



Government of Nepal



Quality Management

Rural Access Programme (RAP) Phase 3



June 2019

1. QUALITY MANAGEMENT

1.0 Background

The RAP 3 quality management comprises two major aspects these being technical and financial audits, supported by other aspects as field verification, monitoring event and continual improvement. The programme has a dedicated team to conduct internal audits of activities implemented under the programme. The audit is a systematic and objective examination of the programme to determine whether the various activities and related results comply with the RAP3's Project Plan and other planning documents, are being implemented effectively, meeting quality goals and demonstrating value for money. Such audits can also be used to investigate other problems as and when they occur.

2.0 Technical audits

Technical audits are primarily a management tool but can also be used secondarily as a technical tool. As a management tool audits are used to determine whether project activities have been implemented as planned and are in compliance with norms, standards, specifications and following good practices during the various stages of their operations. Observed deviations from the plan for instance, provide management a firm basis for correcting reported deficiencies. As such an audit is a means to keep managers informed about a project. As technical tool it can evaluate whether the technical specifications and standard have been followed as indicated in the planning document.

The findings of audit are generally the focus of future actions, or ways to correct past errors. As such audit is better conducted in the early stages of the project rather than later when it may too late or too expensive to correct mistakes.

There are three reasons why technical auditing is necessary.

- To confirm that implementation has been carried out as planned
- To ensure that stated performance criteria are being delivered,
- To check work quality,
- Identify potential problems throughout the lifetime of the project.

Thus an effective technical audit contributes to a reduction in the occurrences of questionable data, faulty conclusions, and inappropriate practices and its proper use can provide increased confidence to a client such as DFID that project activities are defensible and properly documented.

2.1 Field Verifications

RAP3 has established physical verification systems for all payments for services by Engineering Consultants, road building and road maintenance groups and NGOs for the supply of goods. All works are subject to field verification. Verifications concerning annual road asset management planning, budgeting, programming, procurement, supervision of works and social mobilisation, are carried out by DTAs as well as Technical Specialists from TMO who are assigned as District Coordinators to oversee specific districts.

3.0 RAP3 Audit System

Technical audits in RAP 3 are focused on programme activities designed to deliver the scope of works implemented under local road network, income generation, economic infrastructure, and capacity building components. Technical audits are conducted at different levels. Level-1 auditors are District Team Leaders; Engineering Officers and Office Managers who perform audits in greater depth at the field or operational level.

Level-2 auditors are made up of District Coordinators who oversee Level-1 auditors and verify and ensure works performed by them. Hence Level-2 auditors in general oversee works at a higher level than the district level auditors and perform sample audits of selected and important work activities undertaken at the operational level in the district.

Level-3 auditors consist of a dedicated team based at the TMO who perform audits of selected activities of the various components of the programme using standard audit methods appropriate to the scope of work of RAP3. Level-3 audits mostly concern the management system, including verification and validation of works carried out at the field level. Separate sets of audit checklists focusing on design and project management and planning, procurement, project inputs, outputs, verification and validations are prepared and used to conduct these audits.

The Level-3 audit programme is risk based and planned in advance on the basis of about four to six audits per month to keep an eye on high risk areas and keep district teams on their toes by reminding everyone involved that RAP3 does carry out audits. Level3 audit teams can also be deployed to investigate issues as and when they arise as was the case in Humla when the Supervision Consultant was found to have “lost” over a million rupees of equipment and materials from stores in the district. This sum was deducted from the Supervision Consultant’s final invoice whose contract was terminated and supervision of works transferred to a RAP3 in-house management team.

2. FINANCIAL MANAGEMENT

The Financial Management (FM) part of RAPID is fully operational in all districts and coordinated from Kathmandu. Component wise expenditure details are compiled using Financial Management system which has three modules, including 1) Work Sheet, 2) Cash Book and 3) Contract Management. These are reported monthly against monthly expenditure estimates to the central Financial Management team in Kathmandu as well as reported Trimesterly in a confidential Commercial Report to DFID every four months. In addition an external financial audit is conducted every year, an example of whose Terms of Reference and scope of work are presented below.

Rural Access Programme 3

Terms of Reference For the independent audit of RAP3 For the period 01 July 2017 to 30 June 2018 DFID Implementation YR – (IY4)

1. **Background:**
2. **Purpose of Independent Audit:**

The overall purpose of the financial audit is to provide reasonable assurance of all cost incurred and income received in RAP3-IMC part in the period of 01 July 2017 to 30 June 2018 are in accordance with the relevant policy, compliance with GoN's laws, by-laws and regulation and produce a report and management letters as per relevant accounting policies and standards. This includes;

- Express an opinion on whether the financial statements, prepared in accordance with the generally accepted accounting principles (GAAP), gives a true and fair view, in all material respects, the financial position as on 30th June 2018 and financial performance for the period from 01 July 2017 to 30 June 2018 and to review the reconciliation with the amount of income and expenses reported by RAP3 with the IMC Worldwide and DFID Nepal for the corresponding period.
- Assess the accounting principles used and evaluate the overall financial statement presentation.
- Examine, evidence supporting the amounts and assess the required disclosures in the financial statements.
- Ensure that the actual amount spent vs DFID Invoice value for the period under audit is disclosed in the financial statement and reconciles to the books of account.
- Ensure that the DFID Invoiced value for Defined components and Actual Expenditure is disclosed in the financial statements.
- Present audit findings and its level of significance.

3. **The scope of audit assignments:**

The scope of the audit is;

- To reasonably satisfy on the reliability of underlying accounts, source data, presentation of the financial statements, statutory disclosure requirements that are reflected in the financial statements.
- To assess the reliability that the auditor intends to place on the information that has to be evaluated, the accounting and internal control systems and verify the authenticity of transactions and account balances from the supporting evidences and books of account relating to the project activities including visit to the district offices through the original vouchers and other related project documents (contract, agreements, etc.), based on annual plan/programme and financing plan. On the basis of a preliminary assessment, the auditor shall determine the nature, extent and timing of other audit procedures.
- To ensure whether the appropriate supporting documents, records and books of accounts relating to all project activities have been kept and whether these documents clearly relates to the activities they were assigned for.

- Compare the presentation and disclosure requirements of the financial information with the underlying accounts and other source data, give due regard to the decisions of the management relating to classification and disclosure.
- To verify that the physical count reports prepared by the RAP3 are prepared and on a sample, basis verifies the inventory and fixed assets for DFID funded projects.
- To review the procurement process and procedures to determine the soundness and transparency of procurement practices and internationally accepted principles were used.
- To ensure whether RAP3 has complied with applicable local laws and all statutory reporting has been made in a timely manner.
- To ensure that the quantitative and qualitative programme report is submitted by the partners and records in a field office (if any).
- To ascertain if there exist any undisclosed liabilities and whether RAP3 is exposed to possible future liabilities and existence of any contingent liabilities.
- To review progress against recent external/internal audits.

The audit shall be conducted on the financial statements comprising of the statement of income and expenditure and receipts and disbursements made by RAP3 for the period 01 July 2017 to 30 June 2018 on the basis of Nepal Standards on Auditing (NSA).

4. Specific Responsibilities:

5. Audit Methodology:

The audit shall be conducted in accordance with NSA and will have the following phases;

Phase 1: Planning and Risk Assessment

Phase 2: Fieldwork and Substantive Testing

Phase 3: Evaluation of the finding and Reporting

6. Expected Outputs:

The Auditors shall prepare a report based on their review of all transactions on the project accounts during the relevant periods which shall comprise;

- a) Auditor's opinion on the financial statements with the detail of financial statement and its schedules and required Annexes.
- b) A final management letter will be presented including following but not limited to;
 - Give comments and observation on the accounting records, procedures, system and controls that were examined during the course of the audit.
 - Identify specific deficiencies and areas of weakness in transactions, system and controls and make recommendations for improvements.
 - Report on the degree of compliance with each of the financial, legal and contractual compliances and external matters affecting such compliance.
 - Any other issues the auditor finds relevant from their professional judgment.

7. **Expertise required for audit firm and audit team:**
8. **Timing and Duration:**
9. **Reports:**

The report will be addressed to the Programme Manager, Rural Access Programme 3.

A Management Letter highlighting major weaknesses observed during the audit shall be issued. Separate management letter will be provided as follows;

- Consolidated management letter for an audit of TMO, Nepalgunj and 14 district offices. However, the districts to be visited are 10 districts only.
- Summary of audit findings along with the financial as defined above.
- Statement showing various nature of audit findings and its significance.