

SAI Performance Report

The Royal Audit Authority of Bhutan

Final report

15 May 2015

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(I) EXECUTIVE SUMMARY

The SAI PMF pilot of the Royal Audit Authority (RAA) of Bhutan was initiated through a request by the RAA to the INTOSAI-Donor Secretariat, as coordinator for the task team developing the SAI PMF. The assessment was carried out as a peer review, led by the INTOSAI-Donor Secretariat and supported by the Office of the Auditor General of Norway. The purpose for the assessment was to provide RAA with information about its strengths and weaknesses and thereby identify opportunities to strengthen performance, to establish a baseline against which future progress can be measured and support the process of developing the SAI PMF as a global tool. The report will also be used by the RAA in its fund mobilization efforts.

The evaluation of the SAI's performance is not including judgement of RAA's performance in relation to political system, media freedoms, civil society organizations and the rule of law in Bhutan. This was a decision made by RAA based on cultural customs in the country and limited sources of information.

There has been improvement in the Bhutan's governance and public financial management system the last years, but these still have clear areas for improvement which poses challenges to the RAA in its audit work. On the whole the RAA has strong performance when this is seen in relation to the significant external constraints the RAA faces, most significantly the shortcomings in regards of financial resources and educational background of its employees resulting from the limitations in the country's educational system. It is obvious that the RAA is working hard to make the most of what it has, whether this is financial resources or staff resources.

The legal framework for RAA secures the independence of RAA in the majority of matters, but fails to provide the RAA full financial and organizational independence. As of today, the financial dependence on the Ministry of Finance seems to not affect the financial resources provided to the RAA. The possibility is though a matter of concern. The organizational dependence in regards of adherence to the Civil Service is now ensuring that RAA receive new and qualified graduates for its vacant positions. In the longer term the strict regulation of the country civil service regulation could hamper RAA performance.

The RAA has a strong and broad mandate with the right to select subjects of its audits and to enforce or initiate enforcement action to secure access to needed records that are not produced. Further, the country's legal framework provides concrete regulation to enforce audited agencies to respond to RAA's audit findings and recommendations. All this together gives a strong basis for the RAA to have a high impact in promoting good governance, strengthening accountability and transparency in government and public sector entities in the country. Review of the RAA's follow-up reports and interviews with representatives from the Ministry of Finance and Legislature demonstrate that the RAA plays an important part in strengthening fiscal discipline, making government accountable and ensuring efficient use of public resources. However, the RAA's follow up system is only partially in place, and there does not appear to be documented mechanisms within government that systematically ensures that the audit reports are followed up by each government ministry, agency and department. This decreases the implementation of the RAA's recommendations and the values and benefits of its audits.

The fact that the RAA does not use the media actively to promote any of its audit results and only publishes it by disclosing the annual audit report on its website (in English) limits the accessibility to the RAA audit results for citizens. The limited communication with the media, citizens and civil society organizations provides clear limitations to the RAA's efforts in strengthening financial accountability and transparency in the country.

The RAA has many strengths, most notably motivated and engaged management and staff that seems to be very focused on improving RAA performance. It is also the assessment team's impression that the RAA has an organizational culture that is open, with good communication between management and staff. However, to enable strong performance improvement an organization needs to clearly identify and prioritize its goals based on its financial resources, activities to reach them, and measure progress. The RAA's strategic plan includes a high number of listed strategies, outcomes and activities, and seems to be based on a desired future and not on resources available. The lack of identified outcome indicators both in the strategic plan and the annual planning document makes it hard to judge whether the RAA's strategic goals and objectives are met. This provides a fragile basis for further performance improvement.

Overall, the RAA performs acceptably in its reporting of financial and compliance auditing (domain A): the RAA has quite high audit coverage and scores well on submission of financial and compliance audit results to Parliament, but does not report on non-submission of financial statements and does not use a risk based approach for selecting compliance audits. On publication and dissemination of financial and compliance audit results, the RAA gets the highest score. The RAA's reporting on performance auditing is evaluated to be lower, mainly due to performance auditing not having equal importance to financial and compliance auditing (according to number of staff and number of reports) in the RAA and that the performance audit reports are not published. Further, while the RAA's has established a system for follow up of financial and compliance audits, this is only partially in place for performance audits.

When it comes to how the RAA conducts its audits, this assessment has identified clear weaknesses. The auditing guidelines and manuals are to a large extent aligned to the ISSAI level 3 requirements and employ modern audit techniques to deliver cost effective audits, but review of financial and compliance audit files and interviews with division chiefs and team leaders indicate substantial breaches in the following of these. The most severe finding in the assessment was that a majority of the sampled financial and compliance audit files had incomplete working files due to failure to properly document audit work. It was not possible for the assessment team to track the audit flow, including review by line management, in the majority of the files. Review of the documentation that existed in the sampled audit files and information gathered through interviews gave the assessment team sufficient reasons to conclude that the planning and implementation of financial and compliance auditing in practice is not done in full compliance with RAA's auditing standards and guidelines. However, review of pilot audits conducted using the new audit methodology showed these follow the auditing standards and guidelines and were of high quality, demonstrating that the RAA's auditing standards and guidelines provide a good basis for conducting high quality audits. The sampled performance audits had complete working files, and it was easy for the assessment team to follow the process of auditing. Quality control was evident and mostly documented, and the audits were also on the whole implemented according to RAA standards and guidelines. The lack of adherence to RAA's auditing guidelines in a majority of the sampled financial and compliance audit files makes the assessment team question whether managers are held accountable for non-compliance to these. Non-compliance to the auditing guidelines has severe impact on the quality of RAA's financial and compliance audits.

The RAA has developed a strategic document on development initiatives. The issues identified as the most challenging and important to address are RAA's audit approaches and auditors' inadequate skills and competences in connection to auditing. This assessment's review of audit files shows that all audit disciplines have shortages when it comes to audit staff's skills and knowledge, and that a majority of the identified issues are clearly audit type specific. The shortages are connected to the limitations in the country's education system, especially in regards of tertiary education. The RAA lacks the necessary financial resources to train and educate their staff sufficiently to deliver high quality audit work following international professional standards.

The RAA has initiated several development reforms and programs funded by external partners that target these major challenges, e.g. development of an audit management system, development of auditing manuals and guidelines and pilot auditing supervised by external experts in financial and compliance auditing. The activities are mainly carried out by internal staff, and this ensures RAA ownership to the projects and also the usefulness of the products. The audit management system has good possibilities for improving audit documentation and making the whole auditing process more uniform. Review of the auditing guidelines demonstrate that these give a good foundation for conducting high quality audits, and review of pilot audits that followed the auditing guidelines show the potential if the financial and compliance teams are trained properly. The pilot audits scored significantly higher than the other audits reviewed, giving evidence that the program has had success. However, further work is required to effectively roll-out these manuals across organization, to ensure that change is sustained.

However, the RAA's planning related to the increase of qualifications and skills amongst its staff is based on limited analysis of the specific needs in each audit discipline. Further, the RAA lacks a plan that establishes requirements for qualifications and skills for each staff level in the different audit disciplines, as well as an analysis of how to get there and the finances required. This should be in place to ensure that the development reforms and programs are properly targeted, and to ensure the successful implementation of these projects so that they can lead to major performance improvements.

(II) QUALITY ASSURANCE STATEMENT

SAI Performance Report of the Royal Audit Authority of Bhutan, 15 May 2015

Quality Assurance Statement

The INTOSAI-Donor Secretariat within the INTOSAI Development Initiative (IDI), as coordinator of the SAI PMF Task Team under the INTOSAI Working Group on the Value and Benefits of SAIs, provides support to SAI PMF pilot assessments where requested. Such support includes conducting independent quality assurance reviews (QAR) of draft assessment reports. A request for such a QAR was received from the assessment team leader on 11 February, 2015.

This SAI Performance Report (SAI-PR) was prepared by Cecilie Thue-Hansen (INTOSAI-Donor Secretariat in IDI) with inputs from Trygve Christiansen, Øivind Berg Larsen and Lars Tore Rydland (Office of the Auditor General of Norway). All team members had previously attended a SAI PMF training course. The team leader had co-facilitated a SAI PMF training course, and one member of the team had taken part in a previous SAI PMF assessment. The team is considered to have the appropriate skills and experience to conduct this assessment.

The Terms of Reference specified that an independent Quality Assurance Review would be conducted by the INTOSAI-Donor Secretariat. The ToRs were independently reviewed by the INTOSAI-Donor Secretariat, and approved by the AG.

In addition to the QAR done by IDI, the draft assessment report was reviewed by the Auditor General and senior staff of the RAA, with the objective of ensuring that the report is factually correct.

The QAR done by IDI was carried out by Martin Aldcroft, Head of the INTOSAI-Donor Secretariat in IDI, who had no responsibility for preparing the SAI-PR, and is considered to have the appropriate knowledge and experience necessary for this task. The objectives of this review was to ensure that:

- the SAI PMF methodology had been adhered to
- the evidence in the SAI-PR was sufficient to justify the indicator scores
- the analysis was consistent with the evidence
- the executive summary was consistent with the analysis in the rest of the SAI-PR.

Significant matters raised during the quality assurance process have been addressed in this version of the SAI-PR, to the satisfaction of the quality assurance reviewer.

There is one material deviation in the content of the report compared to the SAI PMF Pilot Version. This relates to the RAA's decision that the Performance Report should not include information on the country context RAA operates in when it comes to media freedoms, civil society organisations, the rule of law and to some degree political system. This is due to cultural customs in Bhutan and limited secondary sources of information. This issue is noted in section 1 Introduction, and the implications of this for the Performance Report are explained therein.

Prepared by: Martin Aldcroft, Head of the INTOSAI-Donor Secretariat
Date: 15/5/2015

(III) OBSERVATIONS ON SAI PERFORMANCE AND IMPACT

A. INTEGRATED ASSESSMENT OF SAI PERFORMANCE

This part of the report analyses how factors inside and outside of RAA's control have impact on RAA's external performance.

COUNTRY CONTEXT OUTSIDE THE CONTROL OF RAA

COUNTRY GOVERNANCE ENVIRONMENT

Bhutan's judicial system with focus on corruption¹, RAA's broad mandate² and the strong legal framework for enforcement of RAA's audit recommendations³ give strong incentives for good cooperation between the public agencies and the RAA. This provides a good basis for RAA to perform well.

The parliament in Bhutan has two sessions a year – one in winter and one in summer. RAA's Annual audit report is discussed in the parliament's summer session, while the performance audit reports are discussed in the parliament's winter session. Before last winter session (October-November 2014) there were quite a bit of backlog when it comes to the treatment of performance audit reports in the Parliament, due to capacity problems. The delay of parliamentary debate on the findings and recommendations of the performance audit reports is a factor that potentially can hamper the impact of the performance audit reports. However, the backlog was cleared in the last winter session of Parliament.

Bhutan has undergone major development in regard of higher tertiary education the last decade. Previously, higher education in Bhutan in relevant subjects for public auditing were limited (accountancy, economics) or absent (social science). After the establishment of the Royal University of Bhutan in 2003 this has improved, but still people need to go abroad to receive high level education in e.g. financial auditing, accounting and methodology of social science. Few master programmes are available (none in social science). The limitations in the country's tertiary education system has clear impact on the performance of RAA in auditing – it is challenge both in regard of getting new employees with the necessary skills and in regard of having "older" staff that do not have the necessary educational background to do audits at a high level in accordance with international standards. The review of audit files shows that in financial and compliance auditing the limited knowledge of professional standards and in specialized areas of accounting was most evident. In performance auditing there are shortcomings in regard of identifying overall problems and deficiencies, and to see the link between the objective, criteria and findings in the audit reports. The assessment team sees this as related to the fact that the performance audit divisions have no auditors trained in social science methods (except from economics). This is of course a natural consequence of the lack of higher education in social science in Bhutan until recently.

The RAA has tried to remedy the limitations in educational background by e.g. paying for some employees getting higher education in specific subjects abroad, by collaborating with Deloitte on training 15 of RAA's audit team leaders and by getting three employees at managerial level trained by the IDI as

¹ See section on "Government structure and political system" in chapter 2.1

² See section on "Legal and institutional framework" in chapter 2.3

³ See narrative on SAI-7, dimension (iv)

ISSAI facilitators in the three core audit disciplines - financial, compliance and performance audit. RAA is a member of INTOSAI and has benefitted from this by taking part in regional capacity development programs and INTOSAI working groups.

The rough geographical terrain of the country and the limited infrastructure entails that there are hardships related to RAA's execution of its audit mandate - to cover all the 20 districts and 205 Geogs of the country. Some of the Geogs are located in very remote parts of the country where road connections are unavailable, and the auditors have to walk for more than six to seven days through rough terrain and harsh weather to reach these remote areas. The tracks often go through areas with no accommodation and other basic facilities available, and the auditors have to arrange accommodation by pitching tents. The hardship of auditing in some regional parts of the country has made the job as auditor in these parts of the country very unattractive.⁴ It is also time consuming.

PUBLIC FINANCIAL MANAGEMENT ENVIRONMENT

The Ministry of Finance has initiated a paradigm shift in financial management system of the government of Bhutan from a stand alone system (Budgeting & Accounting System) to a centralized web-based accounting system called Public Expenditure Management System (PEMS). The implementation of PEMS has caused significant improvements in the financial management of the government wherein financial data are updated in real time basis. The system also facilitates timely release of funds and disbursements and timely submission of monthly accounts and expenditure reports. The monitoring and follow-up is also strengthened. The consolidated financial statements is now prepared based on the monthly accounts of budgetary bodies recorded in PEMS. It is mandatory to initiate, process and complete all the budgetary agencies' transactions and accounts in the PEMS on daily basis. The implementation of the new financial management system provides a good basis for the SAI to conduct its financial audits efficiently.

According to the Audit Act of Bhutan 2006, all audited agencies shall submit annual financial statements for their operations to the RAA, but in practice financial statements are not sent to the RAA before an audit commences and they ask for it. The draft financial statements are normally obtained at the planning stage of respective audits. This undermines the timeliness of financial audits. This is further undermined by some audited agencies (NGO's, CSOs) not preparing their financial statements prior to commencement of audit, which leaves the auditors with auditing incomplete financial statements and lists of transactions, and aiding in the preparation of the financial statements.

When the RAA audits the consolidated annual financial statements, opinions expressed and uncorrected material misstatements reported in individual audit reports are considered. However, due to RAA's broad mandate for financial audit, limited staff resources with the right qualifications and the time delays as a consequence of non-automatic submission of financial statements, the audit of all agencies are not completed in time for the audit of the consolidated annual financial statements. This means that the RAA's audit of the consolidated financial statements is not informed by analysis of underlying findings from all individual audits, i.e. RAA has no possibility for a complete systematic approach in linking findings from individual audits to findings in their audit of the consolidated financial statements. This reduces the accuracy of the audit of the consolidated financial statements. However, the material misstatements with pervasive impact on assertions of budgetary agencies' financial statements observed at the time of audit of the consolidated financial statements are coordinated and shared with the auditors responsible for audit of budgetary bodies' receipts and payments statements. This reduces inaccuracy of underlying accounting records to some extent.

⁴ Institutional Development Initiative of RAA, 2014-2018

The overall audit opinion on the consolidated financial statements should be based on the aggregated results of the individual audit opinions on each ministry, agency and authority. Only then will RAA be able to assess the correctness of the consolidated financial statements in a satisfactory way.

There exists no widely accepted financial reporting framework in Bhutan. The RAA considers Financial Rules and Regulations 2001 (FRR 2001) as an acceptable financial reporting framework in absence of any other reporting framework, but FRR 2001 does not qualify as a standard which are benchmarked with internationally accepted financial reporting frameworks. The FRR 2001 is also considered as compliance rather than a fair presentation framework. The lack of accounting standards that are compliant with International Public Sector Accounting Standards (IPSAS) makes it more time consuming to do financial auditing.

The audits performed by the Internal Audit Function in Bhutan Ministry of Finance were assessed by the 2010 PEFA report to meet the professional standards of internal auditing. However, RAA does not receive reports from the internal auditors automatically. Further, there was no evidence in the sampled files of internal audit reports being used by the RAA as basis for identifying specific risks in relation to the internal control systems of the audited agencies. This makes audit approaches less efficient.

Performance based management is still in implementation phase in Bhutan. The implementation has been halted by a variety of factors including unclear organizational goals, an input-driven culture and influential donors which may bring in conflicting goals. Unclear performance objectives in audited agencies make performance auditing more difficult and less conclusive.

FOUNDATIONAL FACTORS WHICH RAA CAN INFLUENCE IN THE LONG TERM

The UN Declaration on the independence of SAIs argues that SAIs can accomplish their task of promoting efficiency, accountability, effectiveness and transparency of public administration objectively and effectively only if they are independent of the audited entity and are protected against outside influence. The declaration encourages member states to apply, in a manner consistent with their national institutional structures, the principles set out in the Mexico Declaration of Supreme Audit Institutions Independence. The legal framework for RAA secures the independence of RAA in the majority of matters described in the Mexico Declaration, but fails to provide RAA with full financial and organizational independence.

The Audit Act of Bhutan states that RAA shall determine and administer its budgetary requirements. Since RAA follows the general budgeting procedure of the state of Bhutan and sends its budget request through the Ministry of Finance to Parliament as part of the National Budget, this means that RAA is not financial independent from the Executive. Limitations in financial independence can constrain the activities that an SAI conduct, e.g. reduce audit coverage. The RAA does not report on any activities it could not deliver due to limited resources in its annual reports or other reports. It is though clear that the performance of RAA is affected by limited financial resources, e.g. by the fact that RAA does not audit all financial statements of the agencies in their mandate every year and that the majority of the proposed activities in their planning documents for institutional development have not been addressed due to financial constraints. However, it is the assessment team's view that RAA's financial constraints is a consequence of the limited financial resources in the government of Bhutan, and not the result of limited willingness by the Ministry of Finance to provide enough resources to improve RAA performance. However, as of today the legal framework of Bhutan gives the Executive a possibility for doing this. That is a matter of concern.

RAA's organizational independence is restricted by the fact that RAA shall prescribe the service conditions and personnel policies for its staff broadly in accordance with the Civil Service Act, which sets standards for recruitment, salary levels, promotions etc. According to the Lima Declaration⁵ the Executive should not control or direct the SAs access to human resources. The assessment team has however the impression that being part of the Civil Service has been beneficial for RAA in regards of especially recruitment in lower positions (entry level for employees with bachelor degrees or post graduate diploma in Financial Management) in the last years, ensuring that the RAA has received qualified staff without using much resources promoting RAA as an attractive workplace for new graduates. However, in the longer term the strict regulation of the Bhutan Civil Service Rules and Regulations in regards of recruitment and promotions can be hampering RAA's performance.

RAA has a broad mandate that includes all kinds of audit on all public financial operations and government activities. The RAA has the right to select subjects to its audits. This gives a strong basis for the RAA to be able to strengthen the accountability, transparency and integrity of government and public sector entities in Bhutan. The Audit Act provides the RAA with the right to and with the powers to enforce or initiate enforcement action to secure access to needed records that are not produced. The RAA experiences no difficulties with attaining information from the audited entities, this enable the auditing processes to be efficient.

RAA CAPABILITY – LARGELY UNDER RAA CONTROL

STRATEGY FOR ORGANIZATIONAL DEVELOPMENT

RAA's strategic plan 2010-15 has a massive number of listed strategies, outcomes and activities, and an intermixture of concepts. Some of the listed activities are clearly unrealistic, e.g. the conduct of 42 performance and thematic audits in the 5-year period, which indicate that the plan is not based on resources available and more on a desired future. Prioritized strategies or activities for implementation are not identified and separated from the others in the strategic plan. However, in RAA's annual planning document the activities are however prioritized and adjusted according to progress achieved and available resources. The lack of identified outcome indicators both in the strategic plan and the annual planning document makes it hard to judge whether RAA's strategic goals and objectives are met. Overall, RAA's strategic plan is a bit confusing and provides a not so strong basis for performance development.

AUDIT STANDARDS AND METHODOLOGY

The assessment shows that RAA has recently established a system for risk based methodology for identifying financial audits to the annual audit plan. Use of risk based methodology for identifying performance audit topics is not documented, though the assessment team has been informed that this exists in practice. Risk based methodology is not being used at all for identifying compliance audits in relation to subject matters. This is connected to the fact that compliance audits done by RAA are planned the same way as a financial audit and terms applied in ISSAI 400, i.e. subject matter is not being used. Compliance audits are often initiated through audit themes/thrusts.

Without assessing risk and materiality on an overall level, RAA cannot be sure that the most important areas are targeted. RAA's newly established system for risk based methodology for preparing annual audit plan for financial audits may contribute to increase of coverage within resource constraints and make sure

⁵ ISSAI 1: The Lima Declaration

RAA cover audit of financial statements of all agencies every three years. No use of risk based methodology for preparing annual audit plan for compliance audit and performance audit does not contribute to maximizing the compliance and performance audit coverage within the resource constraints. Further, the lack of full cost approach, including overview of available man days, of human resources needed when planning the annual audit plan limits RAA's potential for having full cost effectiveness.

RAA's guidelines for financial auditing and performance auditing are respectively given in RAA's financial audit manual, performance audit manual and in RAA's Auditing Standards. The manuals are to a large extent aligned to the ISSAI 200 and 300 requirements and employ modern audit techniques to deliver cost effective audits. The RAA has developed no guidance material exclusively for compliance audit, but many elements of compliance audits are covered in the RAA's Auditing Standards and the financial audit manual. RAA's auditing standards and manuals give clear procedures for how quality control should be done in connection to auditing. The RAA also has clear written procedures for the keeping and archiving of working papers from audits. Review of financial and compliance audit files indicate substantial breaches in the following of the manuals and procedures described above. A majority of the financial and compliance audit files sampled for this assessment had incomplete working files due to failure to properly document audit work. It was not possible for the assessment team to track the audit flow, including review by line management, in the majority of the files, which made it difficult to do the overall scoring of the planning and implementation of the audits. However, review of the documentation that existed in the sampled audit files and information gathered through interviews gave the assessment team sufficient reasons to conclude that the planning and implementation of financial and compliance auditing in practice is not done in full compliance with RAA's auditing standards and guidelines. The identified shortcomings in the financial manual may be a cause to the non-compliance with the RAA's auditing standards and manual – the shortcomings may entail that the auditors may be in more need of supervision.

The sampled performance audits had complete working files, and it was easy for the assessment team to follow the process of auditing. Quality control was evident and mostly documented. The audits were also on the whole implemented according to RAA standards and guidelines.

A consequence of incomplete working files is limited possibilities for good quality control and quality assurance. The keeping of records is also important for reference purposes and especially in cases where audit findings may lead to legal sanctions by the prosecuting authorities. Court cases may need to be backed up by solid audit evidence. Limited following of auditing guidelines and standards and a not well functioning quality management system to ensure that these are implemented are serious concerns that have negative impact on the quality of RAA financial and compliance audit reports.

The RAA does not have a system of quality assurance that contain review of a sample of completed audits carried out to make sure that they are carried out in compliance with established standards, rules, practices and procedures. To establish this would help RAA to ensure that the system of quality control is working effectively.

MANAGEMENT AND SUPPORT STRUCTURES

The RAA has established procedures to promote ethical behavior by staff in auditing: a code of ethics (the Oath of Good Conduct, Ethics and Secrecy of Auditors) and procedures to ensure staff's knowledge about it, and a system for monitoring adherence, in addition to frequent job rotation. At the audit engagement level the RAA has a code of conduct declaration that covers independence. This provides a basis to ensure that the auditors' conduct is beyond reproach.

RAA has a clear organizational structure and have in general clearly assigned procedures for line management of both audit and non-audit activities, which makes a good foundation for a strong management that is of major importance for a SAI's performance.

Financial management and asset management is functioning well in RAA, enabling the limited resources to be used effectively. There are however opportunities to improve the system for internal control in RAA.

Lack of time recording system makes it difficult for RAA to ensure that all staff maintains a consistent level of productivity.

HUMAN RESOURCES AND LEADERSHIP

RAA has good practices in holding management meetings and disseminating management decisions to the rest of the organisation, which makes a strong foundation for the running of the organisation.

However, the assessment team questions whether managers are held accountable for non-compliance with procedures set in RAA's financial manual and in the Auditor General's Standing Instructions (quality control and audit process). The non-implementation of these procedures has severe impact on the quality of RAA's audits.

HR issues are just partially covered in RAA strategic and annual planning documents. The review of audit files shows that all audit disciplines have shortages when it comes to audit staff's skills and knowledge, and that a majority of the identified issues are clearly audit type specific. The Capacity Professional Development Policy provides the procedures and responsibilities connected to capacity building of staff, but the RAA has no plan that establish requirements for qualifications and skills for each staff level in the different audit disciplines, nor an analysis of how to get there and the finances needed for the implementation of it. This limits the effect of the capacity development efforts of the RAA and therefore has effect on the quality of audits.

COMMUNICATION WITH EXTERNAL STAKEHOLDERS

RAA has established good practices for internal communication, this contributes to keeping staff motivated, engaged and aligned with RAA's objectives.

