the constitution, financial procedures act, regulations, audit act etc. are consistent. The authority and discretionary power to the OAG, the risk management system about the audit objection, monitoring and evaluation system

of the audit office are also model fit and positive relation at the 10 percent level of significance with audit job to maintain the financial regulation all over the country. But the relationship between human resources, ICT system, budget, working environment, organization culture and coordination in the constitutional audit office have insufficient or model not fit at the 10 percent level of significance. It shows that there is some more improvement needed in these sectors. The study show that the relations with other organizations like CIAA and other stakeholder's response of the government entities for the audit objection is equal in 10 percent level of significance. The social science is not in the level of pure science, so 10 percent level of significant is used. If we use the 5 percent level of significant, the exogenous variable will be not significant or may not be model fit. Thus, There necessary to change the response of the auditee's for backlog audit objections, submission the financial statements, reply of the preliminary audit report and as well as do not repeat the same issues more than one year. In this way we can say that audit policy is partially implemented according to test of hypothesis. Audit principle is model fit to the financial administration.

It could be say that financial administration relating to operation of government business and project, collection of deposits and revenues, payment of advances and settlement in accordance with law, regulation, and directives are concern of the audit policy implementation. While those exercise in practice, the person who makes irregularities relating to fraud and corruption and repetition of those issues another year also. Such kind of back log audit objection is near about Rs.89 arba or 8.86 percent each year. They should be responsible to the settlement of those issues, who are working as a responsible person. All authorized person need to be responsible of his decisions. It is necessary to formulate strong policy for financial management. In the course of looking after, examining and inspecting by the accountable officer performing audit, it appears that any transaction has been carried on without fulfilling the procedures by the

prevailing law. The amounts recovered during the audit period are more than Rs.2 arba, which is without fulfilling required law. The responsible person or related person should be responsible for recovered irregularities during the audit period.

Irregularities like recoverable amounts, on account related activity happens, the recoverable amount in the audit objection, would be recover or clearance from the audit report as soon as possible. The kind of recoverable amount is Rs.40 arba 44 cores in fiscal year 2015/16. Likewise, according to the financial procedure act and regulations the concerned office shall, in relation to irregular amounts as reported by the Office of Auditor General in the course of audit, have settlement and verification hereof as prescribed, within Thirty Five days from the date of receipt of such report. But in practice backlog amount is near about 112 arba as one fourth budget of a year. So policy should be changed and tie up within the yearly performance appraisal and promotion system of responsible officers as well as all personnel. OAG has categorized one kind of irregularities are unsubstantiated expenses (non-submission of evidence). The unsubstantiated expenses are that kind of expenses which had no enough supporting documents. This kind of amount is near about Rs.18 arba or 25 percent of fiscal year 2015/16. It could be regularize in prescribed time frame by submitting supporting documents. The responsible person who makes transactions, they will accountable for such cases.

Auditor General is independent by constitutional provision, but there is not sufficient legal arrangement providing administrative and financial autonomy to Auditor General in line with the Mexico Declaration, 2007, of the International Organization of Supreme Audit Institution (INTOSAI). In our country there is not sufficient autonomy to the Auditor General. This means, Auditor General is independent as constitutional provisions but he has no power to appoint, evaluate, departmental action taken of the personnel of OAG in the administrative sector and no budgetary power in the financial sector. Supreme Audit Institutions, that legal guarantee of the administrative and financial sector should be ensured, that

commensurate rights to fulfill the responsibility. Non-compliance of the audit report is main cause is nominal amount penalties to the account responsible officer is very low, only Rs.50. Non-compliance with the legal provision has caused the occurrence of irregularities. Therefore, adoption of a preventive measure is essential in such a way that no audit objections are raised instead settling them after irregularities are reported. To that end, amendment should be made in Financial Procedure Act, 1999, so as to impose a higher penalty on the persons contravening the Act, rather than the current provision of imposing fifty rupees as fine, to empower the Auditor General to hold an Accounts Responsible Officer accountable for not imposing fine.

