

# PART- I

## CHAPTER I

### Background

By virtue of the *Kashos* and the provisions contained in the General Auditing Rules and Regulations of Bhutan (GARR), the Royal Audit Authority (RAA), the Supreme Audit Institution (SAI) of Bhutan is responsible for audit of public sector agencies and reporting its findings.

In 1961, the 16<sup>th</sup> Session of the National Assembly of Bhutan formed a Committee of Accounts and Audit in response to the need for establishing accountability. The Committee would comprise of one representative of the King and one representative each from the Cabinet, People and the Monk Body all nominated by the King. The Royal Government issued the first edition of the “Financial Manual” in 1963. The manual provided for the organization of the Development Wing of the government and the Accounts and Audit for the Development Wing. The Audit and Accounts organization maintained the books of accounts, conducted budgetary controls of revenues and expenditures, and undertook periodic audit and inspections of accounts and records.



The Bhutan Integrity House, Kawajangsa, Thimphu.

In October 1969 the 31<sup>st</sup> Session of the National Assembly based on a motion proposed by the King to delegate the auditing authority voted for the appointment of Royal Auditors to conduct the audit of accounts and records of the Royal Government. Consequently, four Royal Auditors were appointed on 16<sup>th</sup> April 1970 under a *Kasho*. The *Kasho* defined and authorized the jurisdiction of the then Royal Audit Department as primarily responsible for the audit of accounts of the Ministry of Finance, Ministries, the Royal Bhutan Army, the Royal Bhutan Police, and His Majesty’s Secretariat.

In 1974, the financial management system was restructured. The Financial Manual 1974 was passed by the 29<sup>th</sup> Resolution of the 34<sup>th</sup> Session of the National Assembly. The Committee of Accounts and Audit was re-organized with four permanent posts of Royal Auditors to form the Royal Audit Department under the administrative supervision of the

Ministry of Finance. Posts were filled up by one people's representative, one monastic, one His Majesty the King's representative and one government representative. A representative and participatory arrangement to ensure the auditing is fair and objective without any bias.

In 1985, in order to enhance its effectiveness the department was upgraded as an autonomous and an independent entity and re-named as the Royal Audit Authority (RAA).

In tune with the issue of the Financial Manual 1988 to further strengthen the financial management system the General Auditing Rules and Regulations (GARR) was issued in 1989. This properly defined the roles and responsibilities of the Royal Audit Authority.

The *Kasho* issued by the Third King in 1970, the General Auditing Rules and Regulations 1989, the Financial Manual 1988 and the *Kasho* issued by the Fourth King in 1999 delineated the roles and responsibilities of the Royal Audit Authority.

Audit shall primarily be responsible towards enhancing accountability in the government. In pursuance thereof, the Royal Audit Authority's functions are to:

- I. Conduct audit, ascertain and evaluate in accordance with laws, rules and regulations of all account, records and operations pertaining to:
  - 1) The revenue and receipts and expenditures;
  - 2) Property owned or held in trust by or pertaining to the Government or any of its instrumentalities, Government owned and controlled corporations and their subsidiaries to ascertain and evaluate whether government resources are handled properly and in compliance with laws, rules and regulations;
  - 3) Non-government entities subsidized, funded by the donations or grants through the government, those for which the government has put up a counterpart fund or those required to pay levy, and loans approved and /or guaranteed by the government;
  - 4) Foreign assisted and special projects of the Government; and
  - 5) Any other organization upon commands of His Majesty the King;
- II. Assess and provide information whether the government agencies apply the government resources for the purposes for which they were established and for which they are made available to them;
- III. Prepare and transmit audit reports containing audit findings and recommendations of measures to improve economy, efficiency, and effectiveness of government operations;
- IV. Issue rules and regulations, or manuals to facilitate the exercise of its audit functions to enhance the information value of government accounts and to ensure compliance with the applicable laws, rules and regulations; and

- V. Issue records of outstanding audit observations to accountable officers or any other government officer/employee, upon recommendation of the proper administrative head or authority and settlement of deficiencies and un-cleared accounts for purposes of promotion in rank or salary, foreign travel, etc. as may be required or necessary.

