

The Role of Government Auditing for Combating Corruption and Promoting Integrity in Nepal

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ABSTRACT

The purpose of this article is to analyze the role of government auditing for corruption control and promoting integrity in the public administration of Nepal. This article utilizes content analysis that relies on a systematic literature review of secondary sources from relevant various sources, employing content analysis as the main research strategy. In terms of corruption control, Nepal's government auditing has been playing a crucial role in both preventive and promotional efforts, as well as corrective arrangements. Nevertheless, pre-ventive actions are not always executed. The conclusions show that the government auditing has a major impact on fighting against corruption through Office of the Auditor General Nepal. This study also discovered that the amount of corruption and government performance had a substantial impact on governance. However, this article suggests that the competence of the auditor should be improved for making more responsible in identifying fraud and exposing corruption activities. Thus, if auditing is to play a more prominent role in the fight against corruption, auditing standards shall include specific requirements relating to control corruption, government auditors must co-operate and exchange information with other investigating agencies, auditing techniques should be made more robust to detect corruption, and the auditing profession must embrace effective preventive measures such as anticorruption recognitions and certifications. The article's findings strongly support the promotion of good governance and the utiliza-

tion of government auditing and its recommendations to enhance transparency and accountability in Nepal's governance, benefiting political parties, governments, civic organizations, and other stakeholders.

Keywords: Good governance, Integrity, Corruption control, Government audit, OAG Nepal.

Background

Corruption has become a major issue in most countries throughout the world. The most emerging nations are more affected by corruption since it has hampered their growth process by impeding appropriate resource exploitation. The people of Nepal must also suffer the burden of corruption, which is becoming more prevalent by the day, despite the efforts of anti-corruption organizations. Corruption prevails not just at the national level, but also at the local level. At the appropriate level of governance, the network of corrupt behaviours may be seen. Corruption has been at the forefront of Nepal's political agenda for few decade, and more prominently in recent years. It is widely acknowledged as one of the primary causes of Nepal's underdevelopment. It is highly common, comes in many forms, and is done at all levels of society. Corruption affects and is closely linked to Nepal's bureaucracy, politicians, and economic sector the most. This is a significant hurdle to the current Nepal campaign (Upadhaya, 2003). The essential function of a government auditing system is to watch and check the balance of public authority, and it is an important aspect of every political or economic organization. Despite the fact that government auditing is intended to be a powerful tool in the worldwide anti-corruption fight, past studies have shown no empirical evidence of the link between government auditing and corruption control. Unlike many other studies that look for basic institutional change and market improvements to combat corruption, this article looks at one of the professional accountability mechanisms: the government auditing system for special concerns. According to several studies, corruption misleads economic incentives to invest, weakens numerous governmental institutions, redistributes wealth, and fosters societal distrust. Corruption also reduces public faith in the performance of the government. This is because corruption in politics hampers democracy and good governance by undermining the official processes. Auditing is one of the foundations of the national integrity system for preventing various types of fraud and combating corruption. In theory, audits have two functions in the battle against corruption: prevention and detection. If the auditor identifies corruption, it may work as a threatening to prevent further corruption, and if the auditor prevents corruption, then there is rare chances of fraud and misconduct happening to be identified (Jeppesen, 2018).

Liu and Lin (2012) in their research revealed that government auditing is one of the fundamental ways that aims to monitor, ensure and assess government accountability in modern governance. With scrutiny of government operational activities, espe-

cially how public resources are used, government audits can strengthen accountability and reduce abuse of power and resources (Jeppesen, 2018). Governance practices in many countries also show that government audits can play a unique role in controlling corruption. If corruption is a "virus" that endangers economic security and social harmony, then the government audit system should be an "immune system" that can detect, reject and eradicate the virus. However, there has been little research into how the function of government auditing might aid in the reduction of corruption. In the context of the governing system in Nepal, the audit institution plays a critical role as the supreme audit institution and the only institution with an external financial audit function, as well as serving as a reference for the concerned stakeholders fighting against corruption to assess areas of national irregularities and non-compliance. As a result, the role of audit in minimizing corruption should be significant. As a result, the aim of this article is to fill a vacuum in past research by investigating the function of government audits in reducing corruption and the impact of corruption on government performance and nation building of Nepal.