Although research finds out that the policy of audit is clear, consistent, and simple. The Auditor General may conduct final audit of the financial activities and other activities under its jurisdiction, either in detail or sporadically or a random basis and present the facts obtained there from and make comments and submit its reports. Furthermore, auditing need to be use risk based audit system. This method could help to the auditor to concentrate his mind in the significantly reasonable case rather than non-material issues. There is PBIS system in the office of the Auditor General, but in practice it is Time Based Performance Based Incentive system. It is necessary to make it as purely PBIS with evaluating criteria and linked with Annual Performance Evaluation. Payment decision of such incentive is yearly basis. Instead this, incentive for audit office may be such decision may subject of Auditor General. Auditor General could decide to give yearly incentive to all of the officials and ministry of finance could release such budget. Since the professional capacity development is continuous process, which has been fresh start capacity building as a ICT base training to the OAG officials. Training should be opportunity to know how the international put into practice. Policy evaluation and monitoring mechanisms should be strengthened to enhance full benefits of policies implemented. The Intosai (International Organization of Supreme Audit

Institutions) of which Nepal is a member country. So audit report is as international standard. So it is necessary enhance and prioritize to comply and enhance social respect and responsibility to implement the audit policy.

### **3. Limitations**

It is sincerely know that the study is suffered from limitations. First, is that the study is not easy to go different part of the country. Second, is the implementer of the policy, account persons and authorized person of the office are difficult to give time in the certain time frame. It may create a threat to external validity and increase sampling errors. The closed-ended questionnaire limits the option of the respondents to express feelings. Another one is all question may not be relevant to all groups. The time of the survey is limited. It gave the pressure to the respondents. Getting the secondary data was from only one source. Opportunity to get data from auditees have not success for this research.

### **4. Further research issues**

The test to hypothesis says that, although audit policy is clear, consistent and simple but in case of policy implementation, it is not fully implemented. There is very low level of audit report compliance in our country. The volume of the irregularities mentioning in the audit report is very high. It is nearby one fourth budget of the country is presenting as audit objection or irregularities. In such amounts, all of them are not fraud and corruption, but there are some doubts in the transactions. Budgeting, receipts of the revenue, expenditure are main area of financial regulations. Audit is an independent third party evaluator of the financial transactions. So, in the sector of financial regulations as well as relation of audit, there are many area of research green area. They are: the role of audit to strengthen the financial management, audit is important to established good governance in the country; audit is a important

assurance services for government, independent audit benefits to all, role of audit to find out the fraud and corruptions and recommendations of audit are guidelines to improve financial law and regulations. Audit is constitutional provision to check and balance the financial part of the country. So it is independent and constitutional. A search could be conduct by applying a detailed study approach. An evolutionary and comparative analysis of implementation of policy especially in finance and audit sector should be fruitful to the financial management sector.

## **5. Conclusions**

The study shows that policies are being used in Nepal are not fully implemented. Most of them implementation is easier. Which policy is fruitful for some groups of the people that would be used and do not applied other provision. This picture is in financial management system. Auditing system is in practice all over the world. The recommendations of the audit are compulsory to the related offices. In Nepal it is a huge collecting figure of irregularities. Who made this volume, they may be promoted or raising as a prize holders or get a respectful retirement. This is a vacuum in policy implementation. Financial policy related to audit, it's report clearance need to be implement properly. Otherwise there would be involvement of fraud and corruption also.

## Appendix 1

Dear valuable respondents,

In the partial fulfillment of the Master in Philosophy (M.Phil.) program of the Central Department of Public Administration (CDPA) under the Tribhuvan University. I am going to conduct a research on the Audit Policy Implementation in Nepal. I want to study about the role of audit in financial management. The main objective of this study is to know the factors and actors in financial management. This Questionnaire survey is the main part of the primary data collection. The main purpose of this questionnaire is to fulfill an academic research. The choices through your questionnaires have been maintain fully confidential environment. The success of your of this research will depend on your responses. I sincerely request to you to participate in this research program.

