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ALIGNING AUDIT EFFORTS TO CONSTITUTIONAL THRUSTS

ALIGNMENT OF AUDIT APPROACHES

The Article 25.1 of the Constitution of the Kingdom of Bhutan states, “There shall be a Royal Audit Authority to audit and report on the economy, efficiency and effectiveness in the use of public resources”. The mandate is also reiterated in the Audit Act of Bhutan 2006. In order to align its functions with the overall constitutional direction, the Royal Audit Authority had initiated a series of changes and reforms during the past three years. With the enactment of the Audit Act of Bhutan 2006, the Royal Audit Authority convened its 9th

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Annual Audit Conference under the theme “Inroads to Performance Auditing” wherein challenges, constraints and strategies in conducting and integrating performance auditing were discussed and finalized. The theme of the conference also helped in instilling the concepts of Performance Auditing in the minds of the stakeholders. Some of the other major initiatives of the RAA during the period are briefly highlighted below:

a) Organisation structural changes

The new mandate required the Royal Audit Authority to adopt a paradigm shift in the functional approaches as well as the organisational structure. In July 2007, the Royal Audit Authority convened its 10th Annual Audit Conference on the theme “RAA: Its Role as a Constitutional Body”. The Conference discussed and finalised the roles, challenges and strategies of the Royal Audit Authority in a Democratic Constitutional Monarchy.

The Royal Audit Authority was also one of the first organisations to undergo the Government initiated organisational development exercise in May 2007. The exercise assisted in reviewing the mandates, possible overlaps and duplications, human resource requirements and training needs, quality and standard of services and work processes. Shortly following this, the RAA underwent the Capacity Building Needs Assessment conducted by the INTOSAI Development Initiatives. Based on the recommendations of these studies, the organisational set up was restructured in line with the new mandate. A new Organogram was proposed including new departments and functional divisions. The Department of Follow up, Regions & Human Resource Management, the Thematic Audit Division, Performance & System Audit Division, Office of the Assistant Auditor General, West, Quality Assurance & Research Unit were thus established to ensure better compliance to the new mandate.

b) Functional adaptations

As early as 2006, the Royal Audit Authority initiated a major shift in its functional approaches. The traditional audit approach has been replaced by a risk based focussed audit and the existing rudimentary audit planning was also reinforced by a detail audit planning and programming. The audits for the year were selected through risk based audit planning where important factors such as the detailed analysis of budgets and expenditure, major thrust areas, significant policy changes and the past performance among others are taken into account. The agencies are then notified about the dates of the audits through the Annual Audit Schedules. The audit planning and programming has also been streamlined. The auditors devote about a quarter of the time allotted on planning and programming their audits. The plans and Programmes have to be approved by their supervisors prior to the commencements of the field audit. As compared to the normal routine audit, the performance audit requires a great deal of planning. The implementation of proper audit planning and the experiences gained by the auditors eased the gradual induction of the performance audit with the regular audits. By 2008, many of the officers were trained on performance auditing and almost all the auditors availed basic courses on performance audits. Added by the publication of a guideline on performance auditing, the Royal Audit Authority subsequently began the integration of the basics of the performance audits with the normal routine audits.

The Royal Audit Authority also initiated the certification of the letter of credit accounts, Revolving fund accounts and the subsidiary budget account of the agencies. The move not only provided a balanced audit reporting but also prepared the Royal Audit Authority towards financial and performance auditing. Recognising the importance of balanced reporting, the Royal Audit Authority will also deliberate extensively on the issue during the 12th Annual Audit Conference under the theme “The RAA’s approach toward balanced reporting”. The conference on the theme will enable the Royal Audit Authority to discuss and finalise its roles, challenges and strategies on the issue.

With the strengthening of performance audit divisions, the Royal Audit Authority was able to conduct and issue 18 Performance Audit Reports covering issues and topics of significance such as Forest Road Management, Government Quarters, Mining Operations in Bhutan, Municipal Wastes, Government Property Management, Land Pooling Procedures and Land Administration & Management in Thimphu City Corporation, Dzongkhag Local Area Network Administrations, Community Information Centres, Operation of National Parks, Department of Roads in the 9th Five Year Plan etc.

c) Monitoring and evaluation system

The Royal Audit Authority had accorded high priority on monitoring and evaluation of its activities as a means to accomplish the planned targets. The Auditor General’s Secretariat keeps track of the activities through a system of monthly progress reporting and monitoring. In addition, the Policy, Planning & Annual Audit Report Division conducts quarterly, bi-annual and annual monitoring and evaluation of the plans and activities.

d) Institution of various Committees

In order to establish a collective decision making process, various committees were also established for different purposes. The terms of reference of the existing Committees were also revised. At the moment, the Royal Audit Authority has 7 committees comprising of the Technical Committee to the Annual Audit Report, the Quality Assurance Committee, the Audit Committee, the Human Resource Committee, the Disciplinary Committee and the Procurement Committee. The highest level committee was the institution of the Executive Committee, which will provide advisory functions to the Auditor General as the constitutional head in making high level decisions.

e) The Strategic Plan

Having clear mandates emanating from the Constitution itself, the Royal Audit Authority identified its vision and defined its mission, values and objectives. Having established those clear directions, the RAA charted out its Strategic Plan 2008-2013. The Strategic Plan document sets the future direction of the RAA in a Democratic Constitutional Monarchy.

The plan had been developed through a series of discussions and consultations with the auditors and staff at various levels and finally endorsed by the Executive Committee of the RAA. The outcomes of the organisational development exercise and the capacity building needs assessment also helped in framing the strategic plan. An important aspect of the plan directly proportional to the RAA's efforts in aligning to the constitutional thrusts is on the professional developments. Some of the initiatives on this front are presented separately below.

f) The Continuous Professional Development Policy of RAA

In a drive towards enhancing professionalism, which is an essence in discharging its vast responsibilities, the Royal Audit Authority formulated the continuous professional development policy. The RAA relies heavily on the knowledge, skills, competence and commitment of the auditors and the support staff. The continuous professional development policy, a first of its kind in the country, is set to administer the training requirements, harmonious awards and ensure professional development in the set direction. The policy also regulate the minimum hours of learning experiences (conducted in-house or ex-country trainings) required for processing one's career advancement.

In order to facilitate professional development, the RAA proposed the establishment of an Audit Training Centre at Tsirang which was subsequently endorsed by the 87th National Assembly. At the moment, the ground works for the construction is under progress and would be completed during the 10th Five Year Plan.

g) Auditing Standards

Auditing Standards prescribe the norms of principles and practices, which the auditors are expected to follow in the conduct of audit. They provide minimum guidance to the auditor in determining the extent of auditing steps and procedures that should be applied in the audit and constitute the criteria or yardstick against which the quality of audit results are evaluated.

Therefore, in line with Article 45 (b), 56 and 57 of the Audit Act of Bhutan 2006, the RAA drafted the Auditing Standards. The exposure draft has been circulated to the stakeholders in January 2009 for further consultation and discussion. The Auditing Standards will be further deliberated in the Annual Audit Conference in July 2009 prior to its approval.

h) Auditing manuals & guidelines

In order to institute the best international practices in auditing and enhance professionalism, the Royal Audit Authority initiated drafting various audit manuals and guidelines. 12 Audit Manuals on Audit of Public Utilities, Certification Audit, Forestry Audit, Armed Forces Audit, Dzongkhag Audit, Municipal Audit, Construction Audit, Revenue Audit, IT Audit, Schools Audit, Hospital Audit and Procurement Audit were finalised and are awaiting adoption of the Auditing Standards.

In addition, 9 more manuals are also being developed on Environment Audit, Systems Audit, Human Resource Audit, Hydro Power Audit, Pay and Allowances Audit, Audit of Public Enterprise, Gewog Audit, Election Fund Audit and Follow up Audits.

The RAA is also in the process of finalising a document on Public Information & Disclosure Policy. The exposure draft has been circulated to the stakeholders in February 2009 for further consultation and discussion.

The RAA also drafted and issued Handbooks on Audit Criteria, Audit Working Papers, Audit Recoveries Account and Audit Clearance Certificates.

Constraints & Challenges

With the strengthening of the internal audit units across the agencies, the Royal Audit Authority will steadily gear towards more of financial, performance and theme based audits. The performance auditing role shall require the RAA to engage in reporting and advising the Parliament on larger issues of governance and matter of national interest. The RAA's advice is expected to be an integral input in the formulation of policies, enactment of legislative instruments and creation of rules and regulations pertaining to the use of public resources. As it transcends from its traditional role of 'transaction audit' to 'performance and issue based thematic audits', the foremost challenge is the prevalence of weak internal controls and absence of effective internal audit system across many of the agencies. As a consequence, the Royal Audit Authority is still required to devote considerable time and resources in transactional audits. On the other hand, the lack of performance indicators and effective monitoring and evaluation system in most of the agencies impede the conduct of an effective performance audit.

Other challenges include the inability of the Authority to attract adequate, competent and experienced professionals to discharge its functions effectively, particularly in the four thrust areas of Performance Audit, IT Audit, Environment Audit and Financial Audit.