In Nepal, corruption is a significant obstacle to the stability and socioeconomic growth of the country. According to Transparency International's Corruption Perceptions Index (CPI) 2022, Nepal placed 110 out of 180 nations, showing a persistent problem with corruption within the country. There are several ways that corruption can appear, including the stealing of public money, bribery, and nepotism. The effects of corruption are chronic, causing a loss of confidence in government agencies, unequal resource distribution, poor investment opportunities, and imbalanced regional development. Although efforts have been made to reduce corruption, its prevalence emphasizes the necessity of effective policies being put in place, especially through comprehensive government auditing, to encourage transparency, accountability, and integrity in Nepal. In the battle against corruption and in fostering integrity within the government and public institutions, vigorous and comprehensive government auditing can be an essential weapon. However, Nepal encounters significant difficulties in this area, which are mostly caused by resource shortages and an absence of specialized knowledge within auditing institutions. Significant problems, such as delays and ineffectiveness in the auditing process due to limited resources, were identified in the 2079 report from the Office of the Auditor General of Nepal. The problem of corruption gets worse by violations of accepted auditing standards and the challenges of tracking and locating resources that have been wrongfully performed. In order to increase its ability to fight corruption and promote national integrity, this article examines recent issues with Nepal's government auditing system and makes strategic reform recommendations.

Literature Review

In order to combat systematic corruption, governments in both developed and

developing countries have implemented a movement of public financial management reforms over the years, with the goal of improving financial controls, financial reporting, transparency, accountability, and governance within their public-sector organizations. Systemic corruption has generally been seen as the primary obstacle to economic and political development in any country where it prevails. This is because corruption distorts economic incentives to invest, undermines public institutions, redistributes wealth and power to the undeserving, promotes asset stripping and the illegal export of resources and generates distrust within society (see e.g. Everett et al., 2007; Klitgaard, 2006; Rothstein & Varraich, 2017). The World Economic Forum appraisals that the cost of corruption is US\$ 3.6 trillion every year in the world (Johnson, 2018) and US\$ 1.26 trillion in developing countries (Fleming, 2019), which equals more than 5% of global GDP, and that corruption increases the cost of doing business by up to 10% (see e.g. Thomson, 2017). The annual cost of bribery alone is estimated to be around 2% of global GDP (IMF, 2016). Government auditing may increase accountability and decrease abuse of authority and resources by monitoring the operation of public power, particularly how public resources are used. Many nations' governance patterns also suggest that government audits can play a unique role in combating corruption. On the one hand, auditors are adept in detecting fake financial reporting, which allows them to investigate the underlying corruption (Jeppesen, 2018).

However, government audits can be utilized for political goals and hence be harmful. SAIs can be employed against opponents of the existing government and ruling party with the goal of boosting the incumbent and perhaps the regime's authoritarian inclinations. Thus, a public auditing institution with professionalism and a good record of achievement can have extremely serious side effects: they can strengthen the incumbent at the expense of the opposition, encourage, and perpetuate dictatorship. Another significant subject in the discussion over anti-fraud and corruption policies is the role accounting may play in enhancing accountability and transparency through auditing and regulatory disclosure. Accountability and openness are seen vital in the prevention of public sector corruption and fraudulent conduct, along with competent auditing, which is thought to assist minimize distortion of accounting information and so offer some confidence as to the veracity of the accounts (Dye, 2007).

Methodology of the article

This research aims to examine the role of government audits in controlling corruption and promoting for the integrity and good governance of Nepal. This article is based on the systematic literature review (SLR) methods with the secondary data. The content analysis is the major strategy executed in the study. The secondary data has been taken by reviewing the related reports, policy documents, journal articles, books and other relevant documents published in Nepali and English languages.