Thank for your consideration.

Your's Sincerely

.....

Trilochan Acharya

Student

Central Department of Public Administration

Tribhuvan University

Nepal.



**This evaluation Questionnaire is developed for fulfillment of Thesis in MPhil level in TU,  
Department of Management.**

**Topic: Audit policy Implementation in Nepal**

A. Personal information

1. Gender :  Male  Female

2. Age :

3. Education :  Intermediate  Bachelor  Master Degree  PHD

4. Working Organization

OAG official

Ministry/ Department/office (Adm/Technical)

Account Person

General People

Other Stakeholders

5. Length of service year :

## B. Volume of Irregularities: Dependent Variable

The following are some statements about irregularities or discipline not maintain by government. Would you say that you **completely disagree (1) or partly disagree (2) partly agree (3) completely agree (4) and dont know (5)** ? Please give cross mark (X) where you wish to answer.

Statements	completely disagree	partly disagree	partly agree	completely agree	Don't know
1.financial procedure, Act 2055 and Regulations and other Act/Rules related to financial administrations are designed by embracing the principles of financial administration.	1	2	3	4	5
2.As per constitutional system, Audit is independent or not.	1	2	3	4	5
3. As per Audit Act, the Audit Quires are sufficient.	1	2	3	4	5
4.As per Audit Report, Audit arising issues are sufficient.	1	2	3	4	5
5. As per financial procedure regulations, 35 days time for reply about audit query is appropriate .	1	2	3	4	5
6. The Auditee who does not submit reply about audit preliminary report, are need define as non replier	1	2	3	4	5
7.The Auditee who reply about PAR in time but irregularities are also stands any of them.	1	2	3	4	5
8.Irregularities more every year are low financial discipline	1	2	3	4	5
9. Present policy of the Irregularities wise gives actual picture .	1	2	3	4	5
10. Audit Report could represent if the financial discipline benchmark.	1	2	3	4	5

**C. Independent Variables:-**

The following are some statements about Audit system and clearance of irregularities. Would you say that you **completely disagree(1), partly disagree(2), partly agree(3),completely agree(4) and don't know(5)** ? Please give cross marks (X) where you wish to answer.

<b>Policy Mandates</b>					
1. Policy Clarity	Completely Disagree	Partly Disagree	Partly Agree	Completely Agree	Don't Know
1.1 Financial Procedure Act and regulation have defined clearly about Financial process.	1	2	3	4	5
1.2 Legal provision related to audit system are clearly understood.	1	2	3	4	5
1.3 The Legal provision relating to Audit objection clearance are define detailly.	1	2	3	4	5
1.4 Audit clearance is an ambiguously spelled out the option for presenting documents.	1	2	3	4	5
1.5 The Legal provision for internal audit and internal control are useful for internal control.	1	2	3	4	5
1.6 The Legal provision relating to submission of financial statement are clearly spell out in the law.	1	2	3	4	5
1.7 The audit period and time for submission document are suitable and economical.	1	2	3	4	5
1.8 The Audit report is clear, simple and easily understood.	1	2	3	4	5
1.9 The procedures for Audit reply are simple and easy to follow.	1	2	3	4	5
1.10 The procedures to take more time for Audit reply is suitable.	1	2	3	4	5
1.11 The reporting system and time of OAG Annual report is suitable.	1	2	3	4	5
1.12 The procedure for PAC decision implementation are clear and complete.	1	2	3	4	5
<b>2. Policy Consistency</b>					
2.1 The definition of financial					