RAA's has established good communication with its most important stakeholder – the legislature. This is of extreme importance for RAA, and supports the legislature's perception of RAA as a relevant partner in the oversight of the Executive. The RAA has also established a functioning relationship with the ACC, and relevant audit findings are taken up by the ACC for further investigation and potential prosecution. RAA has good procedures for communication with the Executive in connection to audits, this ensures an understanding of the audit findings and that the audit process runs smoothly. However, by not seeking feedback on performance from any external stakeholder, the RAA misses valuable input for further development that could improve its audits. By restricting communication with the Executive to communication related to audits, the RAA miss opportunities to actively engage in discussions with the Executive to raise awareness of the importance of good governance.

In regard of communication with other external stakeholders (media, citizens), RAA has limited focus on this. The result of this is that audit reports are not communicated as widely as they could have been to the Bhutanese community.

FINANCIAL RESOURCES

The qualifications and skills of auditors in RAA is lower than needed for delivery of high quality audit work following international professional standards. The qualifications and skills level clearly reflects the limits (especially in the past) of the country's educational system. RAA lacks the necessary resources to train their staff sufficiently for the necessary performance improvement. This has clear effects on the capacity development of their staff and quality of audits. However, most public sector organizations in Bhutan have financial constraints and this reflects the limited financial resources of the country.

B. THE VALUE AND BENEFITS OF SUPREME AUDIT INSTITUTIONS – MAKING A DIFFERENCE TO THE LIVES OF CITIZENS

In this part of the report the values and benefits of RAA are explored by analyzing the impact of its performance. In other words, it shows the implications of findings in this assessment and seeks to provide an understanding of why weaknesses identified in RAA's performance matter for Bhutan.

STRENGTHENING THE ACCOUNTABILITY, TRANSPARENCY AND INTEGRITY OF GOVERNMENT AND PUBLIC SECTOR ENTITIES

The concept of accountability is at the heart of a democratic system. It describes the relationship between the duties of the state and the entitlements of citizens. In a democracy, elected representatives are empowered to implement the will of people and act on their behalf through legislative and executive bodies. A risk in a democracy is that power and resources can be mismanaged or misused, leading to an erosion of trust that can undermine the democratic system. An independent, effective and credible SAI that scrutinize the leadership and use of public resources is an important component of making the government accountable. As a new democracy with an economy in rapid growth with heavy reliance on foreign loans, this is especially crucial for Bhutan. The review of RAA's follow up reports of audits show that the RAA plays an important part in strengthening fiscal discipline, making the government accountable and in ensuring efficient use of public resources by changing government behavior.

The key role of citizens in a democracy is participation. Citizens have an obligation to become informed about public issues, to monitor the conduct of their leaders and representatives, and to express their own opinions. The SAI plays a key role in informing the citizens about the performance of the government. Once SAIs' audit results have been made public, citizens are able to hold the custodians of public resources accountable. In this way SAIs promote the efficiency, accountability, effectiveness and transparency of public administration.

The RAA publishes its annual audit report by enclosing it on the RAA website with a news article. No other measures are taken to communicate the report to the public. The annual reports of 2012 and 2013 are not published on the website in Dzongkha, just in English. Performance audit reports are not published at all, the media gets hold of reports through members of parliament. Keeping in mind that the mean years of education among the adult population is only 2,3 years and that only 30 percent of the people in Bhutan are users of the Internet⁶, this can hardly be seen as informing the citizens of Bhutan about the performance of the government at the necessary level and "thereby enabling the public to hold government and public sector entities accountable".⁷ The RAA has to some degree adjusted to the low level of education through using a less technical language and a lot of figures in their annual reports and adding a leaflet with a summary of the report. Active use of the media, e.g. radio, could be a way to

⁶ World Bank Statistics <http://data.worldbank.org/indicator>, retrieved 18. November 2014

⁷ ISSAI 12 - The Value and Benefits of SAIs

communicate results of audits. A continuation of the RAA's information campaigns towards central and local governments about the role and mandate of RAA also to include audit results is another possibility.

DEMONSTRATING ONGOING RELEVANCE TO CITIZENS, PARLIAMENTS AND OTHER STAKEHOLDERS

SAIs demonstrate ongoing relevance by responding appropriately to the challenges of citizens, the expectations of different stakeholders, and the emerging risks and changing environments in which audits are conducted.⁸

RAA seems to have established well functioning practices regarding communication with the public accounts committee/Parliament and Judiciary (Anti Corruption commission (ACC)) about audit results, and with the Executive in relation to the conduct of audits. RAA's communication with the media is very limited, the RAA does not use the media actively to promote any of its audit results. The fact that RAA is not actively seeking feedback on its performance from any of its stakeholders and has identified very few strategies or activities to improve communication with any of the key stakeholders demonstrates that the RAA has room for improvement in responding appropriately to the expectations and challenges of different stakeholders. The limited (at least not documented) risk assessment in relation to topics elected for compliance and performance audits indicates that there is scope for development in regard of responding appropriately to emerging risks and changing environments.

BEING A MODEL ORGANIZATION THROUGH LEADING BY EXAMPLE

The assessment team has the impression that RAA is working towards become a model organization through leading by example. RAA has come far in regards of being transparent and accountable and in ensuring good governance, and the conduct of a SAI PMF pilot strengthens this further. There are however weaknesses connected to e.g. internal control and openness of external audit reports. Ethical discharge of the responsibilities of the organisation is very high on the agenda in the RAA, but the organization has improvement possibilities in ensuring compliance at audit engagement level. On the matter of promoting a culture of quality RAA has a way to go from being a model organization, shown by the significant shortcomings in the practice of quality control by management in connection to implementation of auditing manuals and procedures for keeping of work files in financial and compliance audits. RAA has a strong focus on capacity building through promoting learning and knowledge sharing internally and externally, though limited by the organization's financial constraints.

C. EXTERNAL ENABLERS AND CONSTRAINTS TO STRONGER IMPACT FROM SAI PERFORMANCE

Bhutan's legal framework provides a very strong foundation for the RAA's audit reports to have a high impact contributing towards strong PFM, good governance, accountability and in the fight against corruption, by providing concrete regulation to enforce audited agencies to respond to RAA's audit findings and recommendations. The fact that members of the Bhutanese Civil Service need clearance certificates from the RAA stating that they have cleared all outstanding audit issues to be able to get promoted or to get a new job, further strengthens this.

However, there does not appear to be documented mechanism within government that systematically ensures that the audit report is followed up by each government ministry, agency and department, e.g. a

⁸ ISSAI 12 – The Value and Benefits of SAIs

document prepared by the Ministry of Finance which instructs all audited agencies to implement audit recommendations. In Bhutan follow-up is to a large extent carried out by the RAA itself through issuance of follow-up reports (which are not published). To establish this could increase the implementation of RAA's recommendations. Since RAA's follow up target individuals and focus on their repayment of misappropriated funds, it would be especially beneficial with a mechanism that emphasized the responsibility of the audited agency.

The weaknesses in Bhutan's PFM system, especially incomplete or non existing financial statements and lack of widely accepted financial reporting framework, undermines RAA's possibility to contribute to aggregate fiscal discipline.

D. ANALYSIS OF THE SAI'S CAPACITY DEVELOPMENT EFFORTS AND PROSPECTS FOR FURTHER DEVELOPMENT

The RAA has developed a strategic document on development initiatives⁹ that is intended to be implemented in parallel with the Eleventh Five Year Plan 2013-2018 of the Royal Government of Bhutan. It is aligned with RAA's strategic plan, but goes much more into detail in identifying key issues that need to be addressed to improve RAA's performance. The issues identified as the most challenging and important to address are RAA's audit approaches and auditors' inadequate skills and competences in connection to auditing. However, RAA's planning related to the increase of qualifications and skills amongst its staff is based on limited analysis of the specific needs in each audit discipline. Further, RAA has no plan that establish requirements for qualifications and skills for each staff level in the different audit disciplines, nor an analysis of how to get there and the finances needed for the implementation of it. This provides a poor basis for capacity development of staff.

The RAA has initiated several development reforms and programs that target the major challenges of RAA's audit approaches and auditors' inadequate skills and competences in connection to auditing the last years: development of auditing manuals and guidelines, a training course in financial auditing for some of its team leaders followed by three pilot audits supervised by external experts, certification of three division leaders as ISSAI facilitators and development of an audit resource management system (ARMS). All of these initiatives were funded by external partners. The activities are mainly carried out by internal staff, e.g. the ARMS has been developed by internal IT personnel under supervision by external experts, likewise the auditing manuals and guidelines. This ensures RAA ownership to the projects and also the usefulness of the products. Review of RAA's auditing standards and guidelines show that these to a large extent are aligned to the ISSAI level 3 requirements in regard of financial and performance auditing. RAA has yet to develop guidelines for compliance auditing. The guidelines provide the RAA with a good foundation for conducting high quality audits. Review of two of the three pilot audits show the potential if the financial and compliance audit teams are trained properly – the audits were conducted very well. The results of the ARMS is yet to see, but the system has great possibilities in ensuring documentation of the audit process and making the whole audit process more uniform.

The strongest constrain to RAA's capacity development is limited financial resources. The RAA is dependent on external funding to be able to increase its performance to be able to conduct high quality audits following international professional standards within a reasonable amount of time.

Donor organizations have shown limited interest in the support of RAA so far. RAA's broad mandate that covers all public financial operations and government activities makes RAA performance key to the

⁹ Institutional Development Initiatives of RAA, 2014-2018

economic management and fiscal discipline of the government of Bhutan. Given the government of Bhutan's dependence of budget support through grants and loans, this is a strong incentive for increased donor support to the RAA.

(IV) SAI MANAGEMENT USE OF ASSESSMENT RESULTS

RAA Management, 29. January 2015

The use of assessment results will be varied and manifold. Among many others, the assessment result will be used as baseline indicator for continuous improvement initiatives of Royal Audit Authority. All opportunities identified and presented in the form of gaps and shortfalls, where possible, will be captured in the Strategic Plan 2015-2020 document. The report will, thus, be used for the RAA's fund mobilization efforts geared towards accomplishing the capacity development goals and objectives of the Authority. Further, the report will be used as a point of reference for next performance measurement assessment of RAA and establish the progresses made.

1. INTRODUCTION

This is a pilot assessment of the SAI Performance Measurement Framework pilot version. The purpose of this assessment is threefold; (1) to provide RAA with information about its strengths and weaknesses as compared to the ISSAIs and thereby identify opportunities to strengthen SAI performance, (2) establish a baseline against which future progress can be measured, and (3) support the process of developing the SAI PMF as a global tool for assessment and monitoring of the performance of SAIs against their mandates and against the International Standards of Supreme Audit Institutions (ISSAIs).

The assessment was initiated through a request by the RAA to the INTOSAI-Donor Secretariat, as coordinator for the task team developing the SAI PMF. The assessment was carried out as a peer review, by a team of four, led by Cecilie Thue-Hansen in the INTOSAI-Donor Secretariat and supported by Trygve H. Christiansen, Øivind Berg Larsen and Lars Tore Rydland from the Office of the Auditor General of Norway (OAGN). The assessment was financed by the INTOSAI-Donor Secretariat and OAGN. To ensure that the assessment team understood issues correctly and to contribute to further capacity building in RAA, a few staff members from RAA followed the team in their fieldwork and took part in team discussions and some interviews. The staff from RAA was not involved in the final judgement and scoring of the indicators, and not in the writing of the performance report.

The assessment has been executed as a combination of a desk review of documentation and a two week field trip to the RAA in Bhutan. During fieldwork the assessment team conducted interviews of staff from all levels of the organization, reviewed data in RAA's information management system and a sample of audit files. The assessment team also conducted a few interviews by telephone with three representatives from the Ministry of Finance, the National Assembly secretariat and the Austrian Development Agency.

The scope of the assessment covered the whole audit mandate of the RAA. For the sampling of financial and compliance audits stratification was used to ensure that we picked audits from all divisions and regions, as requested by the RAA, and that the sample included audits of central and local governments. The financial and compliance audits were selected from RAA's latest reported audit activities (financial year 2012 to 2013: financial year begins from July and ends in June). The performance audits were selected randomly, one audit from each of the last three financial years 2011-2012, 2012-2013 and 2013-

2014. The field visit included no visits to RAA's branch offices. All team leaders for the sampled audits were interviewed by the assessment team, including teams from regional offices.

Due to cultural customs in Bhutan and limited secondary sources for information, the RAA decided that the Performance Report should not include information on the country context RAA operates in when it comes to the political system, media freedoms, civil society organizations and the rule of law in Bhutan. As a consequence, the SAI Performance Report does not draw any inter-linkages between these external factors and RAA performance.

The draft report was shared with RAA for fact check and comments before being finalised by the assessment team.

We are grateful to the RAA and all the staff that interacted with the assessment team. All staff were very supportive and engaged in providing us with all the information that was needed to do the assessment. RAA also did an excellent job in connection to organising of the assessment.

2. COUNTRY AND SAI BACKGROUND INFORMATION

2.1 DESCRIPTION OF COUNTRY GOVERNANCE ARRANGEMENTS AND WIDER ENVIRONMENT IN WHICH THE RAA OPERATES.

The Kingdom of Bhutan also known as the Land of the Thunder Dragon is a small landlocked country located in the eastern Himalayas, bordered by India and China. Bhutan has a population of 754 504 according to the National Statistics Bureau¹⁰, spread over an area of 38,394 sq. km. The geographical landscape is entirely mountainous in nature with the land rising from about 200 meters above sea level in the south with sub-tropical plains and valleys to sub-alpine heights of 7500 meters above sea level in the north. Over 70 percent of the country is covered by forest. Much of the population lives in the central highlands, and almost two-thirds are classified as rural inhabitants. The mountainous terrain makes transport difficult.

Bhutan has since 1971 been on UN's list of least developed countries that comprises low-income developing countries that face severe long-term structural impediments to growth. Indicators of such impediments are high vulnerability of country economy and low level of human capital.

BHUTAN'S DEVELOPMENT PLANNING FRAMEWORK

Bhutan's development planning framework is guided by the development framework of Gross National Happiness (GNH).¹¹ Article 9-2 of the Constitution directs the State "to promote those conditions that will enable the pursuit of Gross National Happiness". The concept of (GNH) implies that sustainable development should take a holistic approach towards notions of progress and give equal importance to non-economic aspects of wellbeing. The concept of GNH has four pillars with the following sequence: 1) sustainable and equitable socio-economic development, 2) conservation of the environment, 3) preservation and promotion of culture, and 4) good governance.

¹⁰ Website of the National Statistics Bureau of Bhutan (NSB) <http://www.nsb.gov.bt/main/main.php#&slider1=4> retrieved 20. November 2014

¹¹ Eleventh Five Year Plan 2013-2018, Gross National Happiness Commission Royal Government of Bhutan, 2013

A GNH Commission has been established to ensure that GNH is mainstreamed into the governments planning, policy making and implementation process. The Prime Minister of Bhutan is chair person of the commission, other members are the cabinet secretary, all secretaries to ministries, head of national environmental secretariat and the GNHC Secretary.¹²

Three key milestones were set in the state visionary document “Bhutan 2020: A Vision for Peace, Prosperity, and Happiness”¹³ – self-reliance, full employment and graduating from the UN list of Least Developed Countries by the year 2020. Key challenges identified in relation to Vision 2020 are e.g. to strengthen the various processes, interactions and systems of a well-functioning democracy; strengthen the capacity of key national and local government institutions; and ensure quality of social outcomes due to widening disparities and inequalities in health and education. Bhutan’s Eleventh Five Year Plan¹⁴ serves as the vital platform for achieving this.

RECENT DEVELOPMENT AND DEVELOPMENT CHALLENGES

Bhutan has managed to achieve sustained economic growth by unlocking its hydropower potential, primarily by government investments. This has helped Bhutan to reduce poverty over the past years. Bhutan had in 2013 a GNI per capita of 2,460 USD, an increase of 40 percent from 2008 and 20 percent higher than the GNI per capita for South Asia in total. The national poverty rate¹⁵ was 12 percent in 2012, declining from 23 percent in 2007. However, the national poverty rate was substantially higher in rural areas (16,7 percent in 2012) than in urban areas (1,8 percent in 2012).¹⁶

While it is projected that Bhutan will be able to graduate from the list of Least Developed Countries based on the income criteria (GNI) by 2020, the country meets several challenges in relation to raising above the graduation threshold on the Human Asset Index (HAI) and Economic Vulnerability Index (EVI). Bhutan’s main challenges in relation to HAI are high malnutrition among children, high mortality rate in births and low adult literacy rate. Challenges in relation to EVI are exposure to trade shock as a result of a concentrated export structure, instability of agricultural production, being geographically remote and high vulnerability to natural disasters.¹⁷ Bhutan’s industrial and export bases are narrow, and it is exposed to single market (India) and single commodity (hydropower) risks.

ECONOMIC DEVELOPMENT

Since 2011 the Bhutanese economy has been experiencing unprecedented macroeconomic challenges from a combination of related factors that include a surge in capital inflows for hydropower development, rush in hydro related import, rapid credit expansion, successive build-up of current account deficits with India and consequently an acute and persistent shortfall in Rupee reserves that has yet to be effectively addressed. Given limited domestic capacity, there are concerns that the Bhutanese economy is

¹² <http://www.gnhc.gov.bt/mandate/>

¹³ Bhutan 2020: A Vision for Peace, Prosperity and Happiness, Planning Commission Royal Government of Bhutan 1999

¹⁴ Eleventh Five Year Plan 2013-2018, Gross National Happiness Commission Royal Government of Bhutan, 2013

¹⁵ National estimates are based on population-weighted subgroup estimates from household surveys.

¹⁶ World Bank statistics <http://data.worldbank.org/indicator/NY.GNP.PCAP.CD/countries/BT-8S-XN?display=graph>, retrieved 20. November 2014

¹⁷ Data related to the different indicators are gathered from Bhutan’s Eleventh Five Year Plan and UN DESA’s LDC Review Data, http://www.un.org/en/development/desa/policy/cdp/ldc/ldc_definitions.shtml retrieved 20. November 2014

overheating, putting upward pressures on prices, wages and the real exchange rate.¹⁸ Inflation is high and was measured to be 7 percent in 2013, rising from 5,3 percent in 2005¹⁹, with a peak of 13,5 percent in the 2nd quarter of 2012.²⁰

Real GDP is by the Government of Bhutan projected to increase by an average of close to 12 percent per year, with the hydropower sector driving most of the growth. The prudent management and use of hydropower inflows towards an effective strategy for economic diversification and productivity enhancement is seen as crucial. Current account deficits are projected to increase on average of 28 percent of GDP per year in the period 2013-18, largely on account of imports for hydropower projects. External borrowing will continue to be the dominant source of financing the Current Account deficit, accounting for approximately 60 percent of all inflows.²¹

SOCIAL DEVELOPMENT

Bhutan has undergone solid progress in human development and modernization, particularly in urban areas, with increasing availability and use of public services throughout the country.²² Bhutan received a score of 0,584 (medium range development) on UN's Human Development Index in 2014, placing it along with most of its neighbor states in South Asia. The HAI Bhutan made an increase from 44 in 2006 to 59 in 2012²³, showing that Bhutan has made significant progress on human assets the last years.

However, the country still faces obstacles for development relating to for instance education. Expected years of schooling has increased from 4 years at the end of the 1990s to 12,4 years in 2013, but the mean years of education among the adult population (i.e. average number of years of education received in a life-time by people 25 years and older) are only 2,3 years (2013), which is less than half of the average in South Asia.²⁴ Eleven years of free primary and secondary education is available to every citizen of the country today,²⁵ but the rate of secondary school enrollment²⁶ was 56,8 percent in 2012.²⁷ The rate of secondary school enrollment is of the lowest in South Asia.

Bhutan has undergone major development in regard of higher tertiary education the last decade. Previously, higher education in Bhutan in relevant subjects for public auditing were limited (accountancy, economics) or absent (social science).²⁸ After the establishment of the Royal University of Bhutan in 2003

¹⁸ Eleventh Five Year Plan 2013-2018, Gross National Happiness Commission Royal Government of Bhutan, 2013

¹⁹ World Bank statistics <http://data.worldbank.org/indicator/NY.GNP.PCAP.CD/countries/BT-8S-XN?display=graph> retrieved 20. November 2014

²⁰ Eleventh Five Year Plan 2013-2018, Gross National Happiness Commission Royal Government of Bhutan, 2013

²¹ Eleventh Five Year Plan 2013-2018, Gross National Happiness Commission Royal Government of Bhutan, 2013

²² World Bank Document "International Development Association and International Finance Corporation Country Partnership Strategy for the Kingdom of Bhutan for the period FY 11-14, October 27, 2010

²³ http://www.kuenselonline.com/bhutan-likely-to-shed-ldc-tag-in-2021/#.U_IQv6KDIU retrieved 20. November 2014

²⁴ UNDP Human Development Report 2014, Explanatory note on the Human Development Report composite indices - Bhutan

²⁵ Tertiary Education Division, Department of Adult and Higher Education, Ministry of Education, Royal Government of Bhutan "A country report: Higher Education in the Kingdom of Bhutan", 2009.

²⁶ Ratio of children of official secondary school age who are enrolled in secondary school to the population of the official secondary school age, World Bank statistics

²⁷ Compared to 34,7 percent in 2005

²⁸ Based on information provided in the report "Higher Education: Current Status and Future Possibilities in Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka", Analytical Reports in International Education, Vol. 2. No. 1, March 2008

some bachelor programmes relevant for future public auditors have been established. The Royal Institute of Management provides some post-graduate diploma and diploma programmes covering subjects of administration, management, finance and business, ICT and law. Still however, people need to go abroad to receive high level education in e.g. financial auditing, accounting and methodology of social science. Few master programmes are available (none in social science).²⁹ Further, Bhutan's Eleventh Five year plan states that Bhutan's tertiary education systems is faced with challenges on the issue of relevance and quality of education.

GOVERNMENT STRUCTURE AND POLITICAL SYSTEM

Bhutan has recently evolved from an absolute monarchy into a constitutional monarchy with parliamentary democracy, established in 2008 under the constitution of Bhutan. The democratization process was the initiative of the Monarchy and happened in a peaceful manner. The constitution of Bhutan provides for a government consisting of three main branches – Executive, Legislature and Judiciary – in addition comes the apolitical Monastic Affairs Commission of the state religion.

The executive power is vested in the Council of Ministers headed by the Prime Minister. The leader or nominee of the party that wins the majority of seats in the National Assembly becomes the Prime Minister. The Druk Gyalpo (king of Bhutan) appoints ministers from the members of the National Assembly on recommendation of the Prime Minister. The Druk Gyalpo is the Head of State.³⁰ The current Druk Gyalpo is Jigme Khesar Namgyal Wangchuck, who became king in December 2006 after his father's abdication.

The legislative power is vested in the Parliament, which consists of the Druk Gyalpo and two houses: the National Assembly and the National Council.³¹ The National Assembly has 47 members as of 2014. The maximum number of members is fifty-five, elected by majority vote from each of the twenty Dzongkhag (districts) in proportion to its population.³² The National Council consists of twenty-five nonpartisan members comprising one member elected by the voters in each of the Dzongkhags and five members nominated by the Druk Gyalpo. The members of the National Assembly and the National Council are elected for five years. The National Assembly and the National Council assemble twice a year. Besides its legislative functions the Parliament has the functions of reviewing the policies, plans and programs of the government, the performance of the government, the implementation of resolutions and laws passed by the Parliament and issues of national importance.

Bhutan has two major political parties - the People's Democratic Party (PDP) and the Bhutan Peace and Prosperity Party, also called Druk Phuensum Tshogpa (DPT) - and three other political parties. In the 2013 parliamentary elections, the PDP won 32 out of 47 seats. The DPT had dominated Bhutan's first general election in 2008 winning 45 out of 47 seats, but in 2013 it won only 15. International election observers deemed the 2013 general elections as free and fair.

Bhutan has an election commission, established in the Constitution, which prepares for and oversees the elections to Parliament and local governments.

The Judicial authority is vested in the Royal Courts of Justice and comprises the Supreme Court, the High Court, the Dzongkhag Courts, the Dungkhag Courts, and any other Courts and Tribunals that may be

²⁹ Programmes of Study, The Royal University of Bhutan, 2013

³⁰ The Constitution of the Kingdom of Bhutan, 2008

³¹ The Constitution of the Kingdom of Bhutan, 2008, Article 10 section 1

³² No Dzongkhag shall have less than two members or more than seven.

established from time to time by the Druk Gyalpo on the recommendation of the National Judicial Commission. The Chief Justice of Bhutan and the Drangpons of the Supreme Court is appointed by the Druk Gyalpo in consultation with the National Judicial Commission. Bhutan also has an Anti-Corruption Commission (ACC), established to be an independent authority and to take necessary steps to prevent and combat corruption in Bhutan.³³

Bhutan is a unitary state, but political power is delegated to elected local governments to facilitate the direct participation of the people in the development and management of their own social, economic and environmental well-being.³⁴ The Local Government Act of 2009³⁵ establishes local governments at two tiers: in each of the twenty Dzongkhags (districts) and in each of the 205 gewogs (group of villages). All the Dzongkhags are overseen by the Ministry of Home and Cultural Affairs. The Royal Government of Bhutan has in total 10 ministries.