Results and Discussion

Government Auditing and Corruption Control

International Organization of Supreme Audit Institutions (INTOSAI, 2019) defines public sector corruption as the misuse of public authority or trust for private gain, whereas private sector corruption is defined as "an act in which a person uses his position to gain some personal advantage at the expense of the organization he represents" (Wells, 2014: 241). Klitgaard (1996), in a widely regarded explanation of the ingredients of corruption, describes it as the result of "monopoly power" plus "discretion" without "accountability." Accounting and auditing, as a result of the accountability component of this equation, play a crucial role in establishing the amount of corruption. Modern governance programmes, such as modern public management, focus on discretion rather than hierarchical structure and bureaucracy to produce flexible and responsive organizations (Power, 1997), however enhanced managerial discretion opens the door to corruption.

Auditing, in principle, may play two roles in the battle against corruption: it can either prevent or discover corruption. These functions are partially intertwined. If auditors identify corruption, it may act as a deterrent, preventing additional corruption; conversely, if auditors prevent corruption, there will be less to detect. Thus, the auditing profession's effect on the literature obviously favours the preventative function. According to GUID INTOSAI 5270, "it is far preferable to prevent corruption than to detect it" (INTOSAI, 2019: 7). Borge (1999: 4) reports on the INCOSAI Congress in 1998, stating that "most SAIs believe that their main contribution in terms of fraud and corruption prevention and detection lies in improving overall transparency and accountability, supporting an environment that limits the opportunity for acts of corruption." Similarly, INTOSAI's existing exposure draft for a standard on corruption is titled "Guideline for the Audit of Corruption Prevention in Government Agencies" (GUID INTOSAI 5270) and does not include the role of Supreme Audit Institutions (SAIs) in the detection of corruption, which is generally regarded as a task for the police or other investigative agencies.

There are definitely forms of corruption that leave little evidence for an auditor to investigate. Political corruption is one example, which some writers (e.g. Khan, 2006) believe falls outside the scope of an auditor's responsibilities. Favouritism (political patrons favouring certain groups) and clientelism or nepotism (individuals or family being favoured in exchange for political, monetary, or cooperative assistance) are examples of political corruption (GUID INTOSAI 5270). Bribery and other forms of business corruption take happen in horizontal networks between equally strong individuals who have developed trust-based and close relationships, whereas political corruption occurs in informal vertical networks.

According to Schelker and Eichenberger (2010) and Blume and Voigt (2011), government audits can promote policy openness and minimize unnecessary spending. Olken (2007) performed a field experiment in Indonesia on the monitoring impact of government auditing, finding that as the likelihood of village road projects being inspected by the government increased from 4% to 100%, corruption (overspending) on these projects fell by 8%. Similarly, Ferraz and Finan (2008, 2010) found that government auditing reports can uncover corrupt actions, which can then influence political election outcomes. Li et al. (2011) investigate whether government auditing, particularly economic accountability auditing, may help to reduce corruption among government officials and political parties' members. This study not only addresses whether government auditing can prevent or minimize corruption, but it also provides empirical evidence that the post-audit rectification effort is important to ensuring government auditing's power. Government auditing can only serve as a significant preventive to control the corruption, if sufficient effort is taken to correct misconduct in the collecting and expenditure of government funds, as well as ensuring that all audit conclusions and recommendations are fully implemented. Otherwise, government auditing will be pointless.

Corruption Control: A Social and Economic Analysis

Corruption is a significant problem that harms the economic development and social stability of many countries. Consequently, studies on the roots and consequences of corruption and its counter-strategies are hot economic, management and social topics. From an economic point of view, corruption is rooted in the existence of privileges and incomplete market mechanisms. Privileges are always accompanied by government regulation. Corruption is defined by Transparency International as "the misuse of entrusted power for personal benefit." "The misuse of public finances and/or office for private or political advantage," according to the World Bank Group's definition of corruption, which is primarily focused on the public sector. The government's wide engagement in economic operations and multi-tier approval procedures create a plethora of rent-seeking options (Shleifer and Vishny, 1993; Sun et al., 2005). Discretionary authority, economic rents, and weak institutions are three required conditions for corruption to emerge and endure, according to Aidt (2003). While the arbitrary nature of power allows for rent seeking, the lack of a solid institution allows for the reckless extraction and creation of rents by public employees with absolute authority. Despite the fact that corruption may be effective in some severe circumstances, there is abundant evidence to demonstrate that it is exceedingly damaging.

