

PERFORMANCE REPORT OF THE ROYAL AUDIT AUTHORITY

1.1 Mandate of the Royal Audit Authority

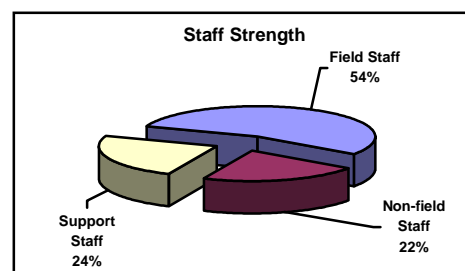
The Royal Audit Authority derives its mandate from the Audit Act of Bhutan 2006. The Audit Act requires the RAA to conduct the audit of Government and other agencies under its audit jurisdiction and report without fear, favour or prejudice on the economy, efficiency and effectiveness in the use of public resources. Through its reports and recommendations the Royal Audit Authority seeks to promote accountability in the use of public resources. It reports on whether the public resources have been used economically, efficiently and effectively in compliance with applicable laws, rules and regulations and assess whether the agencies within its audit jurisdiction, achieve the purposes for which they were established and for which public resources have been made available to them.

1.2 Organization of the Royal Audit Authority

The Royal Audit Authority is a Constitutional Body headed by the Auditor General. The Office of the Auditor General is located at Kawangjangsa, Thimphu and is being supported by its three regional offices of the Assistant Auditor General located at Samdrup Jongkhar, Bumthang and Tsirang.

1.3 Staff Strength

The total staff strength of the Royal Audit Authority during the year 2005-06 was 192 as against 172 in the previous year comprising of 104 field auditors, 42 non-field auditors and 46 support staff.



1.4 Budget of the Royal Audit Authority

During the Fiscal Year 2005-06, the Royal Audit Authority had been provided with a total budgetary support of Nu.51.893 million including DANISH assistance of Nu.2.874 million. Against approved budget of Nu. 51.893 million, the actual expenditure amounted to Nu.50.249 million representing 97% of the approved budget.

1.5 Cost of audit as percentage of total Revenue and Expenditure

The total expenditure on the audit function was Nu.50.249 million during the year 2005-06 and Nu.50.295 million for the year 2004-05 including capital expenditure of Nu.7.615 million and Nu.11.507 million respectively. Current expenditure amounted to Nu.42.634 million and Nu.38.788 million for the years 2005-06 and 2004-05 respectively. Cost of audit as a percentage of recurrent cost over the aggregate of revenue and expenditure of the Government excluding Corporations, Financial Institutions and NGOs which are also audited by the RAA works out to 0.111 % for the year 2005-06. The percentage would be much lower if the revenue and expenditure of Corporations, Financial Institutions and Non-Government Organizations, whose accounts are also audited, were included. Comparative cost of audits presented as a percentage of aggregate expenditure and revenue of the Government audited for past two years are given in the table below:

Amount in Nu. (millions)

SL. No.	Particulars	2005-06	2004-05
1	Recurring expenditure	42.634	38.788
2	Gross revenue and expenditure of the Government	38,429.124	32,441.204
3	Cost of audit as a percentage of aggregate of revenue and expenditure	0.111%	0.120%

For each Nu. 100,000.00 audited, the RAA incurred recurring expenditure of Nu. 111.00

1.6 Accomplishment and Achievements

1.6.1 Audits conducted

Out of 443 audits planned in 2006, the RAA conducted 444 audits during the year. This represented achievement of over 100% of the planned audits. Compared to the audits conducted in 2005 which was only 314 audit (295 plus 19 statutory audits), this represented an increase of over 41%. The comparative figures are shown as below:

Table showing comparative details of audits conducted

SL. No.	Types of audit	2006	2005	Difference
1	Normal audit	336	200	138
2	Special audit	1	6	(5)
3	Statutory* audits	19	19	0
4	Certification	83	85	(2)
5	Performance Audit	5	4	1
	Total	444	314	130

*Statutory audits conducted through the professional firms empanelled by the RAA.

1.6.2 Audit Reports issued

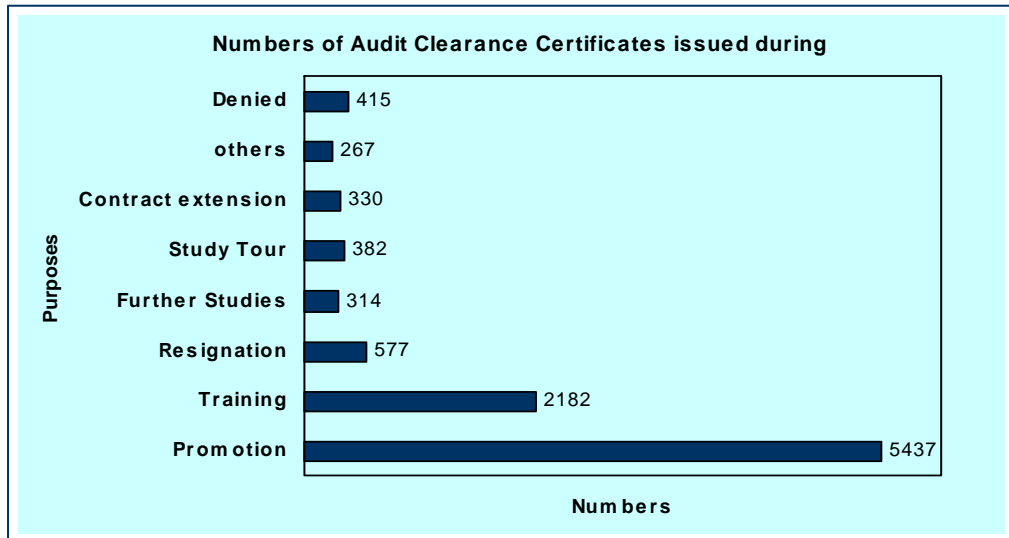
During 2006, 438 reports were issued comprising of 322 normal audits, 4 Special audits, 19 statutory audits, 87 project certifications, 5 Performance audits and 1 report on certification of Annual Financial Statements of the Government. Besides, a total of 750 Follow-up reports were also issued during the year. This represents an increase of 90.94% in the number of reports issued compared to 2005 where 393 reports were issued.

1.6.3 Copies of reports containing significant issues submitted to concerned authorities

In line with the Audit Act of Bhutan 2006, copies of 15 reports, of the 438 issued during the year, containing significant issues including fraud and corruption cases were submitted to the Hon'ble Prime Minister, Secretary to His Majesty the King, the Royal Civil Service Commission and the Anti-Corruption Commission.

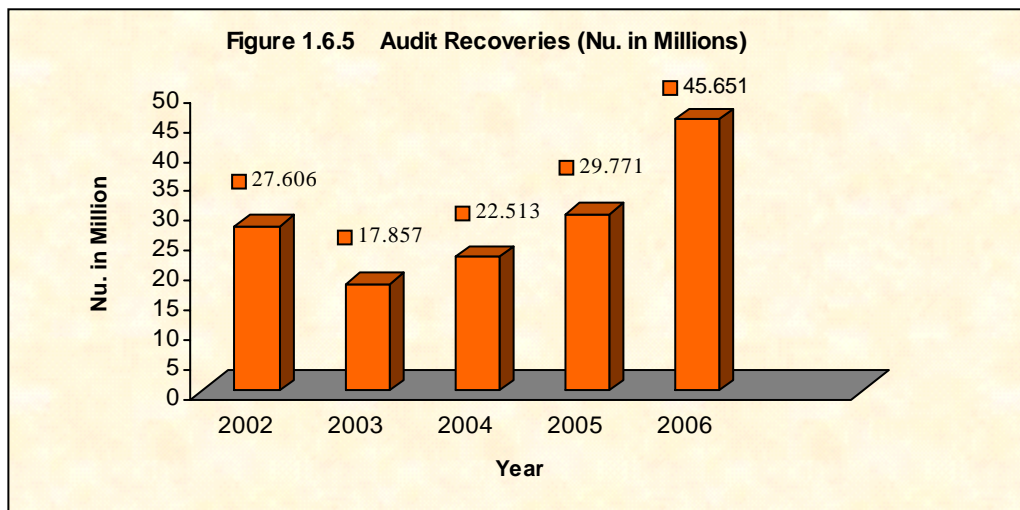
1.6.4 Audit Clearance Certificates issued

In the year 2006, the RAA issued a total of 9,489 Audit Clearance Certificates as against 6,243 certificates in 2005 representing an increase by 51.99%. The Audit Clearance Certificates issued in 2006 comprised of 5,437 for promotion, 2,182 for training, 577 for resignation, 314 for further studies, 382 for study tours, 330 for contract extension, 112 for workshops, 12 for re-election & election, 30 for seminars, 5 for secondment, 43 for service regularization, 12 for superannuation etc.. The RAA denied 415 Clearances for having unsettled observations and for incomplete information.



1.6.5 Record increase in the amount of Audit Recoveries (Nu. 45.651 million)

In the year 2006, Audit Recoveries amounted to Nu.45.651 million as against Nu.29.771 million in 2005. An increase of over 53.34% as compared to 2005 indicates increased compliance of the executive authorities and effective follow up efforts made by the dedicated Follow up Division, other Functional Divisions and Regional Offices of the RAA. Comparative figures of audit recoveries for the past five years are presented in the graph below:



1.6.6 Accelerated Follow-ups of Audit reports

Establishment of the Follow-up Division facilitated systematic and focused approach to follow-up of audit reports. With definitive time frame adopted to review audit reports and receive responses and holding discussions with the auditee agencies, the Royal Audit Authority was able to follow up a large number of audit reports and resolve record number of audit observations. Such an exercise was made possible by the support and

co-operation of the agencies concerned. During the year a total of 750 audit reports were followed up which led to settlement of many issues including old cases.

The Auditor General also participated in many review meetings and discussions particularly those relating to the audit reports of Dzongkhags, Gewogs and some Ministries.

1.6.7 Professional Development in the RAA

The RAA is committed to highest professional standards. To achieve this, the organization has been pursuing continuous professional development programmes. During the year a total of 128 auditors availed in-house trainings on audit of Public Utilities, IT auditing and Performance auditing. A total of 22 auditors availed Ex-country trainings comprising of six long term courses in IA&AS, Master in Public Administration, ACCA and Master in Accounting and Control. Some of the short term ex-country trainings included Budget & Public Expenditure Management, Audit of Public Works, Auditing in EDP Environment, Audit of Procurement Process, Accounting & Financial Management etc., two officers also attended training on "Fraud Examination Techniques" from 8-26 May, 2006 held at Manila, Philippines.

1.6.8 International Cooperation

The RAA aspires to promote best professional practices. To do so it must keep pace with the socio-economic developments and reforms as well as commercial, scientific, industrial and technological advancements. The move by the RAA towards adoption of emerging concepts led to exchange of ideas and experiences with other Supreme Audit Institutions (SAIs) and greater cooperation in the fields of trainings, conferences and special delegations to other SAIs. During the year the following activities contributed to initiatives of international cooperation:

- ✍ The third phase of the training on 'IT Audit' under the Netherlands Fellowship Programme was conducted in January 2006 by Ms. Margaret E. Hershey and Mr. Gerrit J, Instructors.
- ✍ The Royal Audit Authority hosted the ASOSAI (Asian Organization of Supreme Audit Institutions) Instructors Team Meeting in Thimphu from 1st to 14th May 2006. Representative from INTOSAI (International Organization of Supreme Audit Institutions) Development Initiatives (IDI), and ASOSAI Training Administrator (Board of Audit Japan) including six instructors from various countries and one Subject Matter Expert attended the meeting.
- ✍ The Assistant Auditor General of regional office, Bumthang led a two member delegation to the 15th Meeting of the INTOSAI (International Organization of Supreme Audit Institutions)

Standing Committee on IT Audit at Brasilia, Brazil from 17-19 May 2006.

- ✍ The sixth Indo-Bhutan Audit training on "*Audit of Public Utilities*" was conducted by two senior level resource persons from the Office of the Comptroller and Auditor General of India from 19th to 23rd June 2006.
- ✍ The Auditor General led a three member delegation to the 10th ASOSAI General Assembly and 36th meeting of the ASSOSAI Governing Board in Shanghai, China from September 10–16, 2006.
- ✍ The Auditor General of Bhutan led a delegation comprising of four senior level officials from the Royal Audit Authority to the office of the Comptroller and Auditor General of India from 11th December to 21st December 2006, for the extension of the existing MoU which was signed in December 2001 and on further strengthening the relationship between the two institutions.

1.7 Independent External Audit of the RAA

As provided in the Audit Act of Bhutan 2006 M/s Ray and Ray, Chartered Accountants conducted the audit of the accounts and operations of the RAA covering the period 1st July 2005 to 30th June 2006. The appointment of auditors was based on the selection of auditors conveyed by the Hon'ble Speaker pursuant to the deliberations in the 86th Session of the National Assembly. Audited Financial Statements and Auditors' Reports are enclosed as *Annexure -A*.

1.8 Other Important activities

1.8.1 Presentation of Special Audit Report during the 85th National Assembly

The Royal Audit Authority conducted special audits of the Semtokha Dzong Conservation Project and Chhukha Dzong Construction Project and submitted the reports for presentation during the 85th Session of the National Assembly. The Auditor General in person presented the report during the 85th Session of the National Assembly.

1.8.2 Enactment of the Audit Act of Bhutan 2006

The 85th Session of the National Assembly enacted the Audit Act of Bhutan 2006 on 30th June 2006 conferring the Royal Audit Authority the status as one of the Constitutional Bodies. Besides strengthening its independence, the Act further specifies the duties, responsibilities and powers of the RAA and the Auditor General.

1.8.3 Reviewed the Annual Audit Reports 2004 & 2005

In compliance to the resolution of the 85th Session of the National Assembly, the Royal Audit Authority had reviewed the Annual Audit Report of 2004 and 2005 and submitted the follow-up reports to the Prime Minister and the Speaker. The Follow-up reports of the RAA were deliberated during the 86th Session of the National Assembly.

1.8.4 The Auditor General made presentations on Annual Conference of agencies

With a view to share experiences and create greater awareness amongst auditee agencies on the mandate, roles and responsibilities as well as future strategies of the RAA the Auditor General of Bhutan seized the opportunity to address the Annual Conferences of various agencies. The Auditor General also shared with them common and pertinent audit issues and advised them of possible causes and remedial measures. Following were the conferences addressed by the Auditor General of Bhutan and some of the senior officials of the RAA in 2006.

- ✍ Annual Engineering Conference
- ✍ Annual DYT/GYT Chairmen Conference

1.8.5 Embarked on certification of financial statements of government accounts

To render the audit more comprehensive and embrace both positive and as well as the negative aspects of the maintenance and operation of the accounts the Royal Audit Authority started certifying the normal accounts of the agencies from July 2006. Such certifications would enable the RAA to express opinion on the true and fairness of the financial statements and ascertain the adequacy and reliability of accounting and internal control systems instituted by the agencies which would contribute to a more constructive and balanced reporting.

1.8.6 Meetings with CEOs and Senior Officers of Corporations and Financial Institutions

During the year, the Auditor General convened two separate meetings with the CEOs and representatives of the Financial Institutions and Corporations. The meetings were held to brief the Corporations and Financial Institutions of the audit focus, audit approaches and way forward pursuant to the enactment of the Audit Act 2006 and the transitions taking place in the system of parliamentary democratic system of governance in the country. It was also aimed at obtaining important feedbacks from the Financial Institutions and Corporations in simplifying audit approaches.

1.8.7 Developed 12 Audit Manuals

The Royal Audit Authority drafted 12 Audit Manuals covering various areas. These included Audit of Hospitals, Audit of Municipal Corporations, Revenue Audit, Audit of Schools, Audit of Dzongkhags, Audit of Armed Forces, Audit of Public Utilities, Audit of Forests, Audit of Construction Works, Audit of Procurement and Certification Audit Manual. The manuals are awaiting review by international experts before adoption.

1.9 RAA's Future Strategies

The Royal Audit Authority will continue to review, fine tune and implement the strategies adopted by it viz., continuous professional development, enhancing IT audit capabilities, integrating performance audits, conducting environmental audits and certifying financial statements of budget agencies to render the auditing more relevant, responsive and effective in meeting the changing needs of the society. The RAA is fully committed to prepare itself in facing the challenges in the new constitutional democratic system of governance and effectively implementing the Audit Act of Bhutan 2006. The following are some of the important initiatives proposed:

1.9.1 Establishment of Western Regional Office - getting closer to the auditees

Recognizing the positive contributions of the existing three regional offices of Bumthang, Tsirang and Samdrup Jongkhar, the Royal Audit Authority had proposed to establish a Western Regional office catering to the needs of the five western Dzongkhags, Gewogs and other agencies located within the five Dzongkhags during the 10th Five Year Plan.

1.9.2 Constructions of Regional Office buildings and Training Center – need of an hour

Effectiveness of auditing largely depends on the quality and timeliness of audits. Existence of adequate infrastructures, proper working environment and other amenities are prerequisites in effectively managing the overall auditing functions. The three regional offices in Bumthang, Tsirang and Samdrup Jongkhar are currently deprived of adequate offices space that inhibits the efficiency and productivity of the officers. Realizing these drawbacks, the construction of office buildings for the regional offices has been proposed during the 10th Five Year Plan. In addition, establishment of a Regional Training Centre in Tsirang has also been proposed to the Government during the same Plan, in order to facilitate conducting of in-house trainings on a continuous basis. The proposed training facility could also be used to conduct international trainings in auditing and related fields and may also be used by other agencies.

1.9.3 Establishment of the Environmental, IT Audits and Legal Support Sections—keeping abreast of the changes

The RAA intends to establish three sections viz., the Environmental Audit, IT Audit and Legal Support Section during the 10th Five Year Plan to meet the fast changing social, environmental, technological and legal requirements.

1.9.4 Simplifying audits of Corporations and Financial Institutions - rendering audits cost - effective

Currently there are two tier external audits of the Corporations and Financial Institutions, one by the private chartered accounting firms and other by the RAA. The Corporations and Financial Institutions felt that they spend considerable time in dealing with the audits. In an endeavour to simplify the audit approaches, the Royal Audit Authority has been reviewing the possibility of conducting the audits jointly or issuing comprehensive Terms of Reference to the reputed private firms of Professional Accountants and thus limiting its involvement either in conducting propriety audits to selected year or a few Corporations on a sample basis.

1.9.5 Aggressive follow up of audit reports- enhancing effectiveness of auditing

The Royal Audit Authority would continue to pursue a policy of aggressive follow-up of the audit reports to ensure that audit reports receive due attention of all concerned. Follow-ups would be carried out in a variety of ways including:

- ✍ continuous review of reports and responses received by its Follow-up and the respective divisions including the Regional Offices of the RAA;
- ✍ review and verification of facts and status during subsequent audits by the audit teams; and
- ✍ holding discussions and meetings with the Ministries and agencies.

The follow up would also include presentation of status reports to the Government and the National Assembly on the Annual Audit Reports.

1.9.6 Development of auditing standards and additional audit manuals – enhancing professionalism

The RAA as a part of promoting professionalism has plans for further development of audit manual and guidelines. The RAA would also revise the General Auditing Rules and Regulation to keep abreast of the professional development.