2.2 DESCRIPTION OF PUBLIC SECTOR BUDGETARY ENVIRONMENT INCLUDING PUBLIC FINANCIAL MANAGEMENT AND IMPACT ON SAI PERFORMANCE

CHARACTERISTICS OF THE PFM SECTOR IN BHUTAN AND APPLICABLE LEGAL FRAMEWORK

The PFM sector largely follows the Anglophone Westminster model. The fiscal year in Bhutan is between 1 July and 30 June. The Public Finance Act of Bhutan passed on 20 June, 2007 by the National Assembly, regulates financial management for the effective and efficient use of public resources, accountability and fiscal policy. The Act states that the council of ministers in Bhutan shall have the overall responsibility of managing the public finances.

The Ministry of Finance is responsible for executing the public financial management in Bhutan. It shall table before Parliament three key documents: the audited financial statements of the financial year ended during each summer session, the budget policy and fiscal framework statement and the budget and appropriation bill.³⁶ The Ministry issues rules and regulations across government. It requires the budgetary bodies to follow the financial management and accounting policies of the government. This also includes the RAA which has to follow these rules and regulations.

The Public Finance Act states that accounting standards for the government of Bhutan shall be set by the Ministry of Finance.³⁷ In the financial year 2010-2011 the Ministry of Finance changed financial management system from a stand alone budgeting and accounting system (BAS) to a centralized web-based Public Expenditure Management System (PEMS). In PEMS financial data shall be updated in real time basis. The system facilitates timely release of funds and disbursements and timely submission of monthly accounts and expenditure reports. The system also strengthens the government's monitoring and follow-up of all government agencies. It is mandatory for all budgetary agencies to initiate, process and complete transactions and accounts in the PEMS in daily basis.

³³ Constitution of the Kingdom of Bhutan, 2008

³⁴ Constitution of the Kingdom of Bhutan, 2008, Article 22 section 1

³⁵ Local Government Act of Bhutan (2009)

³⁶ Public Finance Act, 2007, Article 13

³⁷ Public Finance Act, 2007, Article 122

There exists no widely accepted financial reporting framework in Bhutan. In the meantime the Public Finance Act (2007) and the Financial Rules and Regulations (2001) issued by the Ministry of Finance is being applied. These have not been benchmarked and aligned to internationally accepted accounting standards. As shown in SAI 12 (i) RAA has not assessed whether the financial reporting framework is acceptable.

The secretaries of ministries, heads of budgetary bodies and heads of state enterprises are referred to as "chief executives". Responsibilities related to procurement and disposal of assets are delegated to these officials. This also means that these chief executives are the recipient of the RAA audit reports.

While the private sector has been growing, public companies are the largest companies as measured by assets, turnover and employment.

According to the 2012-2013 annual financial statement the government debt stock outstanding as on 30th June 2013 was US\$ 1,704.842 million which is about 97 percent of the estimated GDP.³⁸ Grants were the source of 17 percent of the government receipts the financial year 2012-2013, borrowings 29 percent (23 percent internal). 50 percent of the grants come from the government of India.

ACCOUNTABILITY AND BUDGET PROCESS IN BHUTAN

Ministry of Finance is responsible for preparing the Budget and Appropriation bill. This is sent to Parliament for approval. According to the 2010 PEFA report, the legislative scrutiny of the Bill is poor. Parliament only reviews the budget at a stage where the detailed proposals have been finalized and there are no powers to modify the budget. In other words, Parliament ratifies the budget.³⁹ The annual budget is formally approved by the Parliament in its summer session and a supplementary (revision) budget, with changes from initial budget allocations, if any, is approved by the Parliament in its winter session. The Parliament only spend one week debating the initial budget bill.

According to the PEFA report, government receipts and payments are carefully segregated, with payments made from one set of bank accounts and receipts paid into another. Expenditures are limited by the amounts provided for in the annual budget and by letters of credit issued by the Ministry of Finance. Letters of credit are instructions to banks to honor checks drawn on specified accounts up to specified limits. Unless the budget is amended, the ministry cannot issue letters of credit that exceed the sums provided for in the budget. This system enables individual units to fund their expenditures, with their parent ministries acting as accounting units. The system of budget amendments gets a score A in the PEFA report.⁴⁰

After financial year end the annual/consolidated financial statement is prepared by Ministry of Finance and sent to the RAA for audit. The annual audit report is sent to the Parliament. A five member Public Accounts Committee (PAC) review and report to Parliament on all audit reports received from the RAA.⁴¹ The PAC has members from both houses of Parliament and from both ruling and opposition parties.⁴² According to the PEFA report the RAA audit reports is scrutinized, debated, result in hearings and are

³⁸ Annual financial statements of The Royal Government of Bhutan for the year ended 30 June 2013

³⁹ Bhutan Public Financial Management Accountability Assessment, June 2010 (PEFA report)

⁴⁰ Bhutan Public Financial Management Accountability Assessment, June 2010 (PEFA report)

⁴¹ Established in the Constitution of the Kingdom of Bhutan, 2008

⁴² Interview with Dasho Ugen Chewang, Auditor General of Bhutan

generally implemented throughout government.⁴³ However, there does not appear to be documented mechanism within government that systematically ensures that the audit report is followed up by each government ministry, agency and department. In many countries such a follow-up by the Executive is called a "treasury memorandum" - a document usually prepared by the Ministry of Finance which instructs all audited agencies to implement audit recommendations. Follow-up is to a large extent carried out by the RAA itself through issuance of follow-up reports which are not published. However, such reports tend to target individuals and focus on their repayment of misappropriated funds.

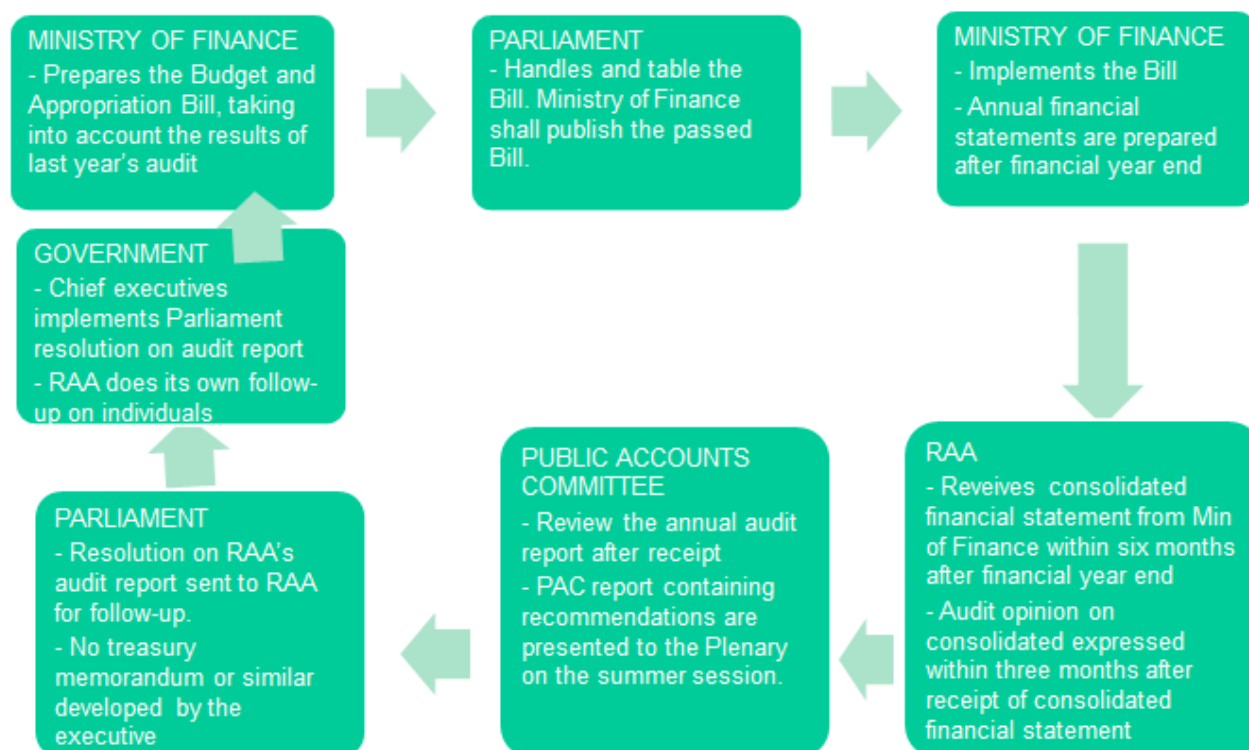


Figure 1 Accountability circle of Bhutan

LOCAL GOVERNMENTS

The Local Government Act 2009 provides that local governments shall not be law-making bodies and thus shall not have legislative functions while they may make rules and regulations consistent with law made by the national Parliament. But the PFA act states that the local governments may set, vary or annul local charges that are specifically authorized. Local authorities shall prepare and submit their annual reports/financial statements to the portfolio minister and to the Ministry of Finance not later than three months after the end of the financial year. The RAA is responsible for auditing these annual reports/financial statements. In addition RAA audit annual reports/financial statements of the local branches of the state enterprises.

The local authorities use the centralized systems operated by the Ministry of Finance.

⁴³ Bhutan Public Financial Management Accountability Assessment, June 2010 (PEFA report)

PERFORMANCE MANAGEMENT IN BHUTAN

The PFA Act in Bhutan has clear provisions for performance based budgeting and reporting. Each portfolio minister shall present half-yearly reports to the Council of Ministers.⁴⁴ These reports should focus on performance against the strategic objectives, programmes delivered etc. Studies of performance management in the Government Bhutan show that such principles have not been fully implemented.⁴⁵ The implementation of a "Positioning Classification System" after the 2008 elections was an attempt to align organizational objectives to the individual outputs through a comprehensive performance management system. The implementation has been halted by a variety of factors including unclear organizational goals, an input-driven culture and influential donors which may bring in conflicting goals. RAA has not carried out audits in this field, although there are clear provisions/audit criteria within the PFA act that could be used. Performance based management is still in its implementation phase, which may explain why more emphasis is placed on financial information than performance information.

INTERNAL AUDIT

The PEFA report assessed the performance of the Internal Audit Function in Bhutan. Ministry of Finance is the parent agency for Governmental Internal Auditors. The audits performed by internal audit were both characterized by being risk based and transaction based, but overall they were assessed to meet the professional standards of internal auditing by getting a score B.

There appears to be a system of follow-up of internal audit reports by the managers within the different ministries. The recommendations raised in the internal audit reports are addressed by management, and 70 % of the recommendations are acted upon immediately.⁴⁶ There are generally few internal auditors posted to the ministries, but plans are underway to increase the number.

The RAA does not receive reports from the internal auditors automatically. The main recipients of the reports are the audited entities. Non-submission of internal audit reports was observed in the file review of RAA audit files. There was no evidence of internal audit reports being used to put any reliance on internal control or identify specific risks.⁴⁷

PEFA SCORES

The latest PEFA report is from 2010 and therefore not up to date. However, it does provide some insight into the performance of the PFM sector in Bhutan.

In PEFA report, Bhutan receives good score on a number of indicators and several As and Bs. However, the budget cycle is not scored well. The quality and timeliness of in-year budget reports (indicator 24) gets C+ and quality and timeliness of annual financial statements (indicator 25) receives score C+. This is mainly due to the lack of internationally accepted standards for budgeting and financial statements. Timeliness seem to be calculated based on the consolidated financial statement and not on the individual financial statements of the audited entities. D+ is given to indicator 27 Legislative scrutiny of annual budget law.

⁴⁴ Public Finance Act, 2007, Article 72

⁴⁵ Dynamics of Public Sector Reforms in Bhutan: Interaction of Values within a Hybrid Administration. Crawford School Working Paper No. 13 - 01. Lhawang Ugyel, 2013

⁴⁶ Bhutan Public Financial Management Accountability Assessment, June 2010 (PEFA report)

⁴⁷ This observation may be a result of the limited audit file sample, but interviews with RAA auditors showed that internal audit reports were not used effectively or systematically.

The two indicators that are relevant for RAA – PI-26 and PI-28 - both gets a score B+. Both the audit coverage and the follow-up by legislature is considered satisfactorily. The PEFA assessment team has put reliance on interviews and official documents, and have not done substantive testing on the quality and performance of RAA. This explains the significant differences between the PEFA findings and the findings of this assessment.

2.3 DESCRIPTION OF THE SAI'S LEGAL AND INSTITUTIONAL FRAMEWORK, ORGANIZATIONAL STRUCTURE AND RESOURCES AND IMPACT OF COUNTRY ENVIRONMENT ON SAI PERFORMANCE

LEGAL AND INSTITUTIONAL FRAMEWORK

The legal framework for RAA is established in the Constitution of Bhutan of 2008, and further detailed in the Audit Act of 2006. The RAA falls under the Westminster /Auditor General model of SAIs. RAA reports to the Parliament, the Prime Minister and Druk Gyalpo.

RAA's mandate is very broad and covers audit of the accounts of all departments and offices of the government, all public authorities and bodies administering public funds. Figure 2 below shows how broad RAA's audit mandate is compared to Bhutan's public sector. The RAA has the mandate⁴⁸ to carry out financial audit, compliance audit, performance audit and any form of audit that the Auditor General may consider significant and necessary. RAA has a specified mandate to audit the consolidated annual financial statements of the royal government, and to audit the assessment, collection and accounting of revenues and taxes. RAA also has a specific mandate to audit aid, grants and public debt of the country. RAA's audit jurisdiction covers:

- central and local government (several levels of local government) or any of its instrumentalities
- Monastic institutions
- Judiciary and Judicial bodies
- Legislature and related institutions
- Constitutional bodies
- Defence and Security Services
- All corporations, financial institutions including Central Bank and their subsidiaries in which the Government has an ownership interest.
- All entities whose loans are approved or guaranteed by the government (NGO's, foundations, trusts, charities, civil societies)
- All entities that receive funds, grants and subsidies directly or through the Government and collections and contributions from people and fund raised through lottery

See SAI-7 for more information about RAA's audit jurisdiction. Based on the audit jurisdiction defined by the Audit Act of Bhutan 2006, there are approximately 1,382 numbers agencies to be covered. There is no other public audit authority in Bhutan.

⁴⁸ Audit Act of Bhutan, 2006, Chapter 4

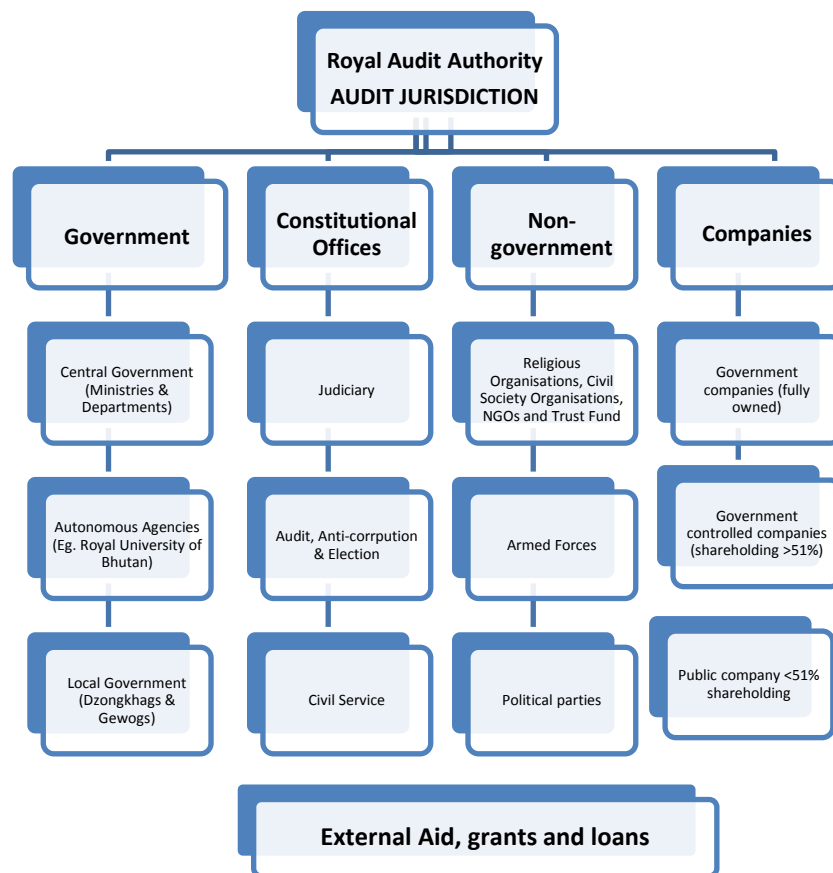


FIGURE 2: RAA'S AUDIT JURISDICTION

ORGANIZATIONAL STRUCTURE

RAA's headquarter located in Thimphu is supported by four regional offices located in the different parts of the country: Tsirang, Bumthang, Samdrup Jongkhar and Phuentsholing. As of July 2014, the RAA has 234 employees in total.

The RAA headquarter audits government ministries, headquarters of corporations, financial institutions and armed forces, NGOs and three of Bhutan's 20 districts. The four regional offices audit the remaining 17 districts - including the local government, branch offices of corporations and financial institutions, units and branches of central government agencies.

RAA has three departments: the department of Performance & Commercial Audit, department of Follow-up, Regions & Human Resource Management and department of Sectoral Audit. The four regional offices lie under the department of Follow-up, Regions & Human Resource Management. Each department is headed by a Deputy Auditor General. However, the RAA has for several months had vacant the position as Deputy Auditor General for two of its three departments (department of Performance and Commercial Audit and department of Sectoral Audit).

Each department is divided into several divisions, eight under the three departments in total in addition to three Secretarial Services divisions that lie directly under the Auditor General. The divisions are headed by division chiefs/Assistant Auditor Generals.

The four regional offices and the three divisions placed under Department of Sectoral Audit⁴⁹ conduct financial and compliance audits (in combination). The Corporations and Financial Institutions division is responsible for the arrangements in connection to the outsourcing of financial audits of corporations, besides conducting compliance audits of the corporations themselves. The Performance & System Audit division and the Thematic Audit division conduct performance audits. The Follow-up and Clearance division is responsible for keeping and updating a record of all financial and compliance audit findings and for the collecting of audit recoveries in connection to the audit findings.

The RAA received no direct grants or loans in addition to its budget in 2013.⁵⁰ In 2014 RAA received total grants of approximately 133 000 USD.⁵¹

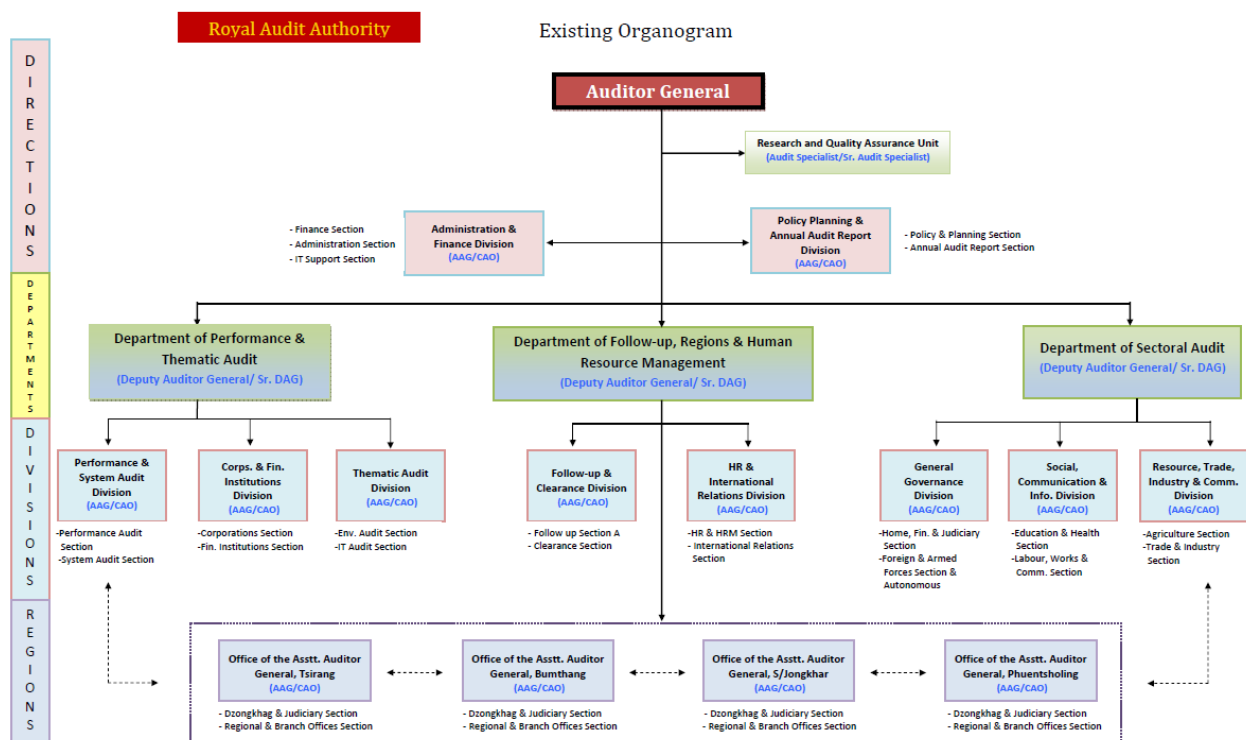


FIGURE 3 RAA'S ORGANIZATIONAL STRUCTURE

⁴⁹ General Governance Division; Social, Communication & Information Division; Resource, Trade, Industry & Commercial Division

⁵⁰ Financial Statement of RAA, 2013

⁵¹ Information received by email 6. February 2015

3. ASSESSMENT OF THE SAI'S ENVIRONMENT, CAPABILITY AND PERFORMANCE

3.1 DOMAIN A SAI REPORTING

Domain A relates to financial, compliance and performance audit reporting. In effect it deals with the quantity of audit work and how the results of audit work are used.

SAI-1: FINANCIAL AUDIT RESULTS

This indicator measures the mandate of the RAA in terms of audit coverage, submission and publication of financial audit results, and the degree of follow-up on implementation of observations and recommendations.

The score for SAI-1 is based on a review of Bhutan's Public Finance Act, the Audit Act of Bhutan and information from the RAA Information Management system.

Indicator score: 2		
Dimension	Findings	Score
(i) Financial Audit Coverage	The financial audit coverage is 65 %, but RAA does not report publicly on the non-submission of financial statements.	1
(ii) Submission of Financial Audit Results	85,7 % of financial audit reports examined were issued within 9 months after financial year end.	3
(iii) Publication and Dissemination of Financial Audit Results	The annual audit report is published well within the legal timeframe.	4
(iv) SAI Follow-up on Implementation of Financial Audit Observations and Recommendations	Criteria b) and c) are met. Criteria a) and d) are not met. RAA has a comprehensive system for follow-up of financial audit observations and recommendations, but this does not include recommendations made by the Legislature. Follow-up reports are submitted to Parliament, but not published.	2

(I) FINANCIAL AUDIT COVERAGE

Financial audits are carried out by three divisions⁵² and the four regional offices in the RAA. The financial audits are usually carried out in combination with conducting a compliance audit.

⁵² General Governance division; Social, Communication & Information division; Resource, Trade, Industry & Comm. division

According to the Audit Act of Bhutan (2006) an audited agency shall submit annual financial statements for their operations to the RAA. The RAA does not receive financial statements automatically from the audit agencies, instead financial statements are sent to the RAA when an audit commences and the RAA asks for it. RAA usually receive the financial statements in the planning phase of the audit. However, in a few incidents some auditees (NGO's, CSO's and ROs) have not prepared their financial statements prior to commencement of audit by RAA. As a consequence RAA auditors are left with auditing incomplete financial statements and lists of transactions, and aiding in the preparation of the financial statements.⁵³ The RAA does not report publicly on the non-submission of financial statements.⁵⁴

Since the RAA does not receive financial statements automatically, this dimension will be scored by comparing the number of conducted financial audits in 2013/14 with the total number of audit agencies.

The total number of audit agencies/auditees for the financial year 2013/14 is 1069.⁵⁵ According to RAA's list of audits conducted⁵⁶, 695 financial audits were conducted in the audit year 2013/2014. The audits were done as a combination of financial audit and compliance audit. The financial audit coverage is calculated to be 65 %. In addition RAA has performed audit of the consolidated fund/annual financial statement of the government of Bhutan.

(II) SUBMISSION OF FINANCIAL AUDIT RESULTS

There is no legal stipulated timeframe for when audits shall be reported to the appropriate authority for individual auditees, except for the audit of the annual financial statements of the government. For the annual financial statements of the government the Public Finance Act states that the Auditor General shall express an audit opinion within three months of receipt. The Minister of Finance shall forward the government's annual financial statements to the RAA not later than six months after the end of the financial year (30th June) to which they relate.⁵⁷ The RAA issued an opinion on the financial statements 15th April 2014.

Because there is no legal stipulated timeframe for when audits shall be reported for individual auditees (except for the audit of the annual financial statements of the government) and the auditees do not automatically send their financial statements to the RAA, the assessment team have used the months from the end of the year audited until the audit opinion/report is submitted as basis for scoring on the timeliness of submission in this dimension. The sample of financial audits that the assessment team has reviewed has been used as a basis for scoring (seven in total).