Because of corruption, the public expenditure system has damaged. Because it is simpler to remove money from building projects, corrupt authorities tend to raise expenditure on construction projects and decrease spending on research, education, culture, and health initiatives (Mauro, 1998; Wu and Yao, 2008). Furthermore, cor-

ruption is a form of blatant wealth transfer that deepens the gap between the wealthy and the poor, and it is incompatible with societal fairness and justice (Chen and Li, 2010). In assumption, corruption weakens government functions and market systems. It makes it more difficult to establish economic order, inhibits economic growth, and jeopardizes social stability. The direct consequences of corruption are the wasting of resources, low efficiency in resource allocation, reduced investment and low economic growth (Shleifer and Vishny, 1993; Yang and Zhao, 2004).

The Role of Government Auditing in Corruption Control in Nepal

Supreme Audit Institutions (SAIs) are the only institutions of their kind in any government structure in the world. They are tasked with conducting an impartial review of the executives' usage of public funds. SAI and its auditors are tasked with determining whether executives have used resources entrusted to them with due diligence and in accordance with the principles of economy, efficiency, and effectiveness. Auditors are also required to have a role in avoiding and identifying corruption, as well as reporting it. For this reason, SAI is required to direct its auditing efforts toward combating corruption and promoting integrity, accountability, and transparency. This involves both a theoretical and a practical constitutional and legal duty. In terms of administrative and financial autonomy, SAI should be given sufficient resources and authority. Corruption leaves nothing in the way of undeniable physical evidence. The majority of corruption occurs informally and behind the veil of isolated connections but it is not always necessary to say anything at all. A connection of corruption may be established just by seeing each other in the eyes. Auditors, whose job requires them to primarily focus on documented or physical evidence, frequently find it difficult to acquire such evidence in such a setting. However, the public expects auditors to be effective in identifying areas where corruption may be reduced, if not eliminated.

Nepal is one of the least-developed countries with prevalent corruption. Nepal is suffering a serious problem of corruption. Nepal ranked 113 out of 180 nations in the Corruption Perceptions Index (CPI) 2018 and received a score of 34 out of 100 in the CPI (Transparency International, 2018). Scores range from 0 (highly corrupt) to 100 (very clean). This rank and score show that public sector corruption is rampant in Nepal. Transparency International has published corruption perception index (CPI) in 2021 and Denmark, Finland, and New Zealand are on the top and clean countries, whereas Finland and New Zealand have scored 88 points in while South Sudan scored only 11 points. This index of 100 points is very clean and 0 points are very corrupt. The TI based on various surveys held by qualified international organizations designs this list. The TI first published the Corruption Perceptions Index (CPI) since 1995 each year, but Nepal was included in this list only since 2004. According to the CPI 2021, Nepal has scored 33 points (117th place) in the (2021). Nepal is very low ranked country since last decade and gained only 29 point in 2014, and after six years it is only 33 in 2021 (117 out of 180). As a result, Nepal corruption perception has been

decreasing in comparison of South Asian neighbouring nations. According to the data table below, nothing considered as anti-corruption control in terms of being constant, both 2020 and 2021 and slightly increased in 2022.