Besides, the Royal Audit Authority is also responsible to:

1. Promulgate auditing rules and regulations;
2. Institute control measures through the promulgation of rules and regulations or issuance of guidelines governing receipts, disbursements and uses of funds and property, consistent with the total social and economic development efforts of the Government; and
3. Recruit and appoint the officials and employees of the Royal Audit Authority.

### **Organization of RAA**

A good audit service must be supported by an appropriate organizational structure that translates its mandate and facilitates operational responsiveness to the demands of the national accountability goals. The Royal Audit Authority at present has nine Divisions headed by a Division Chief. Proposals to restructure the organization of the RAA have been already submitted to the government and approved. The RAA will be opening up two more branch offices in Bumthang and Tsirang during the 9<sup>th</sup> plan.

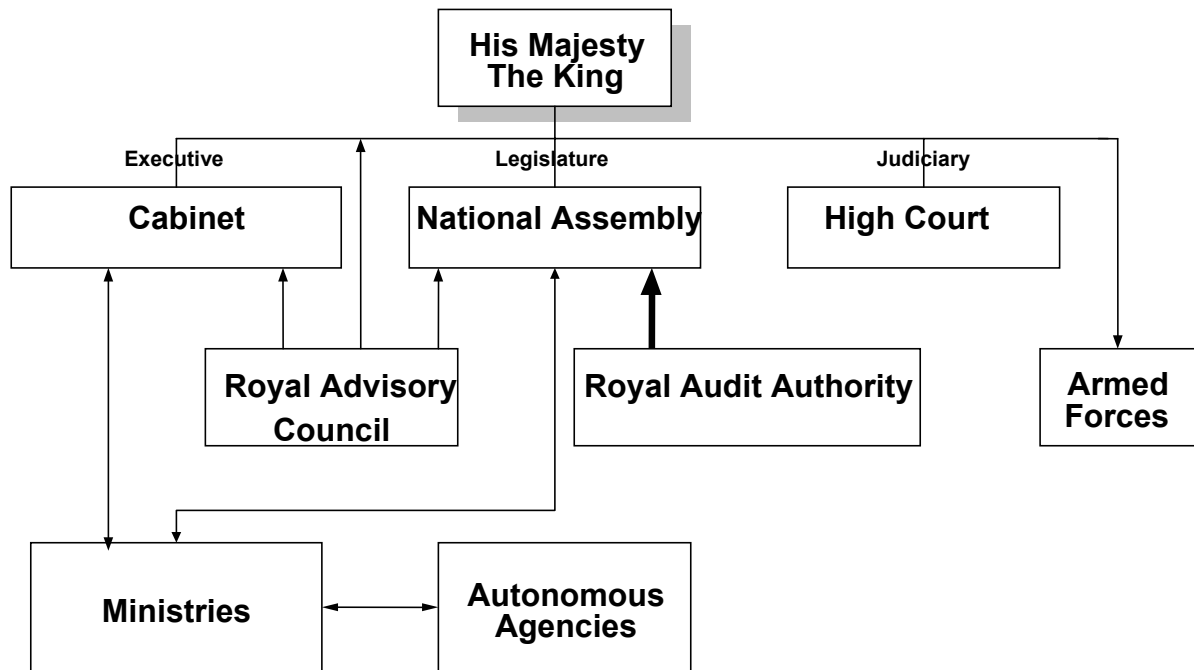
### **Restructuring of the Royal Audit Authority**

In line with the restructuring in the other Ministries, Organizations and Agencies of the Royal Government, the Royal Audit Authority (RAA) embarked on the process of restructuring its internal organizational structure. The restructuring was necessary for the following reasons:

- ❖ Required by the 25 members task force on Good Governance;
- ❖ Increase roles of RAA in enhancing the good governance and a clean public service;
- ❖ To suit in the efficient utilisation of the new building of RAA;
- ❖ To promote administrative and financial efficiency, accountability and transparency of RAA;
- ❖ To enhance morale and professionalism in the employees of RAA;
- ❖ Harmonizing with restructured Ministries, Departments and Agencies for a synchronized auditing in tune with the new changes;
- ❖ To prepare for the geog based auditing in the Ninth Plan; and
- ❖ To meet the challenges of the future plans and aspirations of RAA



**The position of Royal Audit Authority in the Bhutanese System of Governance.**

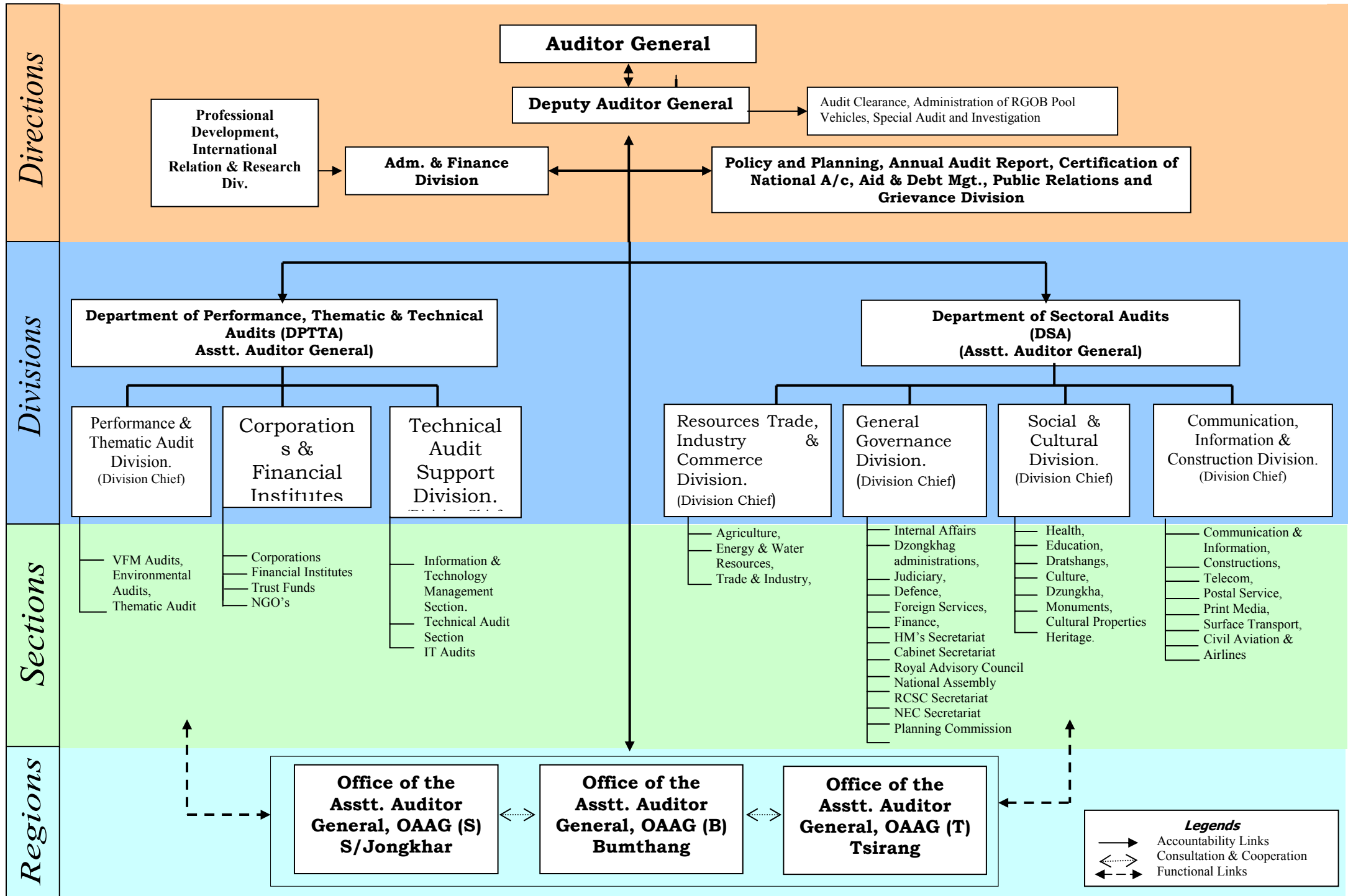


*(Source: Enhancing Good Governance- Promoting Efficiency Transparency and Accountability for Gross National Happiness)*

As per the Council of Minister’s decision on restructuring of the Royal Government of Bhutan, every organization is expected to be audited every year. The RAA is required to pursue its findings consistently.

It is, therefore, necessary to establish an organizational structure that is reachable, efficient and cost effective, while also very modern in tune with dynamic governance that the Kingdom strives for. It is also carried with an intention to harmonize with the proposed position classification system of the RGOB. All these are borne out with the goal that even in a delinked auditing system the uniformity and harmony of the different services are enhanced.

# Proposed Functional Organogram of the Royal Audit Authority



## Human Resource Development

The Royal Audit Authority, the Supreme Audit Institution (SAI) of Bhutan is responsive to the vital need for human resource development in order to maintain a high professional standard in the discharge of its lawful duties. Continuous efforts have been made to enhance professionalism and standards in the auditing profession.

## In-house Training

Although scarce resources limit the staff development efforts of the Royal Audit Authority, the Authority undertakes a balanced strategy of equal opportunity and continuous in-house training. Recently, the Royal Audit Authority conducted a series of training for its staff in collaboration with the office of the C&AG of India. All these efforts aim at achieving a high level of professionalism in the Royal Audit Authority.

## Value for Money Audit

One of the issues raised and recommended by the Special Task Force for Restructuring of the Government has been the value for money auditing or economy, efficiency and effectiveness auditing in the government. Although the present capability of the RAA does not permit execution of such aspects of auditing in a professional way, the RAA made a giant effort by creating a VFM wing responsible to conduct performance auditing from the year 2001. Thus, there is an immediate need to train its staff in area of value for money audit so as to produce high quality audit reports.



Chief Guest, Ambassador of India to Bhutan during the opening ceremony of the Inhouse training.



Chief Guest, guests, resource speakers and Auditor General during the opening Ceremony of the Inhouse training, RAA.

## Value for Money Auditing (VFM) <sup>1</sup>

### Why VFM Auditing?

Auditing is generally limited to the establishment of the accountability of the accounting of resources alone. It is a growing trend in a climate of continuous and rapid progress; and ongoing public sector reforms, the accounting of resources are in itself are proven inadequate and not a productive exercise, unless these are known to have been applied economically, efficiently and effectively. And public programs had created positive, greater and the right impacts and benefited optimally the intended beneficiaries across the sectors and in the nation. Thus the VFM audits can be of greater assistance in this context to:

- identify areas where improvements in administration are required and areas of best practice to 'add real value' and
- focus attention more on best practice models and ways for improvement rather than by simply highlighting areas of deficiency.

### What is VFM Auditing anyway?

VFM auditing is a systematic and constructive review of management activities to ensure the maximum utilization of all resources in achieving the defined objectives of organization.

VFM Auditing is concerned with the 3 E's audit i.e. of **economy, efficiency and effectiveness**.

It is an auditing of:

- (a) the **economy** in administration of activities in accordance with sound administrative principles and management policies;
- (b) the **efficiency** on utilization of human, financial and other resources, including examination of information systems, performance measures and monitoring arrangements, and procedures followed by the audited entities for remedying identified deficiencies; and
- (c) the **effectiveness** in performance in relation to the achievement of the objectives of the audited entity, and audit of the actual impact of the activities compared with the intended impact.

The 3 E's are a framework for analyzing the operation of a program:

- ∞ *Economy* - **minimising** the cost of resources used for an activity, having regard to the appropriate quality.
- ∞ *Efficiency* - the **relationship** between the output, in terms of goods, activities, or other results, and the resources used to produce them.
- ∞ *Effectiveness* - the extent to which **objectives** are achieved and the relationship between the intended impact and the actual impact of an activity.

The VFM Auditing offers significant potential to "add VFM" by identifying the areas where improvements in public administration and management are required.

VFM Auditing facilitates analysis of *economy, efficiency and administrative effectiveness* of activities of government agencies and public sector in relation to the following:

- ∞ the program objectiveness, which should be clear enough to identify the desired outcomes;
- ∞ the financial, human, physical and information resource inputs used;
- ∞ the process or activity by which the inputs are converted into outputs;
- ∞ the goods, services or other results which constitute the output of the program; and
- ∞ the actual impacts or outcomes, both intentional and unintentional.

VFM also recognized as *performance Audit* is usually directed towards specific issues, functions, activities, programs or operations of an entity or entities.

VFM auditing attempts to see how 1 Ngultrum is not only properly reflected in the books of accounts and applied as per the policies, laws and rules but also what optimal benefits the public derived from the public resources.

<sup>1</sup> INTOSAI and ASOSAI Manuals and Auditing Standards.

## Foreign Training

The Royal Audit Authority maintains links with various international professional bodies as well as leading training institutes in other countries. These include the International Organization of the Supreme Audit Institutions (INTOSAI), Asian Association of Supreme Audit Institutions (ASOSAI), the Office of the Comptroller and Auditor General of India and other counterpart auditing institutions. The Royal Audit Authority benefits from the training conducted in different areas of auditing and accounting by the Office of the C&AG India and the auditing bodies.

### Summary of the Trainings undertaken during the year 2001

Sl. No	Participants	Course	Duration	Place	Funding
1	Lt. Kumbu Dorji	E-Governance	2 weeks	India	Colombo
2	Wangchuk T	Advance Networking programme	5 weeks	India	GOI(ITEC)
3	Kinley Gyeltshen	Mastering in office Procedures	5 weeks	India	GOI(NIIT)
4	Bogtu	Professional Development programme	5 weeks	India	GOI(ITEC)
5	Chogyal	Training Programme in Software System	5 weeks	India	GOI(ITEC)
6	Lobzang Dorji	International Programme in Banking for Development	6 weeks	India	GOI
7	Tshering Samdrup	Urban Development Management	7 weeks	India	GOI
8	Lt. Ugyen Wangmo	Office Technologies and Internet Applications	12 weeks	India	GOI(ITEC)
9	Tshering Dema	Mastering Enterprise Networks	12 weeks	India	GOI(ITEC)
10	Gaza Wangchuk	Audit of Public Works	5 weeks	India	Colombo
11	Ugyen Wangchuk	VFM Workshop on Research and Development	2 weeks	Australia	ASOSAI
12	Tashi Phuntsho	International Programme in Banking & Finance	3 weeks	India	GOI(ITEC)

### Next step

The roles of the SAIs are increasingly becoming more dramatic and challenging over time. To meet the challenges of the dynamic environment the Royal Audit Authority, the Supreme Audit Institution of Bhutan strives to adapt itself to the fast changing environment.

The Royal Audit Authority no longer restricts only on routine financial audits. With the Bhutanese economic environment changing rapidly over the last two decades, the need for performance auditing being imminent, appropriate measures are already put in place.

### Computer audit or EDP audit

With the information technology revolution, change in auditing is inevitable. The trend shows a move away from the traditional method of record keeping to one of electronic data processing. The RAA must make itself adaptable to this change when all transactions with the government bodies would be computerized eventually.

### **Environmental Audit.**

Environmentally sustainable development is the priority of the Royal Government. More resources will be made available in this sector as more organizations participate in environmental auditing independent of other regularity mechanisms.



Participants of the In-house training

### **Networking with the RAA branch offices and other organizations for information sharing.**

Efficiency and effective flow of information is very critical. The RAA need to network with other organizations such as the Royal Civil Service Commission, Dept. of Immigration and Census, Dept. of Revenue and Customs, Ministry of Trade and Industry and Dzongkhags etc. to make required information available on time and contribute to efficient auditing thereby contributing to the effectiveness of the RAA.

### **Improving the government accounting system.**

What makes the task of the accountants and auditors in Bhutan more difficult is the non-existence of standards of sound accounting and auditing practice to which each could refer in carrying out their work. Consequently, there is a lack of uniformity in the reporting system. The RAA considers improving the internal control and accounting system in the Royal Government as a priority. To this end, the RAA endorses the need for development of Accounting and Auditing Standards and urges this be implemented at the earliest.

### **Audit Coverage**

The Royal Audit Authority has jurisdiction over the entire public sector Agencies, Corporations, Financial Institutions, Autonomous bodies, and foreign assisted projects. Each Division in the RAA is responsible to look after the audits of group of homogenous Ministries or agencies. About 70% of the time are devoted towards the audit of government departments in an effort to enhance accountability in the government. Although maximum time is devoted to government auditing, constraints such as lack of trained professionals, lack of skills and technologies and lack of proper accounting and auditing standards undermine the quality of audit reports. Nevertheless, efforts are being made consistently to overcome the difficulties and the recent trend indicates the improvement.

### **Oath of Good Conduct, Ethics and Secrecy.**

It is mandatory for all the auditors to take an Oath of Good Conduct, Ethics and Secrecy. There are Sixteen Principles essential for Good Conduct, Ethics and Secrecy for to be an ideal auditor.

## **Oath of Good Conduct, Ethics and Secrecy of Auditors**

I am fully conscious that the auditors task is to work towards ensuring, advising and reporting on whether or not that the policies, plans, programmes are carried out efficiently, effectively, economically and as per laws, rules and regulations in the fulfillment of the national goals and objectives.

I on my own free will subscribe to the following Sixteen Principles essential for good conduct, ethics and secrecy for to be an ideal auditor:

### **I. Integrity:**

1. I will conduct myself in such a way that my speech and acts are honest and trustworthy, able to nurture a culture of truth and reliability
2. I shall adhere to high standards of behavior (e.g. honesty and candidness) in the course of my work and in my relationships with the staff of audited entities
3. I shall refrain from being involved in all matters in which I have vested interest as the moral obligation of an auditor.
4. I shall in order to sustain public confidence, conduct myself above suspicion and reproach and make decisions with the public interest in mind, and in handling the resources of the RAA.

### **II. Incorruptibility:**

1. I will not accept any financial or be obligated to individuals or organizations, which could lead me to act unethically in my duties and responsibilities.

### **III. Good Faith:**

1. I accept the obligation to declare any personal interests, which may affect the interests of those I serve and where there can be conflicts of interests.

### **IV. Impartiality:**

1. I will make fair choices which do not unduly or unjustly favour those with whom I have other ties in carrying out my duties, including making appointments, awarding contracts, grants, or recommending individuals for benefits.
2. I shall be objective and impartial in all works conducted by me, particularly in my reports, which should be accurate and objective.
3. I shall draw my conclusions in opinions and reports based exclusively on evidence obtained and assembled in accordance with the auditing standards.

### **V. Openness:**

1. I will be transparent in my decisions and actions, and will not withhold information, which is in the public interest.

### **VI. Accountability:**

1. I recognize that I am accountable for my decisions and actions, and will submit to whatever scrutiny is appropriate.

### **VII. Justice:**

1. I will act justly, and promote the culture of respect for the Law.

### **VIII. Respect:**

1. I will act in a way that promotes respect for all people regardless of their beliefs.

### **IX. Generosity:**

1. I will seek to be generous and hospitable towards others in right speech, attitude and behaviour.

### **X. Independence:**

1. I shall behave in a way that increases, or in no way diminishes, the independence of the Royal Audit Authority (RAA).
2. I shall strive not only to be independent of audited entities and other interested groups, but also to be objective, be without fear and favour in dealing with the issues and topics under review and reviewed.
3. I will be duty bound to make use of information brought forward by the audited entity and other parties, and this information is to be taken into account in the opinions expressed in an impartial way.

### **XI. Political Neutrality:**

1. I shall maintain both the actual and perceived political neutrality and independence from political influence in order to discharge my audit responsibilities in an impartial way.

### **XII. Conflicts of interest:**

1. I shall protect the independence of audit and avoid any possible conflict of interest by refusing gifts or gratuities, which could influence or be perceived as influencing the independence and integrity.
2. I shall avoid all relationships with managers and staff in the audited entity and other parties which may influence, compromise or threaten my ability to act and be seen to be acting independently.
3. I shall not use my official position for private purposes and avoid relationships which involve the risk of corruption or which may raise doubts about the objectivity and independence.
4. I shall not use information received in the performance of my duties as a means of securing personal benefit for myself or for others.
5. I shall neither divulge information, which would provide unfair or unreasonable advantage to other individuals or organisations, nor shall I use such information as a means for harming others.

### **XIII. Professional Secrecy:**

1. I shall not disclose information obtained in the auditing process to third parties, either orally or in writing, except for the purposes of meeting the RAA 's statutory or other identified responsibilities as part of the RGoB's normal procedures or in accordance with relevant laws.

### **XIV. Competence:**

1. I will conduct my duty in a professional manner at all times and apply high professional standards in carrying out my duties competently and with impartiality.
2. I will respect applicable international and local auditing, accounting, and financial management standards, policies, procedures and practices.
3. I shall have good understanding of the legal and institutional principles and standards governing the operations of the audited entity.

### **XV. Professional Development:**

1. I shall exercise due professional care in conducting /supervising the audit and in preparing related reports.
2. I shall use methods and practices of the highest possible quality in auditing.
3. I will have continuous obligation to update and improve the knowledge and skills required for the discharge of my professional responsibilities.

### **XVI. Leadership:**

1. I shall promote and support these principles, by personal example and service, at all times and all places.
2. I shall seek to recommend, by personal example and service, the fundamental moral principles on which a successful community, society, organization and a nation can be built and maintained.

## **Fifth Annual Audit Conference Resolution**

The Auditors and Officers of the Royal Audit Authority gathered in Thimphu to attend the 5th RAA Annual Audit Conference 2002 on the theme “**A successful 9th Plan: Role of RAA**” from 21<sup>st</sup> July to 23<sup>rd</sup> July 2002.

The Conference adopted a resolution to:

1. Adopt the 9th Plan RAA Audit strategies to encompass the following:-

### **I. Audit planning and programming**

*“Good proportion of time shall be devoted in planning and programming each audit; Planning & budget documents will be used as reference to determine priorities & allocate resources by each division, audits shall be prioritized but no audit shall be over due, every auditee shall be required to be audited annually; The Annual Audit Plan must be comprehensive and complete.*

### **II. Audit approach**

*“The 9th plan auditing will not only be confined to financial regularity audit. Normal audits are useful but more thematic audits shall be carried out and more frequently; where possible comprehensive Value for Money (VFM) audit shall be applied; all audit shall be supplemented by physical verification; Audit shall also be extended to Human Resources Auditing, Environmental Auditing, Geog based activities etc; use of system based audit and Computer Assisted Auditing Techniques (CAATS) shall be promoted; Greater cooperation & coordination shall be promoted with the internal audits in the line Ministries; certification audit of the Consolidated National Accounts shall be conducted; resource mobilization & debt servicing shall be reviewed.*

### **III. Geog Based Audit**

*“While 201 geogs (group of several villages) will be subjected to audit in the financial year 2003-2004, review will be carried out of the geogs under a Dzongkhag across the board or each geog depending on the National Assembly’s decision on GYT and DYT.*

### **IV. Audit Reporting**

*“Balanced reporting shall be adopted indicating the accomplishments made by the audited agencies; to achieve uniformity, Audit Master Report Template shall be improved and consistently used; Audit report shall be issued timely; concept of*



Auditor General addressing the 5<sup>th</sup> Annual Audit Conference, 2002



Auditors at the 5<sup>th</sup> Annual Audit Conference, at the Royal Banquet Hall.

*materiality shall guide while the quality of reporting at no time to be compromised; RAA shall continue to commit towards transparency and make inspection report public; audit reports and assignment carried out shall be supported by essential audit evidence & adequate working papers; reports shall contain analytical and be research supported, to serve as useful advisory input.*

**V. Strengthening the RAA's capacity: face the challenges of the Ninth Plan.**

*"In order to provide to face the challenges outlined by the Ninth Plan, the RAA had during its Fifth Annual Conference adopted a resolution which provides: The RAA's plan for restructuring shall be implemented; Audit Information Management System (AIMS) must be made user-friendly; De-concentrate RAA's office with two more regional offices at Tsirang and Bumthang; strengthen RAA's Human Resources by training & further studies and recruiting additional officials;*

*Endorsed the RAA's policy to send auditors on secondment to other organizations to gain experience of the field work;*

*Conduct propriety audit free of charges, however, certification of the Annual Accounts (Statutory Audit) required for this purposes of the management of the Trust Funds, Associations and Entities will be subject to payment of fees;*

*Decided to form a permanent Committee to vet the Draft Annual Audit Report to ensure its conformity with principle, policies, and standards to avoid inclusion of anything that shall have a bearing on the Integrity, National security and overall public interests.*

*Introduce an Internal auditing practice of the RAA and its operations by Divisions on a yearly rotational basis to ensure that RAA administration functions exemplary, in addition to the external audit conducted annually;*

*Decided that every year an appropriate RIMDO will be performed by RAA to be financed by staff;*

*The RAA Welfare Fund membership contribution rate to be enhanced from Nu. 100 to Nu. 200 per month for one year;*

*Decided to develop a full-fledged documentation centre that archives all master copies of the audit reports, working papers while it shall have all reading materials necessary for a professional auditing;*

*Transmit where feasible the Audit Inspection Reports in Zhungkha and English by developing a bilingual programme;*

*Approved audit clearance certificate shall henceforth be issued in Zhungkha. AIMS shall develop a programme so that audit data can be both inputted and retrieved either in National language and official languages;*

*Approved to conduct 214 audits in the financial year 2002-2003, and issue Annual Audit Report 2001 not later than end of August 2002; and*

*The Theme for the 6<sup>th</sup> Annual Audit Conference 2003 was adopted as “Auditing beyond the Books of Accounts”.*

*“This resolution shall be the basis on which the Royal Audit Authority will carry out its mandates in the ninth plan”.*

### **Auditor General’s Compliance Assurance Award.**

The Royal Audit Authority is composed of 8 auditing divisions. In any given Financial Year the division that has effected the highest recovery from the auditee agencies is awarded the Auditor General’s Compliance Assurance Award.

### **The Best Audit Observation Prize.**

The panel of judges chosen from outside of the RAA decides on the best audit observation for the year and the team is given a monetary prize.