Out of the seven audits two audit reports were issued within 6 months after the financial year end, while four audit reports were issued between 6 months and 9 months after and one report between 9 months and 12 months after. This means that 85,7 % of the financial audit reports were issued within 9 months after the financial year end, which gives a score 3.

(III) PUBLICATION AND DISSEMINATION OF FINANCIAL AUDIT RESULTS

According to the Audit Act, section 69, the Auditor General shall publish the annual audit report during the fourth quarter of the fiscal year on the audits carried out during the previous fiscal year. This means

⁵³ Interviews with audit teams and email from Mr. Sonam Wangdi and Mr. Karma Tenzin 11.2.2015

⁵⁴ Interview with Mr. Karma Tenzin, Assistant Auditor General, Corporations and Financial Institutions division

⁵⁵ List of Agencies under various Functional Divisions (2013-14), received from the RAA 17th June 2014

⁵⁶ Audits planned and conducted 2013-2014, received from RAA 14th July 2014.

⁵⁷ Public Finance Act, Chapter 4

that the annual audit report should be published somewhere between 1st April and 30th June. The annual audit report of 2013 was published 19th May 2014 on the RAA website.

The annual audit report was therefore published well within the legal stipulated timeframe for publication.

(IV) SAI FOLLOW-UP ON IMPLEMENTATION OF FINANCIAL AUDIT OBSERVATIONS AND RECOMMENDATIONS

RAA has a Follow-up and Clearance Division (FCD) which is responsible for following up on previous years audit observations.

All financial and compliance audit findings are registered into the Audit Information Management (AIM) system. In this system, each audit gets an individual number for file references. The findings are connected to persons responsible (direct accountability or supervisory accountability). The FCD sends out reminders on reports not being acted upon. When the RAA receive information on corrective measures or why corrective actions were not taken this is inserted in the system.⁵⁸ The audited agency is given three months to solve an audit finding, if the case is not solved a penalty will be given. RAA collects the penalties on behalf of the government. If the audit agency does not resolve the case the person responsible risks court action (by the ministry, not RAA). When an audit finding is cleared, it is removed from the person responsible's file, but all the findings from each audit report are still saved in the system. The FCD issues follow-up reports every 6 month.⁵⁹ These reports include information about which audit observations that have been rectified, and how this has been done. The follow-up reports are given to Parliament, audited entity and the persons responsible.⁶⁰

RAA does not report publicly on the results of the follow-up activities. No follow-up reports have been put on the RAA website. The reports may however be released to those that ask for them specifically.

RAA's follow-up system does not include observations and recommendations made by the Legislature, one of its commissions, or the audited agency's governing board.

SAI-2: COMPLIANCE AUDIT RESULTS

This indicator measures the mandate of the RAA in terms of audit coverage, submission and publication of compliance audit results, and the degree of follow-up on implementation of observations and recommendations.

The score for SAI-2 is based on a review of the Audit Act of Bhutan and information from the RAA Information Management system.

⁵⁸ The assessment team was shown the system during field work.

⁵⁹ The assessment team was shown some follow up reports during field work.

⁶⁰ Interview with Minjur Dorji, Assistant Auditor General, Follow-up and Clearance division

Indicator score: 3		
Dimension	Findings	Score
(i) Compliance Audit Coverage	The compliance audit coverage is 72 %, but RAA does not have a documented risk based approach for selecting audits.	2
(ii) Submission of Compliance Audit Results	78,1 % of compliance audit reports examined were issued within 9 months after financial year end.	3
(iii) Publication and Dissemination of Compliance Audit Results	The annual audit report is placed on the website well within the legal timeframe.	4
(iv) SAI Follow-up on Implementation of Compliance Audit Observations and Recommendations	Criteria b) and c) are met. Criteria a) and d) are not met. RAA has a comprehensive system for follow-up of compliance audit observations and recommendations, but this does not include recommendations made by the Legislature. Follow-up reports are submitted to Parliament, but not published.	2

(I) COMPLIANCE AUDIT COVERAGE

Compliance audits are carried out by four divisions⁶¹ at the head office and the four regional offices in the RAA. The compliance audits are usually carried out in combination with financial audits, with the exception of compliance audits of corporations and statutory bodies. As a result, more compliance audits are performed than financial audits.

The compliance audit coverage is calculated by comparing the number of conducted audits in 2013/14⁶² with the total number of audit agencies.⁶³ The total number of compliance audits conducted in the financial year 2013/14 was 768, while the total number of audit agencies was 1069, which gives an audit coverage of 72 %. RAA does not have a documented risk based approach for selecting audits. RAA therefore gets a score 2.

(II) SUBMISSION OF COMPLIANCE AUDIT RESULTS

As with financial audit, there is no legal stipulated timeframe for when compliance audits shall be reported for individual auditees. Therefore, time elapsed since financial year end is used as basis for calculating timeliness of compliance audit reports.

The calculation is based on the audit file sample for compliance audit, nine audits in total. Two of these are regarded as purely compliance audits. Of the nine compliance audits in our sample three audit reports were issued within 6 months after the financial year end. Four reports were issued between 6 months and 9 months, and two reports were issued between 9 months and 12 months after.

⁶¹ Corporations & Financial Institutions division; General Governance division; Social, Communication & Information division; Resource, Trade, Industry & Commercial division.

⁶² Audits planned and conducted 2013-2014, received from RAA 14th July 2014.

⁶³ List of Agencies under various Functional Divisions (2013-14), received from RAA 17th June 2014

This means that 78,1 % of the compliance audit reports were issued within 9 months after the financial year end, which gives a score 3.

(III) PUBLICATION AND DISSEMINATION OF COMPLIANCE AUDIT RESULTS

Same as SAI-1 (iii)

(IV) SAI FOLLOW-UP ON IMPLEMENTATION OF COMPLIANCE AUDIT OBSERVATIONS AND RECOMMENDATIONS

Same as SAI-1 (iv)

SAI-3: PERFORMANCE AUDIT RESULTS

As each SAI needs to determine its priorities of different types of audit on a case to case basis, it is not possible to design criteria directly measuring the results of performance auditing. For this reason most of the criteria on this indicator are oriented towards processes aimed at maximising the impact of performance audits on significant audit topics, producing reports that add value and widely distributing them as well as following-up the corrective actions taken based on the reports.

The assessment is primarily based on information from a review of three thematic⁶⁴ and performance audits,⁶⁵ one published follow-up report,⁶⁶ one drafted follow-up report,⁶⁷ as well as information from the RAA's management information system.

Indicator score: 1		
Dimension	Findings	Score
(i) Coverage, Selection and Objective of Performance Audits	<p>Criteria b, d, e and g are met. Criteria a, c, and f are not met.</p> <p>The RAA's performance audit reports cover a fairly broad range of topics, and the selection of topics is based on potential impact and other relevant criteria. But the process of identifying audit topics could have been better documented.</p> <p>The number of staff doing performance audit and the number of performance reports issued indicate that performance auditing does not have equal importance to the auditing of legality and regularity of</p>	2

⁶⁴ The RAA distinguishes between performance audits and thematic audits, and the two audit types are organised in separate divisions. But the thematic audits are basically a form of performance audit, and follow the performance audit guidelines. As of May 2014, the two divisions also had the same division chief, Assistant Auditor General Tashi Tobgay. In this report we use the term "performance audit" to denote both thematic and performance audits.

⁶⁵ The three audits are: Performance Audit Report on Constituency Development Grant (June, 2012), Report on System Audit of Hydroelectric Energy (January, 2013), Environmental Audit Report on Timber Harvesting in FMUs & WSs (April, 2014). The audits were sampled from a list of audits that were published in the financial years 2011-2012, 2012-2013, and 2013-2014. The list was provided by the RAA and supplemented with information from the Annual Report for 2012. We randomly selected one audit from each year.

⁶⁶ Review Report of Performance Audit Reports, January 2014.

⁶⁷ Review Report of Performance Audit Reports, yet to be published.

	financial management and accounting.	
(ii) Submission, Publication and Dissemination of Performance Audit Reports	<p>Criterion a is met. Criteria b, c, d and e are not met.</p> <p>The RAA submits the reports to Parliament and the government, and for some of the reports there is evidence of media coverage when they are debated in Parliament. But the RAA does not publish the performance audit reports, i.e. does not actively communicate the findings to the general public.</p>	1
(iii) SAI Follow-up on Implementation of Performance Audit Observations and Recommendations	<p>Criterion c is met. Criteria a, b and d are not met.</p> <p>RAA's system for follow up of performance audit report is under implementation, and is only partly in place. The RAA has started to submit reports on the follow-up of performance audits reports. The follow-up focuses primarily on whether the audited entity has implemented the RAA's recommendations, not whether they have remedied the underlying conditions. So far the follow-up has covered less than 40 percent of potential audits.</p>	1

(I) COVERAGE, SELECTION AND OBJECTIVE OF PERFORMANCE AUDITS

The RAA reported eight performance audits during the previous three financial years: two in 2011-2012, two in 2012-2013, and four in 2013-2014.⁶⁸ About 14 percent of auditors at the RAA work in divisions conducting performance or thematic audits.⁶⁹ But since many IT auditors in the thematic division have not been involved in audits over the last couple of years, the real figure is probably lower. Thus the RAA does not meet criteria that performance audit should be of equal importance to the auditing of legality and regularity of financial management and accounting. However, the RAA is in the process of strengthening the division.

The performance audit guidelines state that the auditors should consider "the need to maximize the net benefits and impacts from the audit" when formulating the audit objectives.⁷⁰ Two⁷¹ of the three performance audits reviewed state that the overall objective of the audit is to "ascertain the economy, efficiency, and effectiveness" in the area that is examined, though this appears to be more of a standard phrase used in all audits, irrespective of the more specific objective of the audit. Still, all the audits contain elements that relate to the three E's, and the specific audit objectives focus on issues that may improve the performance of the audited entity.

The chief of the thematic and performance division in the RAA has informed the assessment team that the RAA has established some procedures for selecting topics for performance audits, but the process of doing this is not documented and there is no report that sums up the analyses.⁷² The described process starts with

⁶⁸ Performance Audit Reports issued from 1st January 2009 to 30th April 2014, list provided by RAA during fieldwork

⁶⁹ RAA staff list, excel file provided by RAA during fieldwork

⁷⁰ Performance audit guidelines, page 29

⁷¹ System Audit of Hydroelectric Energy and Performance Audit of Constituency Development Grant.

⁷² Information in this paragraph based on interview with Tashi Tobgay, the Assistant Auditor General of Performance and Thematic audit divisions

each audit team being asked by the chief of the division to carry out research to identify potential audit topics for next year's audits before the start of the new financial year or annual plan period. The teams then carry out a macro-analysis of the issues in their respective areas in order to identify potential risks. The analysis is based on various sources like previous audits, cabinet discussions, budget papers, agency annual reports and evaluations, government papers and media reports. The potential risk areas form the basis for a list of audit topics.

The performance audit guidelines state that topic selection should be based on potential impact, materiality and risk, and these criteria form the basis of the Audit Topic Prioritisation Matrix,⁷³ which is used to evaluate potential audit topics. The assessment team has received a copy of the matrix for the financial years from 2012-2013 to 2016-2017, and this shows that the matrix is in use. The RAA does not document in the matrix that auditability is considered. The RAA made a conscious decision not to add it in the matrix. The Authority has a wide mandate that allows it to audit anything that has involvement of public resources, and the chief of the performance and thematic divisions informed that the aspect of auditability is considered by the auditors throughout the selection process. The list of potential topics in the selection matrix will in principle not include topics that are not auditable.⁷⁴

The potential impact of the audit is one of the criteria that are considered in the Audit Topic Prioritisation Matrix. The performance audit guidelines also emphasise that the selection process should seek to maximise the impacts from the audit.

The audit files do not contain any documentation of there being any process to identify key stakeholders in each audit, apart from the audited agencies. Such additional stakeholders might be various interest groups in civil society, representatives from the business community, relevant user groups, and other NGOs.

The RAA issued 23 performance audit reports in the period from 1 January 2009 to 30 April 2014.⁷⁵ A review of the list of audits shows that the following areas have been covered in this period: education, environment, health, infrastructure, national economic development, public finance and public administration, social security and labour market, and other (agriculture and media).

(II) SUBMISSION, PUBLICATION AND DISSEMINATION OF PERFORMANCE AUDIT REPORTS

The RAA does not have a regulated timeframe for when a performance audit should be submitted to Parliament. The reports are submitted throughout the year, when they are completed.⁷⁶ According to the chief of the performance audit and thematic audit divisions, reports are submitted on the same day the Auditor General approves the report,⁷⁷ and the assessment team has seen the cover letters that the Auditor General sends to the responsible ministry when the reports are submitted. The reports are sent to the responsible ministry, with copy to the speaker of the National Assembly, the chairperson of the National

⁷³ See Audit Tool 2.2, Performance audit guidelines, page 20

⁷⁴ Interview with Tashi Tobgay, Assistant Auditor General, Performance and Thematic audit divisions

⁷⁵ Performance Audit Reports issued from 1st January 2009 to 30th April 2014, list provided by RAA during fieldwork

⁷⁶ We define the date of completion as the date when the Auditor General approves the report. Since the Auditor General provides feed-back that may sometimes result in changes in the reports, it would not be appropriate to define a report as complete before it has been approved at this level. The Auditor General's signing of the cover letter that is sent to the responsible ministry, together with the report, may be considered as an approval of the report (email from Tashi Tobgay, 30 June 2014).

⁷⁷ Interview with Tashi Tobgay, Assistant Auditor General, Performance and Thematic audit divisions

Council, the chairperson of the Public Accounts Committee, His Majesty's Secretariat, and the audited agencies.⁷⁸

Performance audit reports are not made public and there are no press conferences or other efforts to communicate the results through the media organised by the RAA.⁷⁹ Still, the reports do get some media coverage, e.g. when they are debated in Parliament. A search on the webpage of the Kuensel, the main daily in Bhutan, shows that performance audit reports were mentioned in at least 14 newspaper articles in the period January 2013 – May 2014.⁸⁰

Publication of performance audit reports is not prohibited by law. According to the latest mid-term review, the RAA shall start publishing performance audit reports on the Authority's webpage.⁸¹

RAA's performance reports contain an executive summary, and the RAA sometimes produces leaflets that summarise the main findings.⁸²

(III) SAI FOLLOW-UP ON IMPLEMENTATION OF PERFORMANCE AUDIT OBSERVATIONS AND RECOMMENDATIONS

The follow-up system in the RAA is operated by the Follow up and Clearance division. The performance audit guidelines specify follow-up procedures for performance auditing. See SAI-7 dimension (iv) for information on the legal framework for follow up of RAA's audit findings and for elaboration on RAA's system for follow up at organizational level. The system of follow up of audit findings from performance auditing is under implementation. The follow-up of the performance reports is so far not included in the AIM system, where follow up of financial and compliance audits is registered. So far the Follow up and Clearance division has done follow up of less than 40 percent of the submitted performance reports. The follow-up report could also be made more useful, e.g. by summarising the findings and drawing general conclusions based on the follow-ups.

As of today one follow up report on performance audits⁸³ has been submitted to Parliament, and an additional one is drafted⁸⁴ with the intention of being submitted to Parliament. The RAA's first follow-up report on performance audits was submitted on 1 January 2014. The report focuses on the RAA's recommendations. Due to limited time during the parliamentary session, the Parliament requested the RAA to prioritise and submit five or six follow-ups only. Hence the RAA's first follow-up report only includes the follow-up of five of a potential 26 performance audits.⁸⁵ Another five performance audits are followed up in a draft report that is yet to be published. It is commendable that the RAA has started the process of following-up the performance audits, and the guidelines specify that "Every audit report is

⁷⁸ Based on the cover letter the Auditor General sends to the responsible ministry when the reports are submitted. The cover letter is printed in the final report

⁷⁹ Interview with Tashi Tobgay, Assistant Auditor General, Performance and Thematic audit divisions

⁸⁰ We made two searches on <http://www.kuenselonline.com/>, one with the terms "performance" + "audit", and one with the term "RAA". The most frequently cited report was a performance audit on the leasing of government land, GRF land and mines, which was mentioned in six articles. A report on the procurement of consultancy services in the public sector was cited three times. Of the three performance audits reviewed as part of this SAI PMF, only the CDG audit has been mentioned in the Kuensel (18 September 2013).

⁸¹ Resolution 57.19 of the 57th PPCM cum MTRM 2013-14, held on 27-28 March 2014.

⁸² The assessment team has received a copy of one such leaflet.

⁸³ Review Report of Performance Audit Reports, January 2014.

⁸⁴ Review Report of Performance Audit Reports, yet to be published.

⁸⁵ See the cover letter in the follow-up report.

followed up".⁸⁶ However, since the follow-up so far has covered less than 40 percent of the potential audits, it cannot be described as an effective system for follow-up of performance audits.

In the letter sent to the auditee as part of the follow-up, the RAA focuses primarily on whether the auditee has implemented the RAA's recommendations and action plans.⁸⁷ In cases where the recommendations have not been implemented, the auditee is given the opportunity to explain why. In the follow up report the RAA goes through the recommendations for each audit one by one, and does not seek to make an assessment at a more general level with focus on the overall problems and their underlying conditions.⁸⁸

According to the RAA's procedures, the follow-up should also attempt to assess the impact of the auditee's actions, and this is also done in some cases. In the follow-up report submitted in January 2014, the RAA discusses the impact of about 40 percent of the recommendations.⁸⁹ Still, the impact of more than half of the recommendations was not examined, either due to time constraint, inadequate response from auditee, the implementation of recommendation was still in progress, or other causes.⁹⁰

The assessment team interpret the concept of "value added" to mean attempts to measure the overall impact of an audit, e.g. by counting number of recommendations accepted by auditee, trying to measure the financial savings achieved as result of the audit, assessing the amount of attention the audits get in Parliament, or asking the auditee to assess the usefulness of the audits through questionnaires.⁹¹ This is not done as part of the RAA's follow-up process.

SAI-4: JUDGEMENT RESULTS

Not applicable. Indicator is for Courts of Accounts.

SAI-5: ANNUAL REPORT AND OTHER REPORTS

This indicator measures to what extent RAA reports on its results. It focuses on the SAI annual report – its content, submission and publication. The indicator also covers to what degree RAA measures its performance in all areas, and to what extent RAA carries out audits that according to the SAI PMF lie beyond SAIs traditional audit mandate.

The RAA issues no separate annual report about the overall performance of the RAA in addition to its annual audit report. The annual audit report contains information on RAA's performance in some other areas aside from auditing. The analysis in relation to this indicator is based on the annual audit report 2013.

Indicator score: 2		
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⁸⁶ Performance audit guidelines, page 65

⁸⁷ The assessment team has received a copy of a letter sent to the auditee as part of the follow-up process. The letter shows that the RAA gives the audited entity the opportunity to provide information on the follow-up of the recommendation and the corrective measures taken.

⁸⁸ We have not examined the aspects of this criterion systematically in the draft follow-up report. But a brief review of the draft report gives the same impression.

⁸⁹ For the most part the RAA refers to the audited entity's own assessment of the impact; the Authority rarely attempts to verify the auditee's assessments.

⁹⁰ The remaining 10 percent of recommendations were not applicable, e.g. since they had not been implemented.

⁹¹ See J. Lonsdale (pp. 179-183), in C. Pollitt et al.: Performance or Compliance? Oxford: Oxford University Press, 1999.

Dimension	Findings	Score
(i) Content and Submission of SAI Annual Report	<p>Criteria a), b), c), f) are met. Criteria d) and e) are not met.</p> <p>RAA's Annual Audit report 2013 contains all unresolved issues from financial/compliance audits conducted that year. It was submitted to the Parliament within the established legal time frame.</p> <p>The Annual Audit report 2013 includes a budget for the RAA, but this does not elaborate enough on expenditures and revenues. The RAA's financial statements were subject to an audit by an external body, and a clean audit opinion was given.</p>	2
(ii) Publication and Dissemination of SAI Annual Report	<p>Criteria a), b) and c) are met. Criteria d), e) and f) are not met</p> <p>The RAA annual audit report is published by enclosing it on the RAA website with a news article. The Annual Audit report 2013 was published within the established legal timeframe.</p> <p>The RAA has established several means to make the annual audit report available and understandable to the public, but the annual audit reports of 2012 and 2013 are not available on the RAA website in Dzongkha.</p>	2
(iii) Measuring and Reporting on the SAI's Performance	<p>No criteria are met.</p> <p>The RAA reports publicly on their performance in some relevant areas besides audit activities, but uses no performance indicators to measure internal or external performance.</p> <p>The RAA has no established system for following up public visibility, outcome and impact through external feedback and does not prepare statistics measuring the impact of its audits. The RAA does not consistently publish the audit standards and core audit methodology it applies.</p>	0
(iv) Reporting on SAI Value Added Services and Other Mandatory Functions	<p>Criteria a), d), g), j) and l) are met.</p> <p>RAA has carried out a number of audits which according to the SAI PMF lie beyond SAI's traditional audit mandate.</p>	3

(I) CONTENT AND SUBMISSION OF SAI ANNUAL REPORT

The Audit Act of Bhutan states that RAA's annual audit report shall be submitted during the fourth quarter of the fiscal year on the audits carried out during the previous year. It shall contain the results of the audit of the annual financial statements of the government, the overall financial condition and recommendations to improve the economy, efficiency and effectiveness of the government. The annual audit report shall

assess whether the administration as a whole has been economical, efficient and effective in the utilization of the public funds.

According to the Audit Act, the annual audit report shall be submitted to the Druk Gyalpo, the Prime Minister and the Parliament, with copy to several additional institutions and officials, e.g. head of audited entities and chairperson of Public Accounts committee. The RAA's Annual Audit report 2013 was submitted to the Prime Minister, the opposition Leader, the Speaker of the National Assembly, the chairperson of the National Council, the chairperson of the Public Accounts Committee and the concerned ministers on 8 May 2015 and to the Druk Gyalpo 27 June 2014⁹², which is within the established legal timeframe.

In the annual audit report the RAA reports on the results of their audits and on their conclusions regarding overall government activities.

The Annual Audit report 2013 includes unresolved audit findings from all financial/compliance audits conducted during the year. It includes a consolidated summary of all unresolved major findings, but also a chapter with detailed audit findings that gives a description of audit findings per audited entity. A separate chapter is given for the certification report of the annual financial statements. The chapter on recommendations is generic and is drawn on the basis of the overall findings and deficiencies noted in the operations of audited agencies during the year.

The Annual Audit report 2013 also reports on unresolved significant issues in total and in relation to the specific audit findings, audit recoveries collected by the RAA during the year and issuance of Audit Clearances.⁹³

The Annual Audit report 2013 includes a budget for the RAA, and this provides basic information on expenditures and revenues. However, there is no linkage between the various activities of the RAA and how the resources are used. The financial statements were subject to an audit by an external body, and a clean audit opinion was given.

The RAA did not report on any activities it could not deliver due to limited resources in the annual audit report 2013. Limited resources are the reason why the RAA does not audit the financial statements of all agencies every year.⁹⁴ The RAA has though found a good solution to still deliver its mandate: The RAA is categorizing the agencies by size and complexity in three groups: P1 must be audited on an annual basis, P2 every second year, P3 every third year. When the RAA audit agencies in group P2 and P3 they also audit previous unaudited years; the agencies are required to prepare one set of financial statements for each year and the RAA issues separate audit reports on each financial statement. See SAI-9 (i) for elaboration on this.

(II) PUBLICATION AND DISSEMINATION OF SAI ANNUAL REPORT

The Audit Act of Bhutan requires the RAA to publish its annual audit report every fourth quarter of the fiscal year on the activities carried out during the previous fiscal year. The annual audit report 2013 was

⁹² The assessment team has received copies of forwarding letters

⁹³ The RAA has the responsibility of holding officials accountable for audit findings until either the recoveries are executed or appropriate actions are taken on the accountable official for the lapses uncovered during auditing. (Required by the Audit Act of Bhutan and Bhutan Civil Service Rules and Regulations).

⁹⁴ Interview with Mr. Karma Tenzin, Assistant Auditor General, Corporations and Financial Institutions division

published on the RAA website the 19 May in 2014, 11 days after the report was submitted to the Prime Minister and the Parliament.

The RAA annual audit report is published by enclosing it on the RAA website with a news article, no other measures are taken to communicate the report to the public. The RAA holds no press conference and issues no press release on the occasion of the publication of the annual audit report.

The RAA has established some means to make the annual audit report available and understandable to the public: The RAA's annual audit report is easy to read with many explanatory figures. Along with the report comes a flyer that gives a summary of the audit findings and the recommendations, in addition to a summary of achievements of the RAA. The annual audit report is issued both in English and in Bhutan's official language Dzongkha. Copies of the report in Dzongkha are sent to almost all audited agencies.⁹⁵ However, the annual audit reports 2013 and 2012 have only been published in English on the RAA website. The report is not published in paper format for those parts of the public that have no internet access.