Table 1 Last 10 Year Corruption Perceptions Index of Nepal

S.N.	Year	Nepal (CPI Point)	Nepal (CPI Rank)
1	2022	34	110
2	2021	33	117
3	2020	33	117
4	2019	34	113
5	2018	31	124
6	2017	31	122
7	2016	29	131
8	2015	27	130
9	2014	29	126
10	2004	2.8	90

(Source: Corruption Perceptions Index (CPI) Transparency International)

We have seen major established development in Nepalese political arena with the restoration of the multiparty system. Many fresh faces have seen in the major political parties, and many small political parties have arisen as an alternative like national freedom party. However, the country's most important political matters are still controlled, influenced, and manipulated by a small elite, just as they were during the Panchayat era (Subedi, 2001). Within their own communities, these elites retain both informal and official networks, which has seen throughout the many years, when the administration has often changed hands. The Office of the Auditor General of Nepal (SAI Nepal) has always devoted to fight against corruption, despite the fact that it is not its core mission. Auditors, on the other hand, come either across situations that are corrupt or appear to be corrupt when performing audits. In this case, auditors should consider their major obligations set out by current anti-corruption laws or auditing standards. SAI Nepal has taken the following steps in this direction (Sharma, 2017):

- a. **Plan, policies and strategies to fight against corruption:** The Auditor General's Action Plan 2017-2023, Strategic Plan 2016-20, and Operational Plan 2016-20 all underline the need of selecting high-risk areas as audit topics. According to the Auditor General's Action Plan, audit divisions must identify public officials and enti-ties that are prone to misusing public funds and develop audit strategies for those entities. SAI Nepal has constructed a risk-based audit manual and follows the methodology speci-fied to identify audit entities based on risk ratings awarded

to the entities in order to use a risk-based approach to auditing. The goal of auditing is to identify anomalies and public services where public funds are at risk and there is a high danger of corruption.

- b. Enhancing audit quality and its effectiveness:** To carry out audits effectively and with careful consideration, OAG Nepal has concentrated on conducting audits based on risk assessments in the subject areas of public concerns and importance, revenue projection and recovery systems, sustainable development and environment, natural resources and their use, conservation of cultural heritage, public procurement, public health, epidemic and disaster management, and delivery of public services. Conduct financial, performance, and investigative audits in order to combat the risk of fraud and corruption.
- c. Being model of integrity, transparency and accountability:** As stated in INTO-SAI-P 12, The Value and Benefits of SAIs and ISSAI 130: Code of Ethics, SAIs may set the standard for integrity, openness, and accountability by serving as a model institution. SAI must set an example by making its own actions public and doing them with complete accountability. This will make it easier for other public institutions to follow their example in developing and improving a national integrity system. Before accepting audit engagements, auditors must declare "no conflict of interest," according to the code of ethics.
- d. Auditing National frameworks for fighting corruption:** Supreme audit institutions may conduct national frameworks for combating corruption. Legal and institutional frameworks are examples of such frameworks. Auditors may investigate compliance with national legal requirements as well as international treaties such as the UNCAC and the Anti-Money Laundering Convention. The audit work might take the shape of a regularity audit or a performance audit focusing on the principles of economy, efficiency, and effectiveness that such frameworks have been implemented with.
- e. Support to implement SDGs through independent Assessment:** 'Transforming our World: The 2030 Agenda for Sustainable Development' is an ambitious and historic resolution approved by the United Nations in September 2015 at its seventieth session of the General Assembly. Goal 16: "Promote Peaceful and Inclusive Societies for Sustainable Development, Provide Access to Justice for All, and Build Effective, Accountable, and Inclusive Institutions at All Levels," in particular SDG "Target" 16.5: "substantially reduce corruption and bribery in all their forms," is particularly relevant in the context of anti-corruption efforts.
- f. Engaging stakeholders in SAI audit process:** Greater participation of stakeholders, including CSOs, beneficiary groups, and other relevant communities, in the audit process, from planning to reporting and follow-up, aids in the fight against corruption. As a result, SAI are urged to involve stakeholders as much as possible

in their audit process. In several of the performance audits, SAI Nepal has begun to involve civil society organisations in the audit process. This has boosted the audit's credibility. SAI Nepal meets with chief account-ing officers of ministries, chief executive officers of corporate organisations, and other stakeholders on a regular basis.

- g. SAI Collaborate with law-enforcing agencies:** SAI may engage with anti-corruption and law enforcement agencies in its fight against corruption. This may involve frequent meetings, talks, exchanges, and the exchange of information among the agencies. The Au-ditor General Office of Nepal and other stakeholders of government have been trying to collaborate and address current concerns and exchange information.
- h. Promoting Public Integrity:** SAI may play an important role in promoting public integ-ri-ty. This may entail setting a good example and advocating other excellent practises, such as the OECD proposal on Public Integrity, which provides policy-makers with a roadmap for a public integrity strategy. It shifts the emphasis from ad hoc integrity policies to a comprehensive, risk-based approach with an empha-sis on cultivating an integrity culture across society that is built on (a) a coherent and comprehensive Public Integrity System, (b) Cultivating a Culture of Public Integrity, and (c) Enabling Effective Accountability.

As a cornerstone of integrity, SAI should be at the heart of a country's integrity system. In Nepal, the Office of the Auditor General (OAGN) is a Supreme Audit Institution mandated by the Nepal Constitution of 2015. Articles 240 and 241 of Part 22 of the Constitution address the appointment of the Auditor General, periods of office, salary, functions, duties, and powers of the Auditor General. According to this man-date, OAGN is authorized to audit the accounts of all legislative, executive, and judi-cial offices, as well as constitutional bodies, local governments, and security agencies (Bhandari, 2016). According to Bhandari, some issues that need to be addressed in the evaluation of the governance and integrity system to limit corruption include:

- a.** Government should enact legislation on political party financing that clearly states disclo-sure about donation and other funds raised and make regulatory agencies more strong to implement such legislation.
- b.** Enforce code of conduct to parliamentarians, civil service and SAI that clearly mentions about the requirements of income and assets declaration regularly.
- c.** Right to access of information to all citizens without any hindrances should be imple-mented and should also disclose information in proactive manner. Easy ac-cess of infor-mation with minimum fees or even without fee and within reasonable time must be taken into consideration.
- d.** Transparency in public procurement through proper implementation of legislation

and also strengthening of procurement monitoring agencies could promote integrity.

- e. Oversight bodies should be made fully independent in form and in substance considering international good practices to enable them to discharge their constitutional and legal mandates.
- f. Participation of citizens through civil society organisation (CSO) in auditing without jeopardizing the independence of SAI could add value in the outcome and also contribute to promote integrity.

Summary and Conclusion

The study emphasizes that establishing a robust government auditing system requires more than just identifying errors. It highlights the importance of cultivating a culture of accountability, where individuals are held responsible for combating corruption. Top government officials, auditors, and oversight organizations must prioritize the rectification process and penalize misconduct to enhance transparency. Government audits, particularly in detecting anomalies and fraud, play a vital role in uncovering corruption. Auditors should possess the ability to identify financial fraud and misappropriation while fulfilling legal and ethical obligations in detecting corrupt activities. The endemic nature of corruption in Nepal is acknowledged, and although the government has implemented anti-corruption policies and plans, their execution has been inadequate. It advocates for the full implementation of strategic plans aligned with the UN Convention against Corruption, emphasizing the need for a comprehensive approach. This involves implementing various measures concurrently, such as awareness campaigns, social reform, integrity promotion, good governance practices, suitable remuneration, poverty reduction programs, and e-government initiatives. The study concludes that addressing corruption effectively requires a coordinated and multi-faceted approach.

Finally, the effectiveness of the criminal justice system and adherence to international anti-corruption standards are crucial in combating corruption, while improvement efforts made by governmental organizations in response to audit findings and recommendations significantly impact corruption levels. Further, this study has two flaws that must be recognized. First, an audit institution's performance may be affected by the independence, competency, and quality control of the auditing process of auditors; however, we did not incorporate these characteristics in our regression owing to data availability. Second, while the deterrent effect of government auditing can be attributed to a variety of factors, including public exposure of irregularities and responsible officers, lawful punishment of serious economic crimes, political demotion, and other administrative penalties, we should be focused in the implementation of promises and punishments for the corruption control.

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