Procedures law and audit law is consistent over the last 25 years.	1	2	3	4	5
2.2 The legal provisions relating to Audit mandate are consistent.	1	2	3	4	5
2.3 Legal provision about the Audit compulsory are steady.	1	2	3	4	5
2.4 Legal provision about the Audit report submission is constant.	1	2	3	4	5
2.5 The legal provision relating to Report Discussion is PAC is same.	1	2	3	4	5
2.6 Legal provision about the budget revenue and financial administration are consistent.	1	2	3	4	5
2.7 Financial penalties chargeable to the non-clearance of the Audit irregularities are consistent over 25 years.	1	2	3	4	5
2.8 Act relating to financial fraud and corruption are effective or not since 25 years.	1	2	3	4	5
2.9 Financial administration related public procurement Act are steady.	1	2	3	4	5
2.10 The legal provisions with Audit clearance are constant.	1	2	3	4	5
<b>3. Policy Simplicity</b>					
3.1 The definition of the financial terms in constitution, Audit Act, financial procedure Act, public procurement Act are simple.	1	2	3	4	5
3.2 Legal provisions relating to financial administration are easy.	1	2	3	4	5
3.3 Legal provision relating to Audit are straight forward and uncomplicated.	1	2	3	4	5
3.4 The process means and deadline for clearance of Audit irregularities are suitable and economical	1	2	3	4	5
3.5 The Audit report is easy and simple to understand.	1	2	3	4	5
3.6 There is a Legal provision to non clearance of Audit Quiry relating to PAC decision.	1	2	3	4	5
3.7 There is an easy and clear provision to get clearance from Audit.	1	2	3	4	5
3.8 There is an easy to get recorded of					

the previous years audit report in such activities.	1	2	3	4	5
3.9 The legal provision for follow up audit are clear.	1	2	3	4	5
3.10 The Directives relating to internal audit, internal control and physical inspection are simple and easy to implement	1	2	3	4	5
<b>Institutional Capacity</b>					
<b>Human Resource</b>					
1.1 Audit officials are sufficient to give Audit service.	1	2	3	4	5
1.2 Audit officials are computer literate and information technology friendly to Audit and reporting.	1	2	3	4	5
1.3 Audit officials are professional and committed to enhance Audit service (Audit plan, Audit execution, Report writing, and follow-up service).	1	2	3	4	5
1.4 Audit official are capable to under take Audit field work, report writing, record maintain, and Audit reply implementation.	1	2	3	4	5
1.5 The performance Appraisal in liked with employee's performance	1	2	3	4	5
<b>2. Infrastructure</b>					
2.1 The existing Audit report binding system are effective to Audit Record keeping and clearance.	1	2	3	4	5
2.2 The capacity of Information, communication and Technology of OAG is strong.	1	2	3	4	5
2.3 The Audit official and auditiees are physically and virtually connected with each other to make communication easy.	1	2	3	4	5
2.4 Audit management Information system (AMIS) related to audit (EWP) and record keeping is general by OAG.	1	2	3	4	5
<b>Budget</b>					
3.1 Audit office have sufficient budgetary support to implement Annual Audit plan.	1	2	3	4	5
3.2 The Audit office has allocated program Budget for interact with	1	2	3	4	5

auditee.					
<b>Working Environment</b>					
4.1 The Government and other agencies related to audit are giving priority to implement audit report.	1	2	3	4	5
4.2 The government and department are risking remark to the officers and project chief, while repeating same issue every year.	1	2	3	4	5
4.3 The government have any evaluation basis according to the volume of irregularities to give promotion and other opportunity.	1	2	3	4	5
4.4 Audit office is free from other environment or conflict of interest from auditees	1	2	3	4	5

## D. Intervening Variables

The following are some statements about financial administration and Audit. Would you say that you have **completely disagree(1),Partly disagree (2), partly agree (3), completely agree (4),Dont know(5)** ? Please give cross mark(X) where you wish to answer

Interventory Variables					
1. <b>Authority and Discretion</b>	Completely Disagree	Partly Disagree	Partly Agree	Completely Agree	Don't Know
1.1 The responsibilities and authorities of the Audit officials are clear and adequated.	1	2	3	4	5
1.2 Audit has a discretionary power to produce Audit irregularities.	1	2	3	4	5
<b>2.Organization Culture</b>					
2.1 Audit office accords high importance to encourage auditee to clear audit quiry.	1	2	3	4	5
2.2 Auditors behaviours are audit oriented.	1	2	3	4	5
<b>3. Coordination</b>					
3.1 There is coordination system within OAG and auditees to comply audit quiry.	1	2	3	4	5
3.2 There is coordination system between auditees to comply the financial laws.	1	2	3	4	5
<b>4. Risk Manangement</b>					
4.1 OAG has developed a sophisticated system to identify to compliance risk in financial management.	1	2	3	4	5
4.2 The non-compliance of Audit Report Risk mitigation managed by OAG.	1	2	3	4	5
<b>5.Monitoring and Evaluation :</b>					
5.1 The OAG has developoed a well network and E-based internal reporting and monitoring system	1	2	3	4	5
5.2 OAG internal monitoring system is linked with PBIS and other reward system	1	2	3	4	5

### E. Exogenous Variables

The following are some statements about financial administration. Would you say that you have **completely disagree(1),Partly disagree (2), partly agree (3), completely agree (4),Dont know(5)**.please give cross marl(X) where you wish to answer

Exogenous Variables					
Statements	Completely Disagree	Partly Disagree	Partly Agree	Completely Agree	Don't Know
1. Legal provision relating to related CIAA and others has effected to audit and audit inquiry and follow up system.	1	2	3	4	5
2. Auditee may overlook and mix up provisions to preliminary report and annual report and decision related to PAC .	1	2	3	4	5
3. Auditees report implementation behaviour is effected by other behaviour of other auditees.	1	2	3	4	5
4. Auditees report implementation behaviour is inspired by over all governance system.	1	2	3	4	5
5. Knowledge about audit and its report is getting low priority in social respect.	1	2	3	4	5

Thank you very much for prompt response.



## Appendix 2

### 1. Policy Clarity and financial regulations

**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.529	.390		1.358	.182
repc	.036	.011	.471	3.377	.002

a. Dependent Variable: redv

### 2. Policy consistency and financial regulation

**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.804	.323		2.490	.017
reconsi	.034	.010	.455	3.229	.002

a. Dependent Variable: redv

### 3. Policy simplicity and financial regulation

**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.094	.306		3.578	.001
reps	.026	.010	.362	2.457	.018

a. Dependent Variable: redv

### 4. Human resources and financial regulation

**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.290	.333		3.876	.000
rehr	.038	.023	.253	1.657	.105

a. Dependent Variable: redv

5. Information, communication and technology and financial regulation

**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.690	.251		6.738	.000
reis	.013	.022	.093	.589	.559

a. Dependent Variable: redv

6. Budget and financial regulation

**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.621	.187		8.657	.000
rebg	.042	.035	.185	1.194	.240

a. Dependent Variable: redv

7. Working environment and financial regulation

**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.561	.303		5.161	.000
rewe	.027	.029	.143	.916	.365

a. Dependent Variable: redv

8. Authority and discretionary power and financial regulation

**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.435	.228		6.288	.000
read	.069	.038	.274	1.802	.079

a. Dependent Variable: redv

9. Organizational culture and financial regulation

**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.473	.267		5.515	.000
reoc	.066	.048	.213	1.381	.175

a. Dependent Variable: redv

10. Coordination and financial regulation

**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.669	.232		7.182	.000
reco	.031	.042	.115	.729	.470

a. Dependent Variable: redv

11. Risk management and financial regulation

**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.233	.237		5.213	.000
term	.108	.041	.381	2.607	.013

a. Dependent Variable: redv

12. Monitoring and evaluation and financial regulation

**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.506	.200		7.518	.000
reme	.059	.035	.260	1.705	.096

a. Dependent Variable: redv

13. Exogenous variables and financial regulation

**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.254	.349		3.595	.001
reev	.040	.024	.257	1.682	.100

a. Dependent Variable: redv

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