(III) MEASURING AND REPORTING ON THE SAI'S PERFORMANCE

The RAA's Annual Audit report 2013 includes comprehensive information on RAA's performance linked to audit activities. In addition, the report contains a description of performance in some other areas: professional development, international cooperation and RAA's program to raise awareness in the public sector of the role of the RAA. The annual audit report does not include a review of SAI performance against all its strategy objectives. However, RAA's annual audit plan gives a review of RAA's performance against its 6 programmatic goals and the 45 supporting strategies (see SAI 8).

The RAA uses no performance indicators to measure achievement of internal performance objectives, nor to assess the value of audit work for Parliament, citizens and other stakeholders. Further, the RAA has established no baselines to measure performance improvement. The willingness of the RAA to conduct a SAI PMF assessment though shows their willingness to establish this and use this in the future.

The RAA has an exit meeting at the end of each audit, and perceive some feedback from the audited agencies on their performance there. Nonetheless, the RAA has no established system for following up public visibility, outcome and impact through external feedback.

The RAA does not prepare statistics measuring impact of the SAI's audits, such as savings and efficiency gains of government programs. However, the RAA lists unresolved significant issues from financial and compliance audits. The issues are categorized in the following groups: Fraud, corruption and embezzlement; Mismanagement; Violation of laws and rules; Shortfalls, lapses and deficiencies.

One peer review was conducted by SAI India in 2010, this is not published on the RAA website.

The RAA does not consistently publish the audit standards and core audit methodology it applies. The RAA Auditing Standards and the draft Environmental Guidelines for comments are published on the RAA website. The financial auditing and the performance auditing manuals are not.

(IV) REPORTING ON SAI VALUE ADDED SERVICES AND OTHER MANDATORY FUNCTIONS

The RAA has carried out a number of audits with topics that according to the SAI PMF is beyond traditional audit mandates and give extra value to the society. These audits have been integrated into

⁹⁵ Telephone meeting 1. August 2014

RAA's core audit processes, and have mainly been executed as performance audits. The RAA has for example prepared and submitted six performance audit reports on environmental issues in the last five years on several different topics, e.g. industries compliance with environmental rules and regulation, drinking water supply and sanitation, and environmental issues in forestry and timber harvesting. The RAA has also submitted performance reports on government performance management information⁹⁶, public debt, mining operations and public policy.⁹⁷

3.2 DOMAIN B: INDEPENDENCE AND LEGAL FRAMEWORK

Domain B covers the legal mandate of the SAI and its independence, in particular from the Executive. In order to guarantee the appropriate and effective legal position of SAIs within the state, independence of SAIs has to be defined clearly in the constitution or a comparable legal framework that may not be amended without a supermajority according to national requirements. The Lima Declaration calls for the "establishment of Supreme Audit Institutions and that the necessary degree of their independence shall be laid down in the Constitution; details may be set out in legislation."⁹⁸

ISSAI 10 (The Mexico Declaration on SAI Independence) is the main source of best practice of this domain. It sets out the minimum criteria for the SAI's legal mandate, i.e. that it should have the mandate to perform financial, compliance and performance audit; and that it should have functional, organisational and financial independence in the discharge of its functions.

The independence of and legal framework for RAA is established in the Constitution of Bhutan of 2008, and further detailed in the Audit Act of 2006.

SAI-6: INDEPENDENCE OF THE SAI

This indicator measures the existence and implementation of a legal framework which guarantees RAA's financial, functional and organizational independence from the Executive, as well as the independence of the head of the SAI.

The scorings of SAI-6 is based on a review of the Constitution of the Kingdom of Bhutan (2008) and the Audit Act of Bhutan (2006) as well as verified summaries from interviews with the Auditor General of Bhutan, Dasho Ugen Chewang and Mr. Jamtsho, Deputy Auditor General of Bhutan.

Indicator score: 2		
Dimension	Findings	Score
(i) Appropriate and effective constitutional and legal framework	Criteria a), c), d) and e) are scored as met. Criterion b) is scored as not met. The Constitution provides the foundation for the establishment of the RAA and the appointment and protection of the Auditor General. It is stated in the Constitution that the RAA shall be an independent institution, but this is not elaborated on. Limitations in the Audit Act	2

⁹⁶ Performance Audit on Review of 10th Five Year Plan

⁹⁷ Performance Audit on Constituency Development Grants

⁹⁸ ISSAI 1, Section 5 (the Lima Declaration)

	regarding the independence of the RAA show that RAA's independence is not complete.	
(ii) Financial independence / autonomy	<p>Criteria a), b) and c) are scored as not met. Criteria d), e) and f) are scored as met.</p> <p>The budget of the RAA is proposed to Parliament by the Ministry of Finance. Parliament approves the budget of the RAA as part of the national annual budget. The given budget can be used by the RAA without interference from the Executive.</p>	2
(iii) Organizational independence / autonomy	<p>Criteria b), c), d), f) and g) are scored as met. Criteria a) and e) are scored as not met.</p> <p>The RAA has operational independence, but HR-matters have to be prescribed broadly in accordance with the Civil Service Act. Access to new personnel is controlled by the Civil Service Commission.</p>	1
(iv) Independence of the head of SAI and its officials	<p>Criteria b), c) and e) are scored as met. Criteria a) and d) are scored as not met.</p> <p>The appointment of the Auditor General is not transparent to the general public. However, the position has been continuously filled, and there has been no attempt to remove the present Auditor General from his office.</p>	3

(I) APPROPRIATE AND EFFECTIVE CONSTITUTIONAL AND LEGAL FRAMEWORK

Article 25 of the Constitution of Bhutan (2008) creates the legal foundation for the establishment of the Royal Audit Authority (RAA) headed by the Auditor General.

The Constitution empowers the RAA to audit the accounts of all government departments and offices and to audit and report on the economy, efficiency, and effectiveness in the use of public resources. It further states that the Auditor General shall report to the Druk Gyalpo, the Prime Minister and Parliament. The Constitution defines the Auditor General as a holder of a constitutional office, and describes appointment, term, removal and dismissal of these.⁹⁹ The powers, duties and obligations of RAA and the Auditor General are further set out in the Audit Act of 2006.

The Constitution states that the RAA shall be an independent institution, but the actual meaning of this is not elaborated on. The content of this independence is specified in article 15 - 18 of the Audit Act, where limitations in RAA's financial and organizational independence is stated (see dimension (ii) and (iii) for an elaboration on this).

The Druk Gyalpo can command the RAA to audit any entity or activity, and the Parliament can direct that the accounts of any public authority shall be audited by the Auditor General.¹⁰⁰ When RAA acts as an

⁹⁹ The Constitution of the Kingdom of Bhutan, 2008, Article 25, 31 and 32

¹⁰⁰ The Audit Act, 2006, article 39 (i) and 40

agent of the Druk Gyalpo or the Parliament, a high degree of autonomy and initiative is ensured for RAA as the Audit Act clearly states that the RAA may determine the objectives, scope, frequency and findings of audits in accordance with the laws and Generally Accepted Auditing Practices; and also determine what audit findings to include in the report. It is further evidenced by the fact, that according to the Auditor General, there has not been any incidents or attempts to hamper with the function of the RAA since (the establishment of the Audit Act in) 2006.

The legal protection of interference with the described independence of the RAA is ensured in the Constitution by declaring that the Supreme Court shall be the guardian of the Constitution and the final authority on its interpretation.¹⁰¹

(II) FINANCIAL INDEPENDENCE / AUTONOMY

The Audit Act states that RAA shall have full authority to determine and administer budgetary requirements. The Audit Act further states that RAA's budget shall be approved by the Parliament as a part of the national annual budget. Since the RAA follows the general state budgeting procedure and send their budget request through the Ministry of Finance to the Parliament, RAA cannot in practice be described as being financial independent of the Ministry of Finance.

According to Deputy Auditor General, Mr. Jamtsho, the Ministry of Finance gives RAA a “ceiling” for its budget like it does to other government agencies, but so far the RAA has not been able to abide by it. Prior to sending the proposed budget to Parliament, the Ministry of Finance and the RAA have meetings to discuss the budget. The figure that is agreed with the Director of National Budget goes to the Parliament. The Deputy Auditor General describes the Ministry of Finance as very cooperative when it comes to the needs of the RAA. He further says that the RAA tries to stay in line with the rest of the agencies/ministries.¹⁰²

According to the Audit Act the RAA has full authority to administer its budget. The RAA has its own budget heading (108.01/01) and its own separate letter of credit account. As far as the Deputy Auditor General, Mr. Jamtsho knows the RAA receives the money that has been decided in the budget – at least for recurrent expenditure.¹⁰³ There is no formal entitlement for the RAA to apply directly to the Parliament for financial means.

The Auditor General is of the opinion that it is no threat to the independence of the RAA that they try to stay within the same framework as the rest of the civil service. He further states that there has not been any incidents or attempts to hamper with the function of the RAA since (the establishment of the Audit Act in) 2006.

(III) ORGANIZATIONAL INDEPENDENCE / AUTONOMY

The Audit Act states that RAA shall have functional and organizational independence and be free from any direction from the legislature in the organisation and management of the office. The RAA is further granted full authority to determine and administer its personnel requirement. This is however restrained by the fact that the Audit Act also states that RAA personnel are part of the Bhutanese Civil Service, which sets standards for recruitment, salary levels, promotions etc. (see SAI-20 for elaboration on these standards). Besides the requirements of the Civil Service Act and the budgetary framework approved by

¹⁰¹ The Constitution of Bhutan, 2008, Article 1.11.

¹⁰² Interview with Mr. Jamtsho, Deputy Auditor General

¹⁰³ Interview with Mr. Jamtsho, Deputy Auditor General

the Parliament, the Auditor General of Bhutan is however free to appoint staff and establish their terms and conditions.

The RAA is mandated to make rules to carry out its functions in accordance with law. The RAA has the right to contract for professional services (external experts).¹⁰⁴ The RAA has used this opportunity on a few occasions, e.g. in relation to special expertise needed in performance audits.

The relationship between RAA and Parliament and between RAA and the Executive is clearly defined in the Constitution and Audit Act.

The RAA has a clear hierarchy of authority according to the organogram and job descriptions provided to the assessment team. Decisions are in general documented in minutes and other official records.¹⁰⁵

(IV) INDEPENDENCE OF THE HEAD OF SAI AND ITS OFFICIALS

The general terms of appointment and removal of constitutional officers is given in the Constitution¹⁰⁶ and the process regarding the Auditor General is further detailed in Chapter 2 of the Audit Act. The Auditor General is appointed by the Druk Gyalpo from a list of eminent persons recommended jointly by the Prime Minister, the Chief Justice of Bhutan, the Speaker, the Chairperson of the National Council and the Leader of the Opposition party. While the Prime Minister is part of the group that jointly recommends candidates for the position of Auditor General, the other four members of the group are independent of the executive, so the group as a whole can be considered as independent. The constitutional officers can only be removed by way of impeachment by Parliament. By this the Auditor General is given the same protection as a High Court Judge.

The term of the Auditor General is five-years and he is not eligible for reappointment. It is expected that five year is long enough for him to be able to carry out his mandate without fear of retaliation.

The current Auditor General, Dasho Ugen Chewang, was first appointed auditor general by the Druk Gyalpo on the 31st December 2005. In 2010 he was appointed according to the regulations of the Constitution of 2008 and he will be in office until July 2015, in total ten years. There has not been any incidents or attempts to hamper with the function of the RAA since (the establishment of the Audit Act in) 2006.¹⁰⁷ The evaluation team understands this to include no attempt to remove the Auditor General.

SAI-7: MANDATE OF THE SAI

This indicator measures RAA's audit mandate, its access to information, its rights related to its auditing and reporting, in addition to the legal regulations of and RAA's system of follow-up to ensure that audit entities properly address the SAI's audit findings.

The scorings of SAI-7 is based on a review of the Constitution of the Kingdom of Bhutan (2008) and the Audit Act of Bhutan (2006) as well as verified interviews with the Auditor General of Bhutan, Dasho Ugen Chewang and Mr. Jamtsho, Deputy Auditor General of Bhutan.

Indicator score: 4		
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¹⁰⁴ The Audit Act of Bhutan, 2006

¹⁰⁵ The assessment team has seen copies of minutes and memos from meetings at different level of the organization.

¹⁰⁶ The Constitution of the Kingdom of Bhutan, 2008, article 31 and 32

¹⁰⁷ Interview with Mr. Jamtsho, Deputy Auditor General

Dimension	Findings	Score
(i) Sufficiently broad mandate	All criteria are scored as met, criterion b) is not applicable. The RAA has the right to perform all kinds of audit on all public financial operations and government activities. RAA also has the right to select subjects to its audits.	4
(ii) Access to information	All criteria are scored as met. The legal provisions have been made to ensure that RAA has access to all information or premises deemed necessary for auditing.	4
(iii) Right and obligation to report	All criteria are scored as met. The RAA has the right to report on any audit and a duty to submit and publish its Annual Audit report. The Auditor General and its auditors enjoy immunity from prosecution for any lawful act arising from the due discharge of their duties.	4
(iv) Existence of effective follow-up mechanisms	All criteria, but criterion a) are met. The RAA has a fully functional internal follow-up system for recommendations following financial and compliance audits, but not for performance audits. The follow up of audit findings are reported to Parliament. The legal framework committing audited agencies to respond to audit findings is strong. The RAA can provide expert opinions to the Parliament and the Executive.	3

(I) SUFFICIENTLY BROAD MANDATE

The Constitution provides RAA with a mandate to audit and report on the economy, efficiency and effectiveness in the use of public resources. Further, “without fear, favor or prejudice, audit the accounts of all departments and offices of the government including all offices in the Legislature and Judiciary, all public authorities and bodies administering public funds, the police and the defense forces as well as revenues, public and other monies received and the advances and the reserves of Bhutan”.

RAA’s mandate is further elaborated on in the Audit Act where RAA is given the mandate to carry out financial audit, compliance audit, performance audit and any form of audit that the Auditor General may consider significant and necessary. RAA has a specified mandate to audit the consolidated annual financial statements of the royal government, and to audit revenues, taxes, aid, grants and public debt of the country. The mandate of the RAA is made public on the RAA webpage on the internet.

The RAA is ensured the necessary freedom to audit in accordance with a self-determined program and to select the subjects to audit.¹⁰⁸ According to the Auditor General there has not been any incidents or attempts to hamper with the function of the RAA since (the establishment of the Audit Act in) 2006. The assessment team has seen no evidence that the RAA has been given or taken on tasks that influence the

¹⁰⁸ The Audit Act of Bhutan, 2006, Article 38 c) and 42 b)

independence of its mandate or that there has been undue interference with the selection of audit clients or subjects.

(II) ACCESS TO INFORMATION

The RAA has the right by law of access to all records, documents, information and premises of audited entities. That the RAA has the right to decide which information it needs for its audit is not specifically stated in the law, but is implied in the description of RAA's right of access to information. The RAA has further the powers to enforce or initiate enforcement action to secure access to needed records, which are not produced.¹⁰⁹ The Auditor General stated in the interview with the assessment team that he experiences no problems getting information from the Executive.¹¹⁰

(III) RIGHT AND OBLIGATION TO REPORT

It is the legal duty of the Auditor General to submit an annual audit report to the Druk Gyalpo, the Prime Minister and Parliament and publish it in the fourth quarter of the fiscal year on the audits carried out during the last fiscal year.¹¹¹ The RAA has the right to determine the audit findings to be included in an audit report.¹¹² Other reports are not published today, but there is no legal measure that prohibits their publication at any time.

The Auditor General and its auditors enjoy immunity from prosecution for any lawful act arising from the due discharge of their duties under the Audit Act.¹¹³ According to the Auditor General there has not been any incidents or attempts to hamper with the function of the RAA since (the establishment of the Audit Act in) 2006. The assessment team has taken this to mean that there has been no interference with the RAAs decisions on the contents of the audit reports or on the decisions to report or publish.

(IV) EXISTENCE OF EFFECTIVE FOLLOW-UP MECHANISMS

The RAA has a follow-up system to ensure that the audited entities address their observations and recommendations from financial and compliance audits, but such a system for the follow-up of performance audits is just partly in place. The follow-up system is operated by the Follow up and Clearance division. Follow-up reports on financial and compliance audits are submitted to Parliament every sixth month. So far one follow up report on performance audits has been submitted to Parliament, and an additional one is drafted with the intention of being submitted to Parliament (see SAI 1, 2 and 3 dimension (iv) for further elaboration on the follow- up system for the different audit disciplines).

The Follow-up and Clearance Division register all financial and compliance audit findings in the Audit Information Management (AIM) system. The findings are connected to persons responsible (direct accountability or supervisory accountability), and action is taken for non compliance.¹¹⁴ The Follow-up and Clearance Division keep track on the auditees responses to the findings using the AIM system. The follow-up of the performance reports are so far not included in the AIM system.

¹⁰⁹ The Audit Act of Bhutan, 2006, Chapter 5

¹¹⁰ Interview with Dasho Ugen Chewang, Auditor General

¹¹¹ The Constitution of the Kingdom of Bhutan, 2008, article 25 and the Audit Act, article 69

¹¹² The Audit Act of Bhutan, 2006, article 42 c)

¹¹³ The Audit Act of Bhutan, 2006, article 99

¹¹⁴ The assessment team was shown the system during field work.

The Audit Act is very clear on that the RAA shall issue reminders on reports not being acted upon and that a defaulting auditee must be questioned and required to submit explanation if there is further non-compliance and non co-operation.¹¹⁵

The Audit Act states that all audited entities must respond to audit reports within a specific time frame - within three months after issue of agency specific reports and within one month after issue of RAA's draft Annual Audit Report.¹¹⁶ Any persons responsible that fail to comply with this are considered guilty of an offence and can on conviction by the court of law be liable to a fine or imprisonment.¹¹⁷ The RAA collects the penalties on behalf of the government. In case of a court action, it will be the concerned Ministry and not the RAA that brings the case to court.¹¹⁸

The effect of the follow-up system for financial and compliance audit findings is further supported by the fact that members of the Bhutanese Civil Service need Clearance certificates from the RAA stating that they have cleared all outstanding audit issues to be able to get promoted or to get a new job. The legal mandate for the issuance of these audit clearance certificates is provided in the Audit Act.¹¹⁹

The RAA may provide the Parliament and the administration with their professional knowledge in the form of expert opinions, including comments on financial bills when requested.¹²⁰

3.3 DOMAIN C: STRATEGY FOR ORGANIZATIONAL DEVELOPMENT

An SAI should have efficient and effective systems in place which enable it to plan for both the long term and the short term. It should also monitor and report on its performance. A strategic plan provides the direction for the SAI and should consider stakeholders expectations and emerging risks, as well as the institutional environment in which the SAI operates, and where appropriate, measures to strengthen its environment. The SAI should have in place a performance measurement system to report, implement, monitor and evaluate its strategic plan. An implementation matrix or similar document should be in place to connect the strategic plan with the annual plan.

To facilitate the implementation of its strategic plan, the SAI should have an annual planning process to operationalize the strategic plan's long term objectives. The SAIs should on annual basis provide a plan for the next year's activities and projects. Performance indicators should measure outcomes and outputs rather than activities.

The SAI should plan both audit related and non-audit related activities. Planning of audit activities is covered in domain D (Audit Standards and Methodology, SAI-9, SAI Audit Planning and Quality Management). Here in domain C, planning of other activities of the SAI is covered, like capacity development and training activities, development of administrative systems etc.

¹¹⁵ The Audit Act of Bhutan, 2006, Chapter 6

¹¹⁶ The draft annual audit report is sent to all the agencies that are mentioned with audit findings in the report and they are given 1 month response deadline. If the unresolved issues are resolved, the findings are excluded from the annual audit report.

¹¹⁷ The Audit Act of Bhutan, 2006, Chapter 9

¹¹⁸ The Audit Act of Bhutan, 2006, information derived when being shown RAA's system for follow-up.

¹¹⁹ The Audit Act of Bhutan, 2006, Article 42 e)

¹²⁰ The Audit Act of Bhutan, 2006, article 81.

SAI-8: STRATEGY FOR ORGANIZATIONAL DEVELOPMENT

The current strategic plan for the RAA is for the period 2010-2015. The RAA produces no annual plan for all relevant non-audit activities. However, the annual audit plans for 2012-2013 and for 2014-2015¹²¹ cover some relevant activities as they are linked up to the Strategic Plan 2010-2015 and will therefore be used to score dimension (iii) and (iv) of this indicator. The annual plans provide a review of the status for each of the programmatic goals of the strategic plan and an action plan for the following year of the strategic plan.

The basis for the scoring of SAI-8 is the strategic plan of the RAA for the period 2010-2015 and the annual audit plans for 2012-2013, 2013-2014 and 2014-2015; the Auditor General's Standing Instructions from 2010 and various minutes from management meetings, and information received in interviews.

Indicator score: 2		
Dimension	Findings	Score
(i). Content of the Strategic Plan	<p>Criteria a) and b) are met. Criteria c), d), e), f) and g) are not met.</p> <p>The Strategic Plan 2010-2015 is based on a SWOT analysis taking into consideration the achievements of the RAA and their legal mandates. It provides a clear link from the mission of the RAA to the activities. An implementation plan is provided that shows the 191 measurable activities to be conducted to achieve the goals, but it does not prioritize the activities. Performance on the strategic plan is measured by measuring implementation of activities. No outcome indicators are established. External stakeholders were not directly involved in the strategic planning process, and the plan mainly address internal issues. The strategic plan does not address any need for changes in the institutional environment of the RAA.</p>	1
(ii). Strategic Planning Process	<p>Criteria a), c), e), and g) are met. Criteria b), d) and f) are not met</p> <p>The top level management were involved in and owned the strategic planning process, but not every member of the organization, or indeed the external stakeholders were invited to provide input. The plan is available on the RAA webpage on the internet, and progress is monitored on a regular basis. There was no specific plan drawn up for the planning process of the present strategic plan, and the process has not been formally evaluated.</p>	2
(iii). Content of the Annual Plan	<p>Criteria d) is met. Criteria a), b), c) and e), f) and g) are not met.</p> <p>The annual planning document does not cover all relevant issues related to the support structures of the RAA, like financial management, HR, IT and infrastructure etc. The annual planning</p>	1

¹²¹ In the annual audit plan for 2013-2014 no similar link to the Strategic plan is included. The evaluation team has been informed that this was due to a change of personnel in the responsible department at the time of producing the plan.

	document contains clearly defined timetables and responsibilities for all audit activities, but not for non-audit ¹²² activities. It is linked to the strategic plan and takes into account the available recourses of the RAA. The document contains no specific risk assessment and no measurable indicators at the outcome or output level.	
(iv). Annual Planning Process	All criteria are met. The top level management is involved in and owns the annual planning process, which is done according to set procedures. The annual audit plan is communicated to everyone in the organization and it is monitored and revised as needed.	4

(I) CONTENT OF THE STRATEGIC PLAN

The RAA's Strategic Plan 2010-15 was prepared taking into consideration the legal mandates of the RAA and achievements made so far. Gaps between the current and the desired state of the organisations were identified by making an assessment of the current strength, weaknesses, opportunities and threats. The "threats" quadrant of the SWOT analysis identifies risks to the fulfilment of the Strategic plan.

The strategic plan covers a broad range of topics from internal capacity building to programs for capacity building in the public sector. Capacity development through training of audit staff is to some degree covered in the strategic plan. The strategic plan including its appendix incorporates a results framework which has a logical hierarchy of purposes: Vision & Mission → Strategic goals (2) → Programmatic goals (6) → strategies (45). The strategic plan is supported by an appendix¹²³ operationalizing the strategic plan by listing 191 activities for the fulfilment of the set strategies. The appendix does not prioritize the activities. The appendix also sets the expected outcome of the established strategies. In both the strategic plan and the appendix there is an intermix of concepts: some set strategies are really outcomes, outcome is often set at output level or activity level etc.

The status on the strategic plan is measured by measuring implementation of the set activities. This is reported on an annual basis - normally in the annual audit plan. The RAA has not developed outcome indicators to be followed-up in the strategic planning period.

The current strategic plan does not contain an explicit discussion of what are the stakeholder's expectations and emerging risks. The analysis is mainly focussed on the achievement and challenges in RAA.

In the current strategic plan a thorough description of the accomplishments of the RAA can be found. The strategic plan is not based on an assessment of RAA's institutional framework, i.e. how RAA is influenced by the current status of the country governance, the political economy or the public management system. Neither is it based on an assessment of the current capacity of the key stakeholders to make use of the reports from the RAA

The current strategic plan does not include measures designed to strengthen the SAI's institutional environment. Domain B - Independence and Legal framework, indicates that the RAA does not have full

¹²² Administrative and support

¹²³ Operational Activities for RAA's Strategic Plan 2010-15

financial or organizational independence. This is examples of issues that might have been addressed at the strategic planning level.

(II) STRATEGIC PLANNING PROCESS

The current strategic plan starting in 2010 supersedes the strategic plan for the period 2008-2013. It is available on the RAA webpage on the internet.

When the plan was developed the top management took ownership of the process. The division leaders were involved at several meetings and a workshop with the top managers and the Auditor General was pivotal in the development of the plan.¹²⁴ There were no channels by which everybody in the organisation or external stakeholders had the opportunity to provide input to the strategic plan.¹²⁵

Implementation of the strategic plan is monitored on a regular basis by the Policy Planning and Annual Reporting Division¹²⁶ and reported annually, normally in the annual audit plan.¹²⁷

When developing the current strategic plan there was no specific document for "planning the plan". The assessment team has seen no documentation that defines the responsibilities, actions and timetables for the development of the strategic plan. There has been no documented evaluation of the process developing the current strategic plan.

(III) CONTENT OF THE ANNUAL PLAN

RAA's annual planning document does not cover all main support structures of the RAA (financial management, HR, IT and infrastructure etc). RAA's annual audit plan for 2014-2015 does, however, contain a status report at the end of year four of the five year strategic plan as well as the plan for year five with reference to the operational objectives of the strategic plan. In the plan for year five it states specific activities to be executed in 2014/15. Some non-audit activities are included here: e.g. delivery of awareness programs, some capacity development training activities, development of computer management programs and building of a training center. Responsible persons are not stated.

The annual audit plan does not contain a budget, nor is it linked to one. The listed activities in the plan for year five with reference to the operational objectives of the strategic plan is adjusted according to progress achieved and available resources. This clearly shows that the level of activity is adjusted to fit the available budget.

The annual audit plan does not contain a risk assessment, and does not have measurable indicators at outcome or output level. There are no baselines of current performance and milestones for major indicators.

(IV) ANNUAL PLANNING PROCESS

The production of the annual audit plan is the responsibility of the Policy Planning and Annual audit report Division. High level ownership of the plan is ensured by discussing the plan at the Policy, Planning and Coordination meetings where all the top managers participate. The plan is approved by the Auditor

¹²⁴ Minutes of the 7th Executive Committee Meeting of the RAA 6th October 2010.

¹²⁵ Seen from interviews with staff at auditor and management level in RAA

¹²⁶ The assessment team has seen RAA's computer system for monitoring of strategic plan 2010-15

¹²⁷ It was reported in the 2012-2013 and 2014-2014 Annual audit plan, but not in the plan for 2013-2014. In that year a separate document was made (in September 2013), reporting on progress in the Strategic plan

General. The process for the preparation of the annual audit plan is detailed in section 2.2 of the Auditor General's Standing Instructions. See SAI-9 for elaboration on the process of developing the annual audit plan. The Annual audit plan is communicated to all employees through the departments and it is made available on the RAAs home-page on the internet.

The audit schedules in the annual audit plan is reviewed and updated at the Mid-Term Review meeting. The revised annual audit schedule is made available on the RAAs webpage on the internet. The non audit activities are monitored and revised as part of the monitoring of the implementation of the strategic plan.

3.4 DOMAIN D: AUDIT STANDARDS AND METHODOLOGY

SAI-9: OVERALL AUDIT PLANNING AND QUALITY MANAGEMENT

This indicator measures the SAI's audit planning as well as the systems for quality control and quality assurance at the organizational level.

An SAI's audit plan describes the audits the SAI will carry out in a year or multiple years, and should comply with the SAI's mandate. As stated in ISSAI 40 Quality Control, the SAIs should consider their work program and whether they have resources to deliver the range of work to the desired level of quality, and that to achieve this SAIs should have a system to prioritize their work in a way that takes into account the need to maintain quality. The audit plan should include assessment of constraints, risk assessment in place for prioritizing audits, available human resources and budget.

A SAI's system for Quality Control of audit processes is the sum of all measures taken to ensure high quality of each audit product. It is carried out as an integrated part of the audit process, and needs to be part of each SAI's strategy, culture, policies and procedures to be effective,¹²⁸

Quality Assurance is a process of assessing and monitoring the system of quality control, to ensure that the system of quality control is working effectively and that audits are carried out in compliance with established standards, rules, practices and procedures. The quality assurance process should include a review of a sample of completed work across the type of audits carried out by the SAI, and should be carried out by individuals who have not taken part in the audit process they are reviewing.

The scoring of dimensions (i) and (ii) is based on review of RAA's annual audit plan, documentation on the process of developing the audit plan and interviews with staff from the Policy Planning and Annual Report Division (PPAARD) and RAA's management.

The scoring of dimension (iii) and (iv) is based on review of sampled audit files, written procedures on quality control and quality assurance and interviews with audit team leaders and RAA's management.

Indicator score: 1		
Dimension	Findings	Score
(i) Audit Planning Process	Criteria a), c), d) and e) are met. Criterion b) is not met	1

¹²⁸ ISSAI 40: Quality Control for SAIs

	<p>The RAA has written procedures for the development and approval of the Annual audit plan, and there are clearly defined responsibilities for the planning, implementing and monitoring of it. The use of a risk based methodology for the development of the annual audit plan is though not documented for all audit disciplines, and drags the score heavily down.</p>	
(ii) Audit Plan Content	<p>Criteria a) and b) are met. Criteria c), d) and e) are not met.</p> <p>RAA's Annual audit plan provides information on audit schedules for the implementation of all audits. The responsibility for each audit is clearly established. However, the Annual audit plan does not contain considerations on the audit coverage compared to the mandate, neither an assessment of risks and constraints to the delivery of the plan, nor specification of the financial and human resources required to implement it.</p>	2
(iii) Quality Control System	<p>Criteria a), b) and f) are met. Criteria c), d) and e) are not met</p> <p>The procedures of RAA's quality control management system are described in the Auditor General's Standing Instructions and the auditing manuals and guidelines. Review of sampled audit files shows that the procedures for quality control have been followed consistently in performance and thematic audits. Review of financial and compliance audit reports show that the procedures for quality control have been followed to a lesser degree in these audit disciplines, the level of implementation being different between divisions.</p> <p>The RAA does not have a system for assessing the overall risks to quality which arise from performing the audit work. Nor does the RAA prioritize quality control resources for audits of entities and domains with high risks and materiality. RAA has a good system for seeking confirmation that contracted firms have effective systems of quality control in place.</p>	2
(iv) Quality Assurance System	<p>Criterion e) is met. Criteria a), b), c) and d) are not met.</p> <p>RAA's Research and Quality Assurance Division is not doing quality assurance, but is in fact an important part of RAA's system for quality control management by doing pre-reviews of all financial and compliance audit reports. To do quality assurance, the Research and Quality Assurance Division should on a sample basis review last years audits and assess whether they comply with the RAA methodology and if the established quality control procedures have been followed. Those carrying out quality assurance should not have taken part in the quality control review of the work.</p>	1

	In 2010 SAI India conducted a peer review that also included a review of RAA's system for quality control.	
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(I) AUDIT PLANNING PROCESS

The Auditor General's Standing Instructions states the procedures for development and approval of RAA's annual audit plan. The Auditor General's Standing Instructions is available on the RAA website.

The annual audit plan is linked to the strategic plan that states the number of audits to be undertaken in the strategic period. The number of entities to be audited in the annual audit plan is derived from the strategic plan.

The process for developing the annual audit plan identifies the SAI's audit responsibilities (clients and types) from its mandate. It is clear that the process to some degree is based on a risk based methodology, but this is not documented for all audit disciplines.

Due to lack of resources the RAA cannot conduct financial audit of all agencies every year. The RAA has developed a new system in 2013-14 for categorizing the agencies to enable RAA to effectively use their limited resources and focus their efforts on agencies that warrant audit priority. The categorizing of the entities was done in a meeting with all head of divisions and regions, and is to be used in the preparation of annual audit schedules. The agencies are categorized into three categories: P1, P2 and P3. The categorization is mainly based on parameters such as: Regulatory requirements on the frequency/timing of audit such as by acts or/and agreements; Perception of risk based on experience of the RAA from the recent years. Agencies assigned with P1 must be audited on an annual basis, P2 every second year, P3 every third year.¹²⁹ When the RAA audits agencies in group P2 and P3 they also audit previous unaudited years; the agencies are required to prepare one financial statements for each year and the RAA issues separate audit reports on each financial statement.¹³⁰ The use of the categorization system is shown in the electronic system that monitors the implementation of the audit plan.¹³¹

Compliance audits and financial audits are in general done combined in RAA. However, the assessment team has seen no documentation on a specific risk assessment being done in relation to topics elected for compliance audits. For performance audits we have been informed in interviews that a system to select performance audits based on risk methodology is in place. The process is though not documented and no report exists that sums up the analyses.¹³²

There are clearly defined responsibilities for planning the annual audit plan¹³³ and these are followed in practice. The Policy Planning and Annual Report Division (PPAARD) sends out letters in April/May where they ask the divisions and regions to produce and send their annual audit schedules and suggest

¹²⁹ List of Agencies under RAA's Jurisdiction 2014-15

¹³⁰ Email from Mr. Karma Tenzin, Assistant Auditor General, Corporations and Financial Institutions division 16. July 2014

¹³¹ Monitoring system was shown to assessment team during field work

¹³² Interview with Tashi Tobgay, Assistant Auditor General, Thematic and Performance Divisions

¹³³ Auditor General's Standing Instructions, 2010

thrust areas.¹³⁴ In deciding the annual audit schedule for the division/region, the division chiefs allocate audits to different audit teams and each team leader discusses with his team members to decide on the timetables for the specific audits. The division chiefs coordinate the process, consolidate the audit timetables submitted by the teams and send the suggested annual audit schedule for his division to PPAARD for review and consolidations. The PPAARD submits the annual audit plan that covers all the RAA's divisions and regions to the Auditor General/Executive Committee for endorsement.¹³⁵ The Annual audit plan, including the suggested thrust areas, is discussed and adopted either at the Annual Audit Conference or at the Policy Planning and Coordination meeting.¹³⁶

The annual audit plan identifies which division or region that is responsible for the implementation of each audit, and also the focal person for the respective audit. The PPAARD is responsible for the monitoring of the annual audit plan and has an established and well functioning system to monitor and keep record of the progress. The PPAARD receives copies of audit intimation letters and audit completions letters and use this for updating the system, but since the system is still not fully established they still receive monthly reports from the divisions and regions as back up.¹³⁷

The progress of the annual audit plan is presented and revised in the midterm review meeting held in mid year of the annual plan period.¹³⁸

The selection of financial audits to be conducted each year in particular shows that the RAA takes into account the financial resources available. Documentation further shows that the RAA has procedures in place to reschedule audits if unexpected circumstances arise, due to limited resources available.¹³⁹

(II) AUDIT PLAN CONTENT

RAA's Annual Audit plan 2013-14 states the name of the audited agency and what type of audit is being conducted (performance audit, financial audit (done in combination with compliance audit) or certification audit). The annual audit plan consists of audit schedules for each division and regional office. Separate lists of schedules sorted by teams and agencies are also included. The annual audit plan includes the set start, end and report issue date of the report and the name of the focal person (team leader). The annual audit plan could benefit from stating at a more accurate level the objective of the audits in relation to performance and compliance audits (especially where these are done separately from financial audits). In addition to the audit schedules the annual audit plan states 10 thrust areas for the RAA in the audit year. The thrust areas have been determined mainly by taking into consideration the audit priorities based on emerging issues in the management and utilization of public funds as experienced by RAA in the recent past.

¹³⁴ Assessment team has received copies of emails from PPAARD to chiefs of divisions and regions in April and May 2014 where they ask for suggested annual audit schedules and thrust areas, and also received responses from divisions/regions with suggested audit schedules and thrust areas

¹³⁵ Described in interviews with chief and staff from PPAARD

¹³⁶ Interview with Mr. Karma Tenzin, Assistant Auditor General, Corporations and Financial Institutions division. Minutes from Annual Audit Conference 2014 shows that the Annual audit plan 2014-15 was adopted at that meeting with a few adjustments.

¹³⁷ The assessment team was shown the system during field work

¹³⁸ This is evidenced by the development of Revised Annual Audit Schedules each year. The assessment team has also received copy of the approved resolution of the Midterm review meeting 2012.

¹³⁹ The assessment team has received copies of Note Sheets about rescheduling of audits approved by the Auditor General

The annual audit plan gives no explanation on the degree to which RAA fulfills its audit mandate in the given year, i.e. the audit coverage. Further, the annual audit plan could benefit from describing RAA's solution to deliver its mandate in spite of limited resources - the categorization of agencies after priority (groups P1, P2 and P3) as described in dimension (i).

The annual audit plan does not specify the necessary human and financial resources to conduct the planned audits, neither does it contain an assessment of risks and constraints to the delivery of the plan.

(III) QUALITY CONTROL SYSTEM

Procedures for quality control of audits are laid down in the Auditor General's Standing Instructions and in the audit manuals. It presents a quality management system which is structured in the following way:

- 1st Level Review: Team Leader
- 2nd Level Review Division Chief/Assistant Auditor General
- 3rd Level Review: Department Heads
- 4th Level Review: Research and Quality Assurance division
- 5th RAA Executive Committee
- 6th Auditor General

This shows that the prescribed system of quality control includes all levels of the organization.

Currently, the RAA is lacking Deputy Auditors General for two of its three departments (Department of Performance and Commercial Audit and Department of Sectoral Audit). Therefore, the reports from these departments are submitted directly to the Research and Quality Assurance division by the division chiefs. The performance audit reports are not sent to the Research and Quality Assurance division, but directly to the RAA Executive Committee from the division chief.

How quality control shall be conducted in the different phases of the audit is partially described in the Auditor General's Standing Instructions, and further elaborated on in the financial audit manual and the performance audit guidelines. The process of quality control in the different audit types are described under SAI-11, 13 and 15.

The detailed quality control procedures are, according to the established procedures, performed by the division chief, i.e. review of audit plans, working files and draft reports to ensure there is enough evidence supporting the findings in the report and that the audit reports have been prepared in line with the RAA auditing standards. Review of sampled audit files show that this has been practiced consistently in the divisions of Performance audit and Thematic audit. Review of financial and compliance audit reports show that quality control is mostly restricted to vetting of the draft audit report, and to less degree whether the financial manual has been implemented in audits. However, the practice is different between division chiefs (see SAI-11 (iii) and 13 (iii) for elaboration on quality control in financial and compliance audits.).

The RAA does not have a system for assessing the overall risks to quality which arise from performing the audit work. Nor does the RAA prioritize quality control resources for audits of entities and domains with high risks and materiality, e.g. through use of engagement quality control review.

For outsourced audits (statutory audits) the RAA has a good system for checking if contracted firms have effective systems of quality control in place (see SAI 10 dimension (iv) for elaboration on this).

(IV) QUALITY ASSURANCE SYSTEM

The RAA's Research and Quality Assurance division (RQAD) was established with one member in 2008, today the division has four employees with legal or auditing master degrees.¹⁴⁰

In 2009 the RAA adopted a Handbook on Quality Assurance Review Process that is based on IDI's Quality Assurance Handbook.¹⁴¹ The handbook deals with both quality control (as a line function whereby management ensures that audits are carried out according to standards and guidelines) and quality assurance (as an independent process to monitor that the quality control system is working).

The RQAD in the RAA does not conduct an evaluation of RAA's system for quality control, and can therefore not be described as doing quality assurance. In the RAA the RQAD actually plays an important part of RAA's system for quality control of audits.¹⁴² All financial and compliance reports go through the RQAD before issuance – so called pre-issuance review. Performance audit reports are not sent to the RQAD as part of the system for quality control. The RQAD plans to include performance audits in the future, but does not have the capacity to do this at present.¹⁴³

In the pre-review of financial and compliance reports the RQAD looks mostly at writing and structure issues, but also level of evidence.¹⁴⁴ The pre-review does not include review of complete audit files, but includes review of minutes from the exit meeting with the audited entity and the audit plan in addition to the audit report. The RAA hopes to start post-review of audits for the 2014/2015 audits.¹⁴⁵

To do quality assurance, the RQAD should on a sample basis review last years audits and assess whether they comply with the RAA methodology and if the established quality control procedures have been followed. Those carrying out quality assurance should not have taken part in the quality control review of the work. Generic findings should be summarized and submitted to the Auditor General.

In 2010 SAI India conducted a peer review that also included a review of RAA's system for quality control.¹⁴⁶ This, combined with the initiative for this SAI PMF assessment, demonstrates the SAI's willingness to critically assess the quality of its audit work.

SAI-10: QUALITY ASSURANCE OF AUDIT PROCESSES

It is a major challenge for all SAIs to consistently deliver high quality audits. The objective of the quality assurance is to ensure the quality of audits by periodic evaluation of the audit process.

¹⁴⁰ Based on interview with Mr. Prem Mani Pradhan, Assistant Auditor General, Research and Quality Assurance division.

¹⁴¹ A separate Handbook for Quality Assurance of Performance Audit exists also

¹⁴² In the Auditor General's Standing Instructions the Research and Quality Assurance Division is set up as a part of RAA's Quality Management System. See dimension (iii) for structure of quality control management system.

¹⁴³ Based on interview with Mr. Prem Mani Pradhan, Assistant Auditor General, Research and Quality Assurance division.

¹⁴⁴ The content of pre-reviews was explained to the assessment team in interviews with the Chief of the Research and Quality Assurance division, audit team leaders and management. The assessment team has also received copies of three presentations on findings/areas for improvement held by the Research and Quality Assurance division.

¹⁴⁵ Based on interview with Mr. Prem Mani Pradhan, Assistant Auditor General, Research and Quality Assurance division

¹⁴⁶ Peer Review Report of RAA, Conducted by Comptroller and Auditor General of India, 2010

This indicator measures RAA's quality assurance of each audit discipline, as in some SAIs the quality assurance system may differ in design or in practice between the audit disciplines.

The scoring of this indicator dimensions (i)-(iii) is based on review of presentations/reports produced by the RQAD, sampled audit files, interview with team leaders and management of the RAA (including chief of RQAD).

Dimension iv) is mainly based on interviews with the chief of the Corporations and Financial Institutions Division, Assistant Auditor General Karma Tenzin, and documentation received that confirms the process of outsourcing of audits.

Indicator score: 1		
Dimension	Findings	Score
(i) Quality Assurance of Financial Audit	No criteria met Quality assurance is a process of assessing and monitoring the system of quality control, and entails review of a sample of <u>completed</u> audits, including work files. The Quality Assurance and Research Division in the RAA does not conduct such an evaluation of RAA's <u>system</u> for quality control, but do pre-reviews of all financial and compliance audits before completion, as part of RAA's system for quality control. This review does not include review of audit files.	0
(ii) Quality Assurance of Compliance Audit	No criteria met See dimension (i), as results are the same.	0
(iii) Quality Assurance of Performance Audit	No criteria met The RAA does not do quality assurance of performance audits. Performance audits are not included in the pre-review of the Research and Quality Assurance division.	0
(iv) Quality Assurance of Outsourced Audit	Criteria a), b), c), e), f) and g) are met. Criterion d) is not met. The RAA has established procedures to ensure that contracted external auditors have decent systems for ensuring quality in their work, and that they comply with relevant auditing standards, ethical and legal requirements. RAA's access to the working files is established in law, but the working files are not the property of the RAA.	3

(I) QUALITY ASSURANCE OF FINANCIAL AUDIT

Quality assurance is a process of assessing and monitoring the system of quality control, to ensure that the system of quality control is working effectively and that audits are carried out in compliance with established standards, rules, practices and procedures. The quality assurance process should include a review of a sample of completed work across the type of audits carried out by the SAI, and should be carried out by individuals who have not taken part in the audit process they are reviewing.

The RQAD in the RAA does not conduct an evaluation of RAA's system for quality control, and can therefore not be described as doing quality assurance of financial audit. In the RAA the RQAD actually plays a part of RAA's system for quality control.¹⁴⁷ In the pre-review the division looks mostly at writing and structure issues, but also level of evidence.¹⁴⁸ All financial and compliance audits need to be sent for pre-review of the RQAD after quality review by department heads before completion. The pre-review does not include review of complete audit files, but includes review of minutes from the exit meeting with the audited entity and the audit plan in addition to the audit report. The RAA hope to start post-review for the 2014/2015-audits.¹⁴⁹

An external quality assurance review of the SAI's financial audit work, including review of sample of completed audits, has not been carried out in the past three years.

(II) QUALITY ASSURANCE OF COMPLIANCE AUDIT

See SAI-10 (i) as results are the same as for financial audit.

(III) QUALITY ASSURANCE OF PERFORMANCE AUDIT

The RAA does not conduct any quality assurance reviews of performance audits. The RQAD does not do pre-reviews of performance audits.¹⁵⁰

(IV) QUALITY ASSURANCE OF OUTSOURCED AUDIT

All companies that are incorporated under the Companies Act of the Kingdom of Bhutan are required to appoint auditors or joint auditors to audit their annual financial statements out of a panel of auditors maintained by RAA.¹⁵¹ There are currently 81 registered Firms of Chartered Accountants based in India on this panel today.¹⁵²

For companies with at least 51 % ownership by the government (30 in total) the Auditor General of Bhutan is the ex-officio auditor. For these companies the auditor/joint auditors shall be appointed or re-appointed by the RAA.¹⁵³

The RAA does not have a written procedure for the process of selecting auditors for the panel of external auditors maintained by the RAA. In practice the process is as follows¹⁵⁴: The RAA receives applications from interested registered firms of professional accountants and the Audit Committee of the RAA makes a

¹⁴⁷ As established in the Auditor General's Standing Instructions

¹⁴⁸ The content of pre-reviews was explained to the assessment team in interviews with the chief of RQAD, audit team leaders and management. The assessment team has also received copies of three presentations on key findings held by the RQAD.

¹⁴⁹ Based on interview with Mr. Prem Mani Pradhan, Assistant Auditor General, Research and Quality Assurance division.

¹⁵⁰ Based on interview with Mr. Prem Mani Pradhan, Assistant Auditor General, Research and Quality Assurance division.

¹⁵¹ Companies Act of the Kingdom of Bhutan, 2000 point 72

¹⁵² Empanelment of Firms of Chartered Accountants for carrying out Statutory Audits of companies registered under the Companies Act of the Kingdom of Bhutan 2000, 16 April 2012

¹⁵³ Companies Act of the Kingdom of Bhutan, 2000, point 72. The RAA is also entitled to designate its own auditors to conduct the audit

¹⁵⁴ Karma Tenzin, chief of Corporations and Financial Institutions division, provided information about the process in an email 6. August 2014

shortlist by reviewing the firms' profiles which contain their experiences and expertise. The Audit Committee then visits the shortlisted firms' offices to carry out a due diligence. The due diligence process consists of document review (checking earlier audits) and interviews based on a checklist.¹⁵⁵ The firms' system for quality control is one of the topics checked in the due diligence process. After the due diligence review the Audit Committee recommends a list of firms for empanelment for approval by the Auditor General. Before the list for empanelment of external auditors is approved by the Auditor General, the RAA send out Terms and Conditions for Empanelment¹⁵⁶ to the recommended firms. Only firms that accept these are put on the panel. After receiving acceptance of the Terms and Conditions from the firms and the approval of the empanelment by the Auditor General, a report on empanelment is prepared and uploaded to the RAA website. A copy is provided to the Registrar of Companies. A profile of all the firms on the panel is also uploaded to the website. The empanelment is valid for a period of three years.¹⁵⁷

When the RAA is in the process of hiring an auditor for auditing of financial statements of the specific companies with over 51% ownership by the state, the RAA conducts an evaluation of the empaneled firms' competence and capabilities for the specific assignments based on review of profiles.¹⁵⁸ The chosen firms are noticed by a letter from the RAA with attached Terms of Reference for the assignments.¹⁵⁹ The firms accept the appointment by e-mail. The RAA has as a rule never to contract the same company to audit same corporation more than three years.¹⁶⁰

The Terms and Conditions for Empanelment states e.g. that the firms shall conduct audits in compliance with the applicable laws, rules and regulation, generally accepted auditing standards and to the professional code of conduct and ethical rules as prescribed in the Institute of Chartered Accountants of India/relevant accountancy bodies; that the firms shall ensure that audit team comprise of members of such qualifications and experiences as would be necessary for carrying out a quality audit; that the firms shall adhere to quality control procedures including supervisory controls and partner's review at all times; that the firms shall not be auditor of companies that they are or have been rendering accountancy and other consultancy services to during the previous two years. The same terms are also stated in the Terms of Reference for the specific auditing assignments appointed by the RAA.

The Terms of Reference for the RAA appointed specific audit assignments also includes a requirement that matters/information relating to the clients' business and operations shall not be disclosed to others. Further, it states that the contracted firm shall apply the Auditor General's Standing Instructions. The Auditor General's Standing Instructions demands for auditors to comply with relevant ethical requirements:

- **Show Integrity** by stating that auditors shall "be duty bound to make use of information brought forward by the audited entity and other parties, and this is to be taken into account in the opinions expressed in an impartial way", "shall....not withhold information, which is in the public interest"

¹⁵⁵ Interview with Mr. Karma Tenzin, Assistant Auditor General, Corporations and Financial Institutions division. The assessment team was shown the checklist during field work.

¹⁵⁶ Terms and Conditions for Empanelment, Empanelment of Firms of Chartered Accountants for carrying out Statutory Audits of companies registered under the Companies Act of the Kingdom of Bhutan 2000, 16 April 2012

¹⁵⁷ Empanelment of Firms of Chartered Accountants for carrying out Statutory Audits of companies registered under the Companies Act of the Kingdom of Bhutan 2000, 16 April 2012

¹⁵⁸ Interview with Mr. Karma Tenzin, Assistant Auditor General, Corporations and Financial Institutions division

¹⁵⁹ The assessment team have received examples of Terms of Reference for specific assignments

¹⁶⁰ Interview with Mr. Karma Tenzin, Assistant Auditor General, Corporations and Financial Institutions division. The Companies Act states that the same auditor shall not be appointed more than three consecutive financial years, except with previous written approval of the RAA.

and “strive to be independent of audited entities and other interest groups, but also to be objective, be without fear and favour in dealing with the issues and topics under review and reviewed”.

- **Be Independent** by stating that auditors shall “not perform any duty or make decisions which likely to impair audit independence”, “be objective and impartial in all work conducted”, “under no circumstances dispense such act that may lead to or have potential bearing to be construed as “Conflict of Interest”, “accept obligation to declared any personal interests.....which can be conflict of interest” and “not accept any financial or other favours or be obligated to individuals or organizations, which could lead the auditor to act unethically in his duties and responsibilities”.
- **Apply Professional secrecy by stating that** the auditors shall “not disclose any official information acquired from the audited agency or use it for personal gains or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization”, “classified information shall not be divulged”
- **Be Competent** by stating that auditors shall “conduct his duty in a professional manner at all times and apply high professional standards in carrying out duties competently and objectively”, “exercise due professional care in conducting/supervising the audit in preparing related reports”, “methods and practices of highest possibly quality in auditing”.

It is the contracted firms that conduct the planning of the audit.¹⁶¹ However, the RAA issues strict rules regarding sequence of report compilation and the format of audit reports; these are sent out to all statutory auditors in a letter.¹⁶² Failure to adhere to this is considered to be non-compliance to terms and conditions of the audit appointment. The enforcement of this has been seen in a letter sent to a contracted auditor in 2014.¹⁶³ On completion of the audit, the RAA attends a meeting with the external auditors and the audited company to discuss audit findings and to finalize the audit report.¹⁶⁴

It is stated in the Companies Act of the Kingdom of Bhutan that the RAA has access to all working papers for audits of government/government controlled companies conducted by external auditors. However, the assessment team has been informed that the RAA has asked to see the working papers in only a few cases.¹⁶⁵ The assessment team considers this not to fulfill ISSAI 40’s requirement that all documentation is the property of the SAI.¹⁶⁶

The RAA plans in the future to follow more closely how the external auditors conduct the audits. The RAA is not able to do this now due to lack of manpower and inadequate expertise in the RAA.¹⁶⁷

The RAA is considering outsourcing audit of some other agencies under their mandate in addition to the state controlled companies, due to limited resources and to bridge the competency gaps within the organization.¹⁶⁸

¹⁶¹ Interview with Mr. Karma Tenzin, Assistant Auditor General, Corporations and Financial Institutions division

¹⁶² Sequence of Report Compilation letter sent to all statutory auditors, 29 January 2014.

¹⁶³ Non-compliance letter sent to an external auditor, April 2014

¹⁶⁴ Terms of Reference for audit assignments

¹⁶⁵ Interview with Mr. Karma Tenzin, Assistant Auditor General, Corporations and Financial Institutions division

¹⁶⁶ ISSAI 40 «Quality Control for SAIs»

¹⁶⁷ Interview with Mr. Karma Tenzin, Assistant Auditor General, Corporations and Financial Institutions division

¹⁶⁸ Draft Policy on Outsourcing Audits – B5

SAI-11: FINANCIAL AUDIT FOUNDATIONS

SAI-11 scores fundamental principles and preconditions that should be in place before initiating a financial audit. SA-12 measures the audit process itself. Dimension (i) measures auditing standards and guidance for financial auditing. The RAA Auditing Standards and the RAA Financial Audit manual were used to measure this dimension. Dimension (ii) measures how the code of ethics is applied at the audit engagement level, whereas issues related to the code of ethics at the organizational level are measured in SAI-18. Dimension (iii) measures how RAA has established a robust quality control system that ensures quality of work performed. Dimension (iv) looks at how audit teams are composed, and whether RAA's criteria comply with the SAI PMF criteria. To understand the quality control system (dimension iii) and the composition of audit teams, interviews were carried out and the full audit cycle mapped. Relevant information from the management information system of RAA was extracted where necessary.

The key characteristic of financial auditing, as defined in ISSAI 200, is determining whether an entity's financial information is presented in accordance with the applicable financial reporting and regulatory framework. In addition financial audit shall be done through a risk based approach, and not through traditional "transaction audit". Risks shall be identified at the financial statement level leading to an overall audit strategy, leading to audits of specific audit components, leading to evaluation of audit finding and ultimately reporting and documentation of material audit findings.

Indicator score: 2		
Dimension	Findings	Score
(i) Financial Audit Standards and Guidance	Criteria a) and b) are met. Criterion c) is not met. Comprehensive audit standards and guidance have been adopted. Guidance related to overall audit strategy is not sufficient.	2
(ii) Ethics and Independence in Financial Audit	Criterion b) is met. Criteria a), c) and d) are not met. A system for signing a code of ethics declaration at audit engagement level is being implemented. Currently only a conflict of interest declaration is used by everyone.	1
(iii) Quality Control in Financial Audit	Criteria b) and e) are met. Criteria a), c) and d) are not met Quality control procedures are developed, but review of audit files is not documented in every audit.	2
(iv) Financial Audit Team Management and Skills	Criteria a), d) and f) are met. Criteria b), c) and e) are not met. The audit teams are competent in some areas, but lack basic knowledge on e.g. audit methodology.	2

(I) FINANCIAL AUDIT STANDARDS AND GUIDANCE

RAA's Auditing Standards and the Financial Audit manual (FA manual) are to a large extent aligned to the ISSAI 200 requirements. Elements not covered in the Auditing Standards are usually mentioned in detail in the FA manual, making the two complimentary. According to the standards auditors shall issue

an opinion which give reasonable assurance, and which is based on a set materiality level. The terms of the audit engagement shall be developed and communicated to the audited agency, an audit strategy and an audit plan detailing the audit approach shall be developed and documentation shall be sufficient and appropriate. The standards stress the need to understand the audited entity and the FA manual goes into detail on how to assess risk of material misstatements. The FA manual further states that auditors shall carry out audit test followed by substantive procedures. It also states that the auditor shall assess the risk of fraud and non-compliance to laws and regulations. Afterwards the auditor shall assess the accumulated misstatements and their effect on the audit opinion. An audit opinion shall be given in the end, and there are three different types of opinions.¹⁶⁹ The standards does not mention that an opinion shall be issued on the consolidated financial statements, but say that there shall be issued a certificate. Both RAA's Auditing Standards and the FA manual fail to include the requirement concerning auditor's duty to assess whether necessary preconditions are in place to carry out financial audits.

RAA has defined policies and procedures to enable auditors to perform audits in a uniform way. There is clear guidance on how materiality level shall be set. Documentation of audit shall be done using a current file and a permanent file. The Auditor General's Standing Instructions specifies that working papers should be stored and indexed, and also kept for a period sufficient to meet the needs of RAA. Sample sizes shall be calculated in accordance with fixed formula which is guided by the initial risk assessment. Due consideration is made to the use of external confirmation as audit evidence, which among others include guidance on how to put reliance on external experts, internal audit and how to carry out analytical procedures.

Guidance and support is provided to auditors through e.g. use of template working papers in the FA manual. These working papers guide the auditor through the audit and cover most of the ISSAI requirements with a few exceptions. One confusing aspect of the FA manual is that working papers are sequenced randomly and not per the normal flow of an audit. The audit approach working paper contains elements one would normally find in an overall audit strategy, including overall assessment of internal controls and risks. However, due to its limited size, the working paper does not capture all the information in the planning working papers in a satisfactorily way. Neither is there a fixed audit plan template that documents how the audit shall be executed. There are however working papers covering the assessment of internal control environment and fraud. While assessing compliance with laws and regulations is mentioned in the standards, there does not exist any guidance on how this shall be carried out. Another shortcoming is lack of working papers, or similar, which summarize the risks of material misstatements both on the financial statements and at the assertion levels. There is significant guidance provided on the need to have sufficient, reliable and appropriate audit evidence. Because a number of the audited financial statements will be related to donor funded projects guidance is provided to auditors on how to separate between different financial reporting frameworks. Lastly, there are comprehensive audit procedures developed for the audit of consolidated annual financial statements.

(II) ETHICS AND INDEPENDENCE IN FINANCIAL AUDIT

The FA manual of RAA contains a working paper named "Compliance to code of ethics". The content of this working paper contains the ethical requirement as per ISSAI 30. However, the audit file review shows that this working paper is not applied in all audits. Instead, it is more common to apply the working paper "Conflict of Interest Declaration". When signing this working paper, the auditor shall declare that there are no ties with people in the auditee which may create conflict of interest. Relation to relatives is highlighted as one of the areas where conflict of interest would arise.

¹⁶⁹ RAA's Auditing Standards

The conflict of interest declaration shall be signed for each audit engagement, and was signed for all reviewed audit files. The declaration is also signed by the manager. The focus of the declaration is solely on independence, and not on integrity, competence and professional secrecy. The declarations are not stored in a uniform way. Some declarations are kept with the division chief, while others are placed in the audit file. There are plans for replacing the Conflict of Interest Declaration working paper with the Compliance to Code of Ethics working paper, and RAA is in the process of doing so. As implementation of the code of ethics working paper progresses all auditors will be obliged to declare compliance with integrity, independence, competence and professional secrecy.

(III) QUALITY CONTROL IN FINANCIAL AUDIT

Procedures for quality control of audits are laid down in the Auditor General's Standing Instructions and FA manual. It presents a quality management system which is structured in the following way:

1st Level Review: Team Leader

2nd Level Review Division Chief/Chief of Regional Office (Assistant Auditor General)

3rd Level Review: Department Heads (Deputy Auditor General)

4th Level Review: Research and Quality Assurance Division

5th RAA Executive Committee

6th Auditor General

Currently, the RAA is lacking Deputy Auditor General for two of its three departments (department of Performance and Commercial Audit and department of Sectoral Audit). Therefore, the reports are directly submitted to the Research and Quality Assurance division (RQAD) by the division chiefs. The reports of regional offices are supposed to be reviewed by the current Deputy Auditor General as the head of the department. However, sometimes the reports are directly submitted to the RQAD, if the reports are not very significant.¹⁷⁰

Review of the sampled financial audit files (seven in total) showed that quality control by management was not always visible, due to incomplete audit files. The incomplete audit files on the sampled audits is due to incomplete documentation of audit works.¹⁷¹ The extent of audit documentation differed from one audit to another on account of size of audit. In cases where audit files were more complete, quality control was mostly restricted to vetting of the draft audit report. However, the practice was different between division chiefs. Some managers were involved in the audit from beginning to the end, and signed on individual working papers for documentation of review. Other managers were involved in the pre-engagement phase and the reporting phase only.

If there are difficult and contentious matters, it is common to involve experts in audit methodology to review audit files. RAA currently maintains two expert groups. The first group is focusing on risk based audit, while the other group is focusing on ISSAI standards and implementation. The latter group is linked up with the ISSAI Implementation Initiative Programme of IDI (3i Programme).

Quality control by the division chief and the RQAD is documented through use of track changes in Word. Although it is commendable to make review notes visible, they do not necessarily show the differences of

¹⁷⁰ Interview with Mr. Karma Tenzin, Assistant Auditor General, Corporations and Financial Institutions division

¹⁷¹ Interview with Mr. Karma Tenzin, Assistant Auditor General, Corporations and Financial Institutions division

opinion - only the opinions of the division head and the RQAD which put its comments into track changes. Any differences of opinion between the audit team and others are not visible. Besides the use of track changes, the RAA has no procedure for documenting differences of opinion in the audit process.¹⁷²

RAA has not applied engagement quality control reviews.¹⁷³ Such reviews should be performed on audits that are potentially sensitive, have a high risk and/or materiality and where there are methodological challenges. All RAA audits are vetted by the quality assurance unit, but this review is only targeting the draft audit report and does not normally involve review of the audit file. Engagement quality review should be done at every phase of the audit.¹⁷⁴

Procedures for authorizing report are in place – established in the Auditor General’s Standing Instructions.

(IV) FINANCIAL AUDIT TEAM MANAGEMENT AND SKILLS

As part of the pre-engagement phase of the audit, the FA manual presents a competency matrix (appendix 01). The competency matrix shall be completed for each audit and is a summary of the skills, experiences and qualifications of the audit team. The matrix covers the following aspects:

- Audit approach and working papers of the RAA
- Involvement in the prior year’s audit of the entity
- Understanding of the systems and processes of the audited entity
- Basis of financial statements (e.g. Cash or Accrual)
- IT systems and computerized environment
- Matters reported in the prior year’s management letter and audit report as a whole

Review of audit files show that these competencies are not documented in all audit files. Only the one audit that applied the FA manual, and therefore made use of the competency matrix working paper, have documented the competencies of the audit team.

In addition to the one file with competency matrix, the assessment team assessed competency and capabilities for audit teams of two additional audits by receiving information from the RAA on education background and previous audit experience.¹⁷⁵

Review of these three audits show that the audit teams collectively had the necessary practical experience of audits of a similar nature. Within all three audit teams were there team members that possess professional qualifications in accounting, auditing or similar. In the one audit file containing competency matrixes a necessary knowledge level about the audited industries was also evident.

The review of all sampled audit reports shows that the audit teams understand well the applicable reporting arrangements. The auditors demonstrate knowledge about the entity by including relevant facts, organizational features etc., both through the execution of audit and documentation of collective experience. However, the review also shows that not all auditors have adequate understanding of professional standards and applicable legal and regulatory framework, e.g. only one of seven audits

¹⁷² Interview with Mr. Karma Tenzin, Assistant Auditor General, Corporations and Financial Institutions division

¹⁷³ Interview with Mr. Karma Tenzin, Assistant Auditor General, Corporations and Financial Institutions division

¹⁷⁴ See Guide to Quality Control for Small- and Medium-Sized Practices, Third Edition, by the International Federation of Accountants (IFAC), 2011

¹⁷⁵ RAA Staff list

calculated a materiality level for the audit. Based on the lack of documentation of working papers and non-following of RAA's financial manual, one can conclude that the audit teams do not have a proper understanding of RAA's policies and procedures for quality control. Neither for procedures in regard of documentation of the audit process and archiving of complete audit files.

SAI-12: FINANCIAL AUDIT PROCESS

This indicator measures the financial audit processes of the SAI. It measures how RAA has actually carried out the audit through planning, implementation and reporting. Samples of audit files at the audit engagement level are being used for scoring.

The auditor should plan the audit properly to ensure that it is conducted in an effective and efficient manner.¹⁷⁶ This includes establishing a materiality level, considering different risks, assess the internal control at an overall level and develop an overall audit strategy in the end.

The implementation of the audit should follow the planning process and target identified risk at a financial statement level. The auditor should perform audit procedures in such a way as to obtain sufficient appropriate audit evidence and thus draw conclusions on which to base the auditor's opinion.¹⁷⁷

Audit reporting involves forming an opinion based on an evaluation of the conclusions drawn from the audit evidence obtained, as to whether the financial statements as a whole are prepared in accordance with the applicable financial reporting framework. The opinion should be expressed clearly in a written report that also describes the basis for the opinion. However, the audit mandate, or legislation, regulation, ministerial directive, government policy requirements or resolutions by the legislature, may include additional objectives of equal importance to the opinion on the financial statements.¹⁷⁸

The scoring of the financial audit process through dimensions (i), (ii) and (iii) is based on review of a sample of seven audit files. RAA does not separate between financial audit and compliance audit in their audits, except for the division auditing corporations and finance institutions that conduct strictly compliance audits of corporations and finance institutions. The financial audit sample therefore contains seven audits that are both financial and compliance audits.

For six out of seven audits, the audit file was incomplete. This was due to incomplete documentation of audit works according to Assistant Auditor General Karma Tenzin.¹⁷⁹ The audit reports were made available for all audits. Because of incomplete documentation on planning and implementation of financial audits, it was not possible to establish whether the criteria were met for dimensions (i) and (ii). It may be that the work carried out would meet the criteria, but failure to document this has negative impact on the scoring. To balance the incompleteness of the audit files interviews were carried out with all audit teams.

One of the seven audits was carried out using RAA's FA manual. The audit team was mentored by Indian experts from Deloitte. The audit can be regarded as a pilot audit on the FA manual. It is a serious attempt of applying the risk based audit methodology and to fill in working papers in a conscious way. The audit was properly documented, and it demonstrates the potential of RAA. To show the potential if the FA manual is followed, the specific scores for this audit are shown below in a separate column in the scoring sheet, a short explanation of the scoring on the different dimensions is provided in separate boxes.

¹⁷⁶ ISSAI 200: Fundamental Principles of Financial Auditing

¹⁷⁷ ISSAI 200: Fundamental Principles of Financial Auditing

¹⁷⁸ ISSAI 200: Fundamental Principles of Financial Auditing

¹⁷⁹ Interview with Mr. Karma Tenzin, Assistant Auditor General, Corporations and Financial Institutions division

Indicator score: 1			
Dimension	Findings – overall score	Overall Score	One pilot applying new methodology
(i) Planning Financial Audits	<p>Criteria a), b), c), d), e), f), g), h), i), j) and k) are not met</p> <p>Because of incomplete documentation on planning of financial audits, it was not possible to establish whether the criteria were met or not. However, the assessment got the impression through review of files and interviews that financial audits are not planned in a satisfactory way. The pilot audit applying the FA manual (new methodology) performs better.</p>	0	2
(ii) Implementing Financial Audits	<p>Criteria a), b), c), d), e), f), g), h), i), j) and k) are not met</p> <p>Because of incomplete documentation on implementation of financial audits, it was not possible to establish whether the criteria were met or not. However, the assessment got the impression through review of files and interviews that financial audits are not implemented in a satisfactory way. The pilot audit applying the FA manual (new methodology) performs better.</p>	0	4
(iii) Evaluating Audit Evidence, Concluding and Reporting in Financial Audits	<p>Criteria c), d), f), g), h), i) are met. Criteria a), b), e) are not met. Criteria j) and k) are not applicable.</p> <p>Financial audit reports generally contain relevant information and are well communicated to auditees.</p>	2	4

(I) PLANNING FINANCIAL AUDITS

Planning of financial audits is not readily documented in the audit files. In cases where audit planning was deliberately not carried out, the audit team gave the following three explanations for this: the extent and adequacy of audit planning for small entities differs from that of large entities, time constraints makes audit planning difficult and lack of understanding of risk based auditing among audit team members hinders effective audit planning.

There exists no widely accepted financial reporting framework in Bhutan. The country has a Public Finance Act 2007, and the Financial Rules and Regulations 2001 (FRR 2001), but these do not qualify as standards which are benchmarked with internationally accepted financial reporting frameworks. The RAA considers FRR 2001 as an acceptable financial reporting framework in absence of any other reporting frameworks, but the acceptance has so far not been documented. The FRR 2001 is considered as compliance rather than a fair presentation framework. The RAA is planning to engage in a dialogue with the Ministry of Finance to advice on development of Financial Reporting Framework for public sector financial reporting in Bhutan.¹⁸⁰ There was no evidence in any of the audit files of auditors assessing the financial reporting framework of the audited entity.

Engagement letter, agreeing the terms of engagement with the auditee, was reported to be issued for all audits, but copies of it were only present in a few files.

Three out of the seven sampled financial audits contained working papers documenting the audit process. None of these made use of an overall audit strategy and an audit plan. This may be because of lack of guidance and working paper on this area in the FA manual. A number of risks and controls are normally assessed, but the audit files in general lack an aggregation of the conclusions on each working paper.

A working paper which contains a minimum of audit planning is applied in most of the audits. The content of the working paper does not however comply fully with the requirements of the ISSAIs.

The pilot audit meets most of the planning criteria. Materiality was calculated and used throughout the audit. Internal controls, control environment, fraud risks and other risks were assessed thoroughly. The audit file contains rich descriptions of the entities. Relevant information has been gathered which enable informed conclusions on level of risks and the reliance on internal controls. Special attention was given to the risk of fraud. However, assessment of risks on the financial statement level and design of an overall audit strategy were not performed. While the overall control environment was mapped and assessed, the audit file did not contain an assessment on the risk of material misstatements of the financial statements due to material non-compliance with laws and regulations.

- The score for the pilot audit is 2

(II) IMPLEMENTING FINANCIAL AUDITS

Incomplete audit files within the sample of audits leads to low score in implementation of financial audits. Findings of the audit report are backed up by audit evidence, collected from the auditee, but no working papers are on file except for one audit.

The pilot audit is well documented. Audit procedures were designed to address identified risks, including fraud. When designing the audit procedures separate columns were created to show the link to the identified risks. Audit evidence regarding compliance with laws and regulations was obtained. External

¹⁸⁰ Interview with Mr. Karma Tenzin, Assistant Auditor General, Corporations and Financial Institutions division

confirmation was used when appropriate, including collection of bank statement to reconcile financial figures. Such external confirmations are important for testing the different audit assertions. All planned audit procedures were performed. The audit was designed in a way that ensures sufficient evidence to support a proper audit opinion to be raised. Template working papers in the financial audit manual were applied and used effectively.

- The score for the pilot audit is 4

(III) EVALUATING AUDIT EVIDENCE, CONCLUDING AND REPORTING IN FINANCIAL AUDITS

The audit reports of RAA are prepared in a uniform way and meet most of the criteria. It is however not possible to understand the nature, timing and extent of the audit procedures for an independent reviewer, since the audit files were incomplete for the majority of sampled audits. For three of the audits the audit file included documentation showing planning, audit evidence and reporting. None of the audits, with the exception of the pilot audit, evaluated misstatements against the set materiality level.

All reviewed audits allowed the audited entity to provide comments and feedback. This is normally done through an exit conference. Any wrong observations will be corrected based on the discussions with the audited entity. Audit opinions are expressed as per ISSAI 200, and within the audit sample the options are either unmodified or qualified. Audit observations are generally presented objective and fair, and audit evidence is provided to support the conclusions. Also, audit observations are clearly linked to those responsible. Those that are directly responsible, or responsible by being the supervisor, are named in the report. The follow-up unit is responsible for ensuring that corrective measures are taken place by these responsible persons.

The pilot audit scored better than the other audits within the sample, mainly because the audit report can be compared with working papers showing audit planning and implementation of audits.

- The score for the pilot audit is 4

SAI-13: COMPLIANCE AUDIT FOUNDATIONS

SAI-13 scores fundamental principles and preconditions that should be in place before initiating a compliance audit, i.e. guidance elements for the auditors when planning and for starting the audits. SA-14 measures the audit process itself.

Dimension (i) measures auditing standards and guidance connected to compliance auditing. RAA's Auditing Standards and the FA manual were used to score this dimension. Dimension (ii) measures how the code of ethics is applied at the audit engagement level, whereas issues related to the code of ethics at the organizational level are measured in SAI-18. Dimension (iii) measures how RAA has established a robust quality control system that ensures quality of work performed. Dimension (iv) looks at how compliance audit teams are composed, and whether RAA's criteria comply with the SAI PMF criteria. To understand the quality control system (dimension iii) and the composition of audit teams, interviews were carried out and the full audit cycle mapped. Relevant information from the management information system of RAA was extracted where necessary.

Indicator score: 1		
Dimension	Findings	Score
(i) Compliance Audit Standards and Guidance	Criterion b) is met. Criteria a) and c) are not met. RAA's standards and guidance cover many, but not all relevant elements of compliance auditing. E.g. is there no mentioning of the need for an overall strategy and an audit plan, neither how suitable audit criteria should be identified.	1
(ii) Ethics and Independence in Compliance Audit	Criterion b) is met. Criteria a), c) and d) were not met. A system for signing a code of ethics declaration at audit engagement level is being implemented. Currently only a conflict of interest declaration is used by everyone.	1
(iii) Quality Control in Compliance Audit	Criteria c) and f) are met. Criteria a), b), d) and e) are not met Quality control procedures are developed, but quality control review of audit files is not documented in every audit.	1
(iv) Compliance Audit Team Management and Skills	Criteria a) and c) are met. Criteria b) and d) are not met. The audit teams are generally competent, but need further training on audit methodology.	2

(I) COMPLIANCE AUDIT STANDARDS AND GUIDANCE

The compliance audit standards and guidance has been assessed by using the RAA Auditing Standards and the FA manual. No guidance material has been made exclusively for compliance audit. However, many elements of compliance audits are covered within these two assessed documents.

The standards do not cover the relevant elements to be identified before commencing a compliance audit, including subject matter, audit criteria and applicable authorities. The standards and the FA manual do however provide requirements on inclusion of risk assessment, calculation of materiality level, the need to have sufficient audit documentation and the importance of establishing good communication with the auditee. The standards do not mention how suitable audit criteria should be identified. The auditors shall design an appropriate audit scope, but there is no requirement that auditors should understand the audited entities in light of the authorities governing them. Both the standards and the FA manual stress the importance of assessing internal controls, perform a risk assessment and explicitly consider the risk of fraud. The scope of the audit should be covered by sufficient and appropriate audit evidence lead to forming of relevant conclusions which will be put into a written report at the end. The standards do not require that the written report should be based on the principles of completeness, objectivity, timeliness and a contradictory process. There is no mentioning of the need for an overall audit strategy and an audit plan.

The FA manual provides a number of policies that are relevant for compliance audit. A materiality level must be calculated, also based on qualitative factors - making them relevant for compliance audit. There are clear instructions on how audit documentation should be prioritized throughout the audit. A policy is provided on the extent of audit procedures to be carried out, through a working paper on audit sampling. Sampling will also be affected by compliance aspects.

There is no guidance in the FA manual on how to identify applicable authorities based on formal criteria. There is however guidance on how different levels of assurance can be provided through use of different audit opinions and conclusions. A section in the FA manual is devoted to explaining the different qualities of inherent risk, control risk and detection risk. No guidance is provided on how to assess the internal control through analysis of culture of honesty and ethical behavior needed to provide a foundation for other components of internal control established to ensure compliance with authorities. On the other side, there are useful guidance, through use of working papers, on how to assess fraud risk and how to set up an audit programme with audit procedures. The FA manual fails however in bringing the overall planning into an overall audit strategy and/or audit plan. The consolidation of risks assessed and controls measure is absent. At the end of the FA manual there are guidance on how to express an appropriate audit opinion, linked to sufficient audit evidence, and how to prepare a written report.

(II) ETHICS AND INDEPENDENCE IN COMPLIANCE AUDIT

Same as SAI-11 (ii) above.

(III) QUALITY CONTROL IN COMPLIANCE AUDIT

Reference is made to SAI-11 (ii) above. In addition:

The sampled compliance audit files do not document that quality control procedures were implemented throughout for all audits. Review of audit files that were more complete and interviews show that the audits did not comply fully with ISSAI 400, and indicate that the executed quality control does not focus on ensuring correct application of compliance audit standards.

(IV) COMPLIANCE AUDIT TEAM MANAGEMENT AND SKILLS

Reference is made to SAI-11 (iv) above. In addition:

In the sample of compliance audits, two audits had filled in the competency matrix (two pilot audits for implementation of the FA manual – one of them strictly compliance audit). The competency matrixes, and review of audit team member's competencies and capabilities in two additional audit files, do not show that the auditors possess necessary understanding of professional standards and authorities in connection to compliance auditing. This is also shown in the execution of the audits.

The review of audit files does not provide sufficient evidence on auditor's ability to exercise professional judgment.

SAI-14: COMPLIANCE AUDIT PROCESS

This indicator assesses the compliance audit process, including planning, implementation and reporting. Criteria are derived from ISSAI 400.

Compliance audits should be planned by establishing the audit scope, audit criteria, control environment, relevant risks and develop an overall audit strategy. Particular attention must be provided to understanding the entity and the authorities that govern it.¹⁸¹

Implementation of compliance audits should address the identified risk in the planning phase of the audit. Auditors should gather sufficient appropriate audit evidence to cover the audit scope. The auditor should gather sufficient and appropriate audit evidence to provide the basis for the conclusion or opinion.¹⁸²

¹⁸¹ ISSAI 400: Fundamental Principles of Compliance Auditing

Audit findings should be reported in the end. Auditors should prepare a report based on the principles of completeness, objectivity, timeliness and a contradictory process. The report should clearly state the relevance of the criteria used and the level of assurance provided.¹⁸³

SAI-14 has been assessed using the same seven audits as with financial audit and two additional ones that conducted as strictly compliance audits by the Corporations and Financial Institutions division. Financial audit of corporations and financial institutions is outsourced to private firms.

Compliance audit in RAA is not performed as per ISSAI 400 and the ISSAI 4000 series. It is planned the same way as a financial audit and terms applied in ISSAI 400, i.e. subject matter is not being used. Compliance audits are often initiated through audit themes/thrusts. These are topics which are considered to be cut across government. One audit topic which occurred in several of the reviewed audits was construction work.

Separate scoring is done for two the pilot audits which applied the FA manual. Reference is made to SAI-12 indicator intro above for rationale of having separate scores for pilot audits.

Indicator score: 1			
Dimension	Findings – overall score	Overall Score	Two pilots implementing new Methodology
(i) Planning Compliance Audits	Criteria a), b), c), d), e), f), g), h), i) and j) are not met Because of incomplete documentation on planning of compliance audits, it was not possible to establish whether the criteria were met or not. However, the assessment team got the impression through review of files and interviews that compliance audits are not planned in a satisfactorily way. The two pilots audits applying the FA manual (new methodology) performed better.	0	2
(ii) Implementing Compliance Audits	Criteria a), b), d) and e) are not met. Criterion c) ¹⁸⁴ is not applicable Because of incomplete documentation on planning of compliance audits, it was not possible to establish whether the criteria were met or not. However, the assessment	0	4

¹⁸² ISSAI 400: Fundamental Principles of Compliance Auditing

¹⁸³ ISSAI 400: Fundamental Principles of Compliance Auditing

¹⁸⁴ No external experts were used in the sampled audits

	team got the impression through review of files and interviews that compliance audits are not implemented in a satisfactory way. The two pilot audits applying the FA manual (new methodology) performed better.		
(iii) Evaluating Audit Evidence, Concluding and Reporting in Compliance Audits	Criteria e), f), g), h) and i) are met. Criteria a), b), c) and d) are not met. Criterion j) ¹⁸⁵ is not applicable. Compliance audit reports are properly communicated. For audit reports using the new methodology, findings can be corroborated by evidence.	2	4

(I) PLANNING COMPLIANCE AUDITS

Reference is made to SAI-12 Dimension (i) on planning of financial audits. Also for compliance audit does incomplete audit files lead to a low score on audit planning. Exceptions are made for four audits. Here, risk assessments, assessment of internal controls and identification of applicable authorities was documented on file. Audit criteria were not communicated to the audited entity for any of the audits.

The two pilot audits identified elements that are relevant for compliance auditing. This includes identifying the relevant authorities and the subject matter. The audits assessed materiality, both quantitative and qualitative. Audit criteria were identified and documented. However, these audit criteria were not communicated to the audit clients at an early stage of the audit. Even though audit criteria and subject matters were identified, these were not used for formulating a proper audit scope. The overall internal control environment was assessed and relevant risks were identified. Also the risk of fraud was considered by the audit teams. An overall audit strategy was not developed.

- The score for the two pilot audits is 2

(II) IMPLEMENTING COMPLIANCE AUDITS

Reference is made to SAI-12 Dimension (ii) on implementation of financial audits. The implementation of compliance audits has severe shortages due to incomplete documentation of audit works.

The two pilot audits meet all criteria for this dimension. Audit procedures are designed to address relevant audit criteria. Instances of fraud are dealt with appropriately. Sufficient audit evidence was collected to form the basis for an audit opinion. All planned audit procedures, also related to compliance aspects, were performed as planned. In general the level of documentation made it possible to follow the audit trail and track how risks identified in the planning phase were dealt with in the implementation/execution phase of the audit.

- The score for the two pilot audits is 4

¹⁸⁵ Due to the fact that there exists no widely accepted financial reporting framework in Bhutan.

(III) EVALUATING AUDIT EVIDENCE, CONCLUDING AND REPORTING IN COMPLIANCE AUDITS

Reference is made to SAI-12 Dimension (iii) on implementation of financial audits. Only four of the selected audits have sufficient audit documentation which can be used to explain the content of the audit report. This means that RAA's own requirements for documentation were not followed. Only two audits made use of the materiality level when determining if audit observations should be included in the audit report or not.

For all selected audits was there proper communication with the audited entity in the reporting phase, and the reports are prepared on the basis of completeness, objectivity, timeliness and contradictory process. The audited entities were invited to provide their comments to the audit findings. However, communication with the audited entity was not carried out at every stage of the audit process. For the majority of the audits communication was limited to issuance of engagement letters and draft audit reports. The reports are easy to understand and structured well. Only information which is supported by audit evidence is included, which is ensured by the quality control by line-management. The formal requirements of the compliance audit report are met. Responsible persons for correcting the audit observations are identified in the audit report.

The two pilot audits meet all the criteria for this dimension. The audit report is well linked with performed audit procedures, which are well linked with the planning phase of the audit. The reports consider the initial materiality level and only include findings that are deemed material. Audit findings were communicated to the audited entities throughout the audit and not only at the end. Audit documentation was prioritized in both audits and the audit trail was visible for an external reviewer.

- The score for the two pilot audits is 4

SAI-15: PERFORMANCE AUDIT FOUNDATIONS

This indicator examines the general principles for performance auditing, and covers four dimensions: standards and guidance, ethics and independence, quality control, and team management and skills.

Performance auditing is an independent, objective and reliable examination of whether government undertakings, systems, operations, programs, activities or organisations are performing in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvements. The standards for performance auditing reflect the need for flexibility in the design of the individual engagement, the need for the auditor to be receptive and creative in performing an audit and the need to exercise professional judgement throughout the audit. In line with the flexibility in the performance audit guidelines, the scoring sometimes allows criteria to have been partially met.

The assessment is primarily based on information from the RAA's guidelines and standards, a review of three sampled performance audit files, as well as information from the RAA's management information system.

Indicator score: 2		
Dimension	Findings	Score
(i) Performance Audit Standards and Guidance	All criteria a, b, c, including all sub-criteria, are met.	4
	The RAA has established standards and guidelines that cover the main	

	aspects of ISSAI 300, and communicated these to the auditors to ensure implementation.	
(ii) Ethics and Independence in Performance Audit	Criteria b is met; criteria a, c and d are not met. At the audit engagement level, the RAA has a system to ensure compliance with only the ethical requirement of independence.	1
(iii) Quality Control in Performance Audit	Criteria a, b, and e are met. Criteria c and d are not met. All work connected to performance auditing is subject to quality control, but the review done at Deputy Auditor General and Auditor General level should be documented more systematically. The system of engagement quality control could be made more systematic.	2
(iv) Performance Audit Team Management and Skills	Criteria a and c are met; criterion b and d not met. The audit teams appear to have necessary general knowledge of performance auditing and good personal skills. The educational background of the auditors is primarily limited to finance and economics.	2

(I) PERFORMANCE AUDIT STANDARDS AND GUIDANCE

The RAA's Performance Audit guidelines (2011) and general auditing standards¹⁸⁶ cover the main aspects in ISSAI 300. The guidelines do not refer explicitly to ISSAI 300, but there are several references to ISSAI 3000. The guidelines and standards cover general principles, planning, execution and reporting.

The performance audit guidelines were launched at a formal ceremony and distributed to all the auditors. The auditors did not receive in-house training in the performance audit guidelines, but a few auditors received training abroad, organised by ASOSAI or other relevant bodies.¹⁸⁷ However, the RAA has developed standing instructions¹⁸⁸ that seek to ensure that auditors follow standards, guidelines and manuals. The standing instructions are made available to all through the RAA's webpage, and the auditors also receive a paper version of the document. The performance audit guidelines and the standing instructions cover an interpretation of the RAA's mandate, organisation and working process, selection of audit topics, and the quality control system.

In addition to the general performance audit guidelines the RAA has also developed more specific guidelines and manuals such as the environmental audit guidelines. The Continuing Professional Development policy (CPDP) sets up strategies for professional development in daily work, and there are some examples where internal and external experts are used in audits. The RAA has a system of performance evaluation with individual work planning forms that are used to set individual objectives.

¹⁸⁶ RAA's Auditing Standards

¹⁸⁷ Email from Tashi Tobgay, 18 June 2014.

¹⁸⁸ Auditor General's Standing Instructions, 2010.

The RAA also has several in-house training courses, some of which deal specifically with performance audit topics, and auditors from the RAA have participated in external training, e.g. at ASOSAI.¹⁸⁹

(II) ETHICS AND INDEPENDENCE IN PERFORMANCE AUDIT

The only ethical requirement where the RAA has documented procedures for ensuring compliance at audit engagement level, e.g. the form of declarations from staff, is in the requirement of independence. We found signed versions of the form Declaration on Conflict of Interest in all three sampled audit files. There are no declarations from the staff when it comes to compliance with other requirements, such as integrity, professional secrecy and competence.

(III) QUALITY CONTROL IN PERFORMANCE AUDIT

The Auditor General's Standing Instructions and the performance audit guidelines specify how quality control should be carried out at the different stages of a performance audit, and give procedures for reports to be issued. The quality control of performance audits is carried out as a line function. The chief of the performance and thematic audit divisions reads and comments on all audit plans and audit reports.¹⁹⁰ We saw examples of draft audit plans and draft reports with comments from the division head in the files of the three sampled performance audit files, and this shows that quality control by division chief is carried out. The division chief is also in contact with the audit teams on a regular basis.¹⁹¹

The Deputy Auditor General and the Auditor General are also involved in the reviewing process of the audit reports, but this is not documented.¹⁹² The review done by Deputy Auditor General and Auditor General is confirmed in interviews with the chief of the performance audit division and the team leaders. The Auditor General's final approval of the report is given when he signs the cover letter for the report to be sent to the responsible ministry and others (see SAI-3, dimension (ii), criterion a).

The start-up letters sent by the auditor general to the audited entity at the start of each audit is taken as evidence that the Auditor General has approved the audit objective and audit approach, as the letters contain some information on these issues.¹⁹³ The top management monitors the progress of the audits through quarterly progress report submitted by the divisions to the Auditor General's secretariat and through mid-term reviews.¹⁹⁴ All in all, there is evidence that work is subject to review by appropriate levels of management. But the RAA should consider documenting the quality review done by the Deputy Auditor General and the Auditor General, so that the quality control of performance audit reports can be traced in the entire line function.

There are examples of experts being used to examine difficult matters in two of the three reviewed audits: in-house engineers were used to assess the quality of construction work in the Constituency Development

¹⁸⁹ List of courses provided by HR division, via email 27 June 2014.

¹⁹⁰ Interview with Mr. Tashi Tobgay, Assistant Auditor General, Performance and Thematic audit divisions, and team leaders.

¹⁹¹ Interviews with Mr. Tashi Tobgay, Assistant Auditor General, Performance and Thematic audit divisions, and team leaders

¹⁹² The copies with the Deputy Auditor General's written comments are often discarded when they have been implemented (email from Tashi Tobgay, 30 June 2014).

¹⁹³ The assessment team has received the start-up letters for the three sampled audits.

¹⁹⁴ Interview with Tashi Tobgay, Assistant Auditor General, Performance and Thematic audit divisions. The assessment team has received a copy of a monthly progress report and mid-term reviews.

Grant project, and external GIS¹⁹⁵ experts were used in the timber harvesting audit. It is not possible to assess whether appropriate resources are used in all or most cases where difficult matters arise as described in the criterion, but the criterion is scored as met since there are some examples of such resources being used.

Differences of opinion about the audit within the RAA are usually resolved through discussions and meetings, but they are not clearly documented.¹⁹⁶

Some audit plans and draft reports are sent to other division heads for comments and review. However, the other division heads give their feedback verbally and informally, and the process is therefore not documented.¹⁹⁷

(IV) PERFORMANCE AUDIT TEAM MANAGEMENT AND SKILLS

Most of the team leaders and members in the reviewed audits had prior experience with performance audits, and several had participated in training and courses in performance auditing.¹⁹⁸ The planning documents and the audit reports generally appear to be prepared in line with the fundamental principles of performance auditing, hence indicating that the auditors have a good knowledge of discipline.

It is difficult to evaluate the teams' knowledge of research design and social science or evaluation methods, but review of the sampled audit files and the auditors' educational background give some indication.

All of the 22 auditors in the two divisions conducting performance auditing have academic degrees, six have master's degrees, seven bachelor's degrees, the rest certificates and diplomas.¹⁹⁹ Most auditors have degrees in finance or information technology, the rest have degrees in economics, business administration or environmental management. The divisions thus seem to have auditors with relevant academic degrees. But there are no auditors trained in other social science methods, such as sociology, social anthropology, evaluation or political science, and we have not received any documentation that the auditors have acquired these skills in other ways. Since performance auditing is heavily reliant on social science and evaluation methods, the assessment team considers this to be a challenge to the RAA. The fact that the sampled audit files showed shortcomings in regard of identifying overall problems and deficiencies, and to see the link between the objective, criteria and findings in the audit reports supports this.

Audit teams' personal skills like communicating and writing skills and analytical capacity are very hard to measure. But interviewed team members have described the communication with the audited entities as good. The reports are readable, to suggest that the audit teams have writing skills, even though some of the reports are rather technical. And the reports make use of some other methods than the standard ones, to suggest some creativity and analytical capacity in the teams.²⁰⁰

¹⁹⁵ A geographic information system (GIS) is a computer system designed to capture, store, manipulate, analyse, manage, and present all types of geographical data.

¹⁹⁶ Interview with Mr. Tashi Tobgay, Assistant Auditor General, Performance and Thematic audit divisions

¹⁹⁷ Email from Tashi Tobgay, 18 June 2014.

¹⁹⁸ RAA Staff list

¹⁹⁹ RAA Staff list

²⁰⁰ Examples include the use of GIS analysis in the timber harvesting report, regression analysis in report on hydroelectric energy, and the use of survey forms in face-to-face interviews with recipients of constituency development grants in the CDG report.

The RAA has a policy to ensure continuing professional development (the CPDP), and the auditors participate in on-the-job training and in-house training courses.²⁰¹ However, these measure for continued professional development does not include measures to train the performance auditors in social science methods.

SAI-16: PERFORMANCE AUDIT PROCESS

This indicator examines the performance audit process, and covers three dimensions: planning, implementation, and reporting. In line with the flexibility in the performance audit guidelines, the scoring sometimes allows criteria to have been partially met.

The assessment is primarily based on information from a review of three performance audits, one published follow-up report,²⁰² as well as information from the RAA's management information system.

Indicator score: 2		
Dimension	Findings	Score
(i) Planning Performance Audits	<p>Criteria a, b, c, d and f are met; all sub-criteria are met on b and c. Criterion e is not met.</p> <p>In general, the audit plans appear to provide a good basis for conducting the audits. But the plans could be more specific on some issues, e.g. auditability, how to involve the audited entities, and the resources needed to carry out the audits.</p>	2
(ii) Implementing Performance Audits	<p>Criteria a, b, c, d and e are met; all sub-criteria are met on a, b, c and e. Criterion f is not met.</p> <p>On the whole, the audits are implemented according to the audit plans and following the guidelines. However, evidence in the audit reports are not put properly into context, since the audit reports do not contain any conclusion. The assessment team also questions whether enough time and resources have been allocated to the audits, all the three sampled audits were heavily delayed.</p>	2
(iii) Reporting in Performance Audits	<p>Criteria a, b, c, d, and f are met; all sub-criteria are met on a and b. Criteria e and g are not met.</p> <p>The reports are reader-friendly, include sufficient information and cover the audit objectives. There are limitations in regards of identifying overall problems and deficiencies, and to see the link between the objective, criteria and findings in the audit reports. The reports could also be made more useful by providing a chapter with overall conclusions, thereby putting the findings into context.</p>	1

²⁰¹ See the in-house training calendar. See also dimension (i), criteria (c) on this indicator, which covers the same aspects.

²⁰² Review Report of Performance Audit Reports, January 2014.

(I) PLANNING PERFORMANCE AUDITS

Review of the three sampled audit files show that the audit plans or other documents contain information needed to understand the audited agency, assessments of the problems and risks, potential sources of evidence, and the significance of the topic.²⁰³ The matter of auditability is though not covered.²⁰⁴

The list of completed performance audits²⁰⁵ shows that the RAA focuses on significant issues in a Bhutanese context: e.g. hydroelectric power, forestry, the health sector, infrastructure (roads) and education. Overall, the issues were auditable since the reports succeed in examining the audit objectives. There are clear examples of reports focusing on economy and to a certain degree effectiveness (e.g. through looking at effects for the users). There are no efficiency analyses in the strict sense of the concept: analyses of how much output you get from a certain amount of input. But there are examples of audits examining efficiency in a broader sense of concept (e.g. whether government programmes are efficiently managed and regulated, or whether activities in government entities are consistent with stipulated objectives and requirements).²⁰⁶

All the sampled performance audit reports deal with identifiable government undertakings, such as a specific government grant, specific units in government agencies and specific government policies (such as the tariff scheme in electricity). In the audit plans, the audit objectives are used as the basis to derive audit questions, audit criteria and the methodological approach. The audit plans also consider the scope and time period of the audits.

In general, the audit criteria appear to be relevant to the audit objective in the three sampled audits. The criteria in the three reports cite laws, regulations, scientific knowledge and best practices. For the most part, the criteria appear to be objective, reasonable and attainable. In the CDG report they are also on the whole identified with sources, as there is only one main source for the criteria (the CDG Rules of 2009). In the other two reports/audit plans, it is often challenging for an external reader to identify where the criteria are derived from. Though some of the criteria are clearly linked to laws and regulations, many are not. This also makes it difficult to assess whether the criteria really are objective and attainable. The report on hydroelectric energy also uses international comparisons as benchmark-criteria, but the report does not discuss why the data used as benchmarks are relevant in a Bhutanese context, why the specific countries are used as benchmarks rather than other countries, and where the benchmark data come from.

The audit plans of the three reviewed audits include an overall activity plan and control points, and consider risks in the audits. But the plans do not contain a budget. The plans mention who should do what, but do not discuss the specific competence needs and the need for experts. The Auditor General's Standing Instructions specify the requirements when it comes to communication with the auditee and stakeholders. The audit plans also contain a date for when draft reports should be issued, which in practice means when the report should be sent to the auditee. But there is no detailed plan for the communication when it comes to the content, process and addressee.

The audit plans are approved by the Auditor General.²⁰⁷ The Auditor General does not formally sign off the audit plans, and there is therefore no specific documentation to confirm that the plans are actually approved at this level. But we have received copies of the start-up letters sent to the audited entity at the

²⁰³ Based on review of the plans of the three selected performance audits, and the audit topic selection matrix.

²⁰⁴ See SAI-3, dimension (i), criterion (d) for more information on auditability.

²⁰⁵ Performance Audit Reports issued from 1st January 2009 to 30th April 2014, list provided by RAA during fieldwork

²⁰⁶ See ISSAI 3000, p. 16.

²⁰⁷ Interview with Tashi Tobgay, Assistant Auditor General, Performance and Thematic audit divisions. Two of the three audit plans include approval of plan by the Auditor General in the audit schedule.

start of the audits; the letters are signed by the Auditor General. The letters contain some information on the audit objectives and the audit approach, and this shows that the Auditor General has approved the contents of the audit plan.

According to the audit plans of the three reviewed performance audits, the whole audit from approval of the audit plan to the issuing of final report, should take 22 weeks on average. This seems to be insufficient, given the audit approaches adopted. All the three audits make use of field visits, sometimes quite extensively, in addition to document reviews and analyses of quantitative data. All three reports were significantly delayed compared with the planned publication date given in the audit plans. On average, the reports were 41 weeks delayed (minimum 24 weeks, maximum 57 weeks). This may partly reflect that the audit teams were used for other purposes, in which case one could also argue that the audits were not allocated sufficient resources. It may also indicate that the audits were not allocated sufficient time and/or resources in the first place. We examined this in three other audits as well, to see if the pattern was the same.²⁰⁸ By increasing the sample, the average delay was reduced from 41 to 29 weeks, and the average planned execution and reporting phase was increased from 22 to 30 weeks. The delay in audits that planned with a longer execution/reporting phase was significantly shorter than in audits that planned with a relatively short execution/reporting phase. Still, all audits were delayed, and the audit that was closest to being on time was still seven weeks delayed.

(II) IMPLEMENTING PERFORMANCE AUDITS

The audited entities receive a copy of the audit plans, which include audit objectives, questions, criteria and scope. The audit criteria are discussed with the audited entities in the entry meeting. The audit files contain minutes from the entry meetings, and confirm that the audit criteria have been discussed with the audited entities.

It is not possible to verify whether the audit teams have established good communications (without compromising the independence and impartiality of the RAA) with the auditee and stakeholders. But there are some indications to support such a conclusion: The fact that the RAA does not accept all the comments and request from the audited agency when the audited agency comments on the draft report, indicates that the auditors maintain independence. We have information that the RAA gets information from the audited entities, and they have a system of focal persons. The auditors describe the communication as good.²⁰⁹ The audit event diaries show that there is contact between audit teams and the audited entities, and there is evidence that the RAA receives information from the entities.

All three sampled audits use data from different sources and of different type, and combine them in an analysis. Examples of methods and data used include document reviews, testimonies, physical observations, survey data and quantitative secondary data.

All the three sampled audits examine both positive and negative aspects of the audited entity. The findings that are presented are backed by audit evidence, and the reports often consider several arguments under each finding. In general there appears to be enough evidence to back up the findings. But in some cases it would have been useful if the issue of representativeness had been addressed in more detail. It is not always clear whether the examples given are meant to be indicative of a general trend or finding, or whether they are included since they are interesting and significant in their own right. The quantity and

²⁰⁸ The three audits are Performance Audit of Civil Service Trainings (March, 2011), Performance Audit of Human Resource Management of the Ministry of Education (March, 2011) and Performance Audit of Environmental Issues in Forestry - National Forest Inventory, Forest Fires & