

# Part 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 Accounts and Audit Wing maintained the books of accounts, conducted budgetary controls of revenues and expenditures, and undertook periodic audit and inspection of accounts and records.

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, the four Royal Auditors were appointed on 16<sup>th</sup> April 1970 under a Royal 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. 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 as the Royal Audit Authority (RAA).

In tune with the issue of 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 RAA.

The Kasho issued by the Third King in 1970, the GARR 1989, the Financial Manual 1988 and the Kasho issued by the Fourth King in 1999 delineated the roles and responsibilities 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 the laws, rules and regulations of all accounts, records and operations pertaining to:
  1. The revenue 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 donation or grants through the government, those for which the government has put up 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 command of His Majesty the King.
- II. Assess and provide information whether the government agencies apply the government resources for the purpose 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 manual to facilitate the exercise of its audit functions to enhance the information value of the 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 of 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 promulgations 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.

### **Highlights of the year**

1. The Chhoetse Penlop His Royal Highness Jigme Khesar Namgyel Wangchuck visited the “*Bhutan Integrity House*” Head Office of the Royal Audit Authority in Kawajangsa on Friday the 30<sup>th</sup> July and met with the officers and staff.
2. HRH the Chhoetse Penlop graced the Opening Ceremony of the 7<sup>th</sup> Annual Audit Conference, 2004 on the theme “Barriers to Effective Auditing: Finding Solutions”.
3. Auditor General of Bhutan led a delegation to 18<sup>th</sup> INTOSAI, General Assembly held in Budapest, Hungary. He was appointed Vice-Chairman of Theme 1-The possibilities of Bilateral & Multilateral Cooperation.
4. Auditor General of Bhutan also led a delegation to Moscow, Russia to attend 13<sup>th</sup> Meeting of the INTOSAI Standing Committee on IT audit.
5. Audit awareness at the Grass Root for members of GYT, DYT, Gaydrungs and Dzongkhag Staff for 15 Dzongkhags were completed.

6. The second RAA “Open Forum” was organized on 10<sup>th</sup> December, 2004 objectives to:

- ↔ Hear what people say;
- ↔ Exchange views and ideas;
- ↔ Explain what is not clearly interpreted in the reports, media etc and;
- ↔ Any Other Business.

The participants included the officials from government ministries and departments including the media people. Deputy Speaker representing the private sector had also participated in the open forum discussion. The main points raised by the participant were as follows:

- Reliability of Audit Information Management System;
- Statutory /Propriety audit of corporations to be performed either by the RAA or statutory auditors;
- Bench marks for best management practices of companies and corporations of Bhutan to be incorporated in the report and distributed;
- Procedures to take the old and unresolved matters up to the higher level;
- How RAA is going to protect the informant through the Fraud Alert System in the instance of losing confidentiality?
- RAA to increase manpower and keep some people back in the office for giving further comments and further information on audit responses;
- Assigning right people for right work;
- RAA to come out with ways and means to prevent bribery cases;
- RAA to coordinate with the Department of Revenue & Customs as to what kind of uncollected taxes should go into Audit Recoveries Account so that the forecast national revenue is accomplished;
- Individuals in the agencies to be trained adequately so that they can carry out their own internal auditing;
- Generally understood definition of fraud;
- Environmental auditing a complex issue should be handled by National Environment Commission-Does the RAA have the mandates to carry out environmental auditing; and
- Clarity of fixing of responsibility and accountability to individuals, supervising officials and the approving authority.

7. Issued Annual Audit Report 2003 on 17<sup>th</sup> May, 2004.

8. The Comptroller & Auditor General of India (C & AG) had consented the request to conduct the Peer Review of the Royal Audit Authority and accordingly assigned Principal Accountant General (Audit), Andhra Pradesh and Accountant General (Audit), Nagaland and Manipur to conduct the review and assessment on:

- Adequacy of Standards/Manuals;
- Compliance with technical standards/Manuals;

- Reporting processes and systems for maintaining quality of reporting;
- Training programmes for staff;
- Quality control systems for auditing practices;
- Organization and management practices;
- Auditing techniques; and
- Audit reports

The auditors from C & AG had made several recommendations including the following:

- to establish an exclusive centralized follow-up division to examine the responses consistently, ensure appropriate responses and to split up the dual function of auditing and following –up of the current divisions;
- to draft and issue audit memos when all the relevant records including photographs if necessary and where possible have been obtained and scrutinized;
- to prepare comprehensive audit checklists for all types of audit;
- to explicitly delineate the authority to issue audit Inspection Reports amongst Auditor General of Bhutan, Head of the Departments, Head of the Office of the Assistant Auditors General and Division Chiefs in the Head Office;
- to incorporate the result of audit of annual accounts of the government, the overall financial condition and results of operations of the government;
- to incorporate the results of performance/value for money audit in the Annual Audit Report;
- to form an exclusive audit team to conduct audit of Income Tax, Property tax and land tax;
- to carry out training needs assessment for the auditors;
- to form one dedicated IT audit team and impart appropriate training;
- to devise a system to ensure disposal of all incoming communications, correspondences etc; and
- to provide special training/attachment courses to officers in the Special Audit & Investigation Division.

While some of the recommendations had already been implemented the RAA had formulated a Plan of Action to implement other recommendations.

9. The Royal Audit Authority in collaboration with UN Systems in Bhutan celebrated 9<sup>th</sup> December as the International Anti-corruption Day. The Hon'ble Prime Minister of Bhutan graced the occasion as the Chief Guest. Essay competition on “Combating corruption: A Collective responsibility” was organized at two levels of Open and School Category. The result of this essay competition was declared on this day.
10. The RAA launched a Fraud Alert System to report frauds on-line on 9<sup>th</sup> December, 2004.
11. During the year the Royal Audit Authority had recruited 3 Senior Auditors and 3 auditors.
12. Auditor General of Bhutan led a delegation to Dhaka, Bangladesh to attend Regional Auditor Generals Conference on Harmonizing Institutional Efforts in Promoting Accountability.

13. Auditor General also visited National Counter Corruption Commissioner of Thailand.
14. Zhung Kalyon had a meeting with the Auditor General and it was agreed to endorse all reports for RAC's follow-up and necessary action.
15. Organized a briefing session to members of the Public Accounts Committee on all aspects of auditing, reporting and follow-ups.
16. During the year the officials of the RAA attended number of trainings, seminars and workshops both within and outside the country towards its initiative to build capacity as summarized below:

**1. EX-COUNTRY**

Sl.No	Course Title	Duration	Location	Slots	Source of fund
1	Workshop on Audit of Public Debt	2 weeks	Canberra, Australia	1	ASOSAI
2	Financial Audit in an IT Environment	2 weeks	Kuala Lumpur, Malaysia	2	ASOSAI
3	Development Mgt. Perspectives for Upgrading Accounting and Auditing Competency Skills for Development	10 days	Manila, Philippines	2	ADB & RGoB
4	Attachment Course in VFM	2 weeks	C&AG, India	3	SDS
5	Attachment Course in IT Audit	2 weeks	C&AG, India	3	SDS
6	13th INTOSAI Standing Committee Meeting on IT Audit& 4th Working Seminar on Performance Auditing on E-Government	2 days	Moscow, Russia	1	INTOSAI
7	Workshop on Environmental Auditing	2 weeks	Kenya	1	ASOSAI
8	Audit of Projects and Infrastructure	1 month	Noida, Delhi, India	1	Colombo Plan
9	Workshop on IT Audit	4 days	Nanjing, China	1	NAO, China & DANIDA Project
10	Auditing in IT Environment	1 month	Noida, Delhi, India	1	Colombo Plan
11	Seminar on the Audit of Information Technology	1 week	Seoul, Korea		ASOSAI
12	Msc. Environmental Impact Assessment and Auditing	11 months	University of East Anglia, UK	1	DANIDA Project
13	Financial Information Through Accounting and Risk Management	1 week	Makati City, Philippines	1	ADB
14	Masters in Human Resource Management	18 months	Wollongong, Australia	1	RGoB
15	IA&AS	12 months	Simla, India	2	GoI (Colombo Plan)
16	Workshop on Audit of Privatization	3 weeks	Philippines	1	ASOSAI
17	Audit of Public Enterprises & Privatization	1 month	India	2	ASOSAI
<b>2.IN-COUNTRY</b>					
	Course Title	Duration	Location	Slots	Source of fund
1	STAAD Pro Software	4-17 Jan	RBIT, Phuentsholing	1	
2	Dzongkha Secretarial Course	4 months	RBIT, Phuentsholing	1	DDA
3	Auto CAD Course	2 weeks	RBIT, Phuentsholing	1	
4	TDS sub module	2 days		1	RRCO, MoF
5	Workshop on Photography	2 weeks	Thimphu	1	DHR, MoLHR
6	Workshop on Public Service Act	3 days	RIM, Thimphu		
7	Auto CAD Course	2 weeks	RBIT, Phuentsholing	2	Urban Sector Programme Support
8	Workshop on Introduction and Implementation of Voting System- Rules and Procedures for election of Director	2 days	Hotel Druk, Phuentsholing	1	MTI

17. This report is the outcome of all the auditors of RAA who have untiringly kept up the spirit of serving the Nation through building a clean society daunting despite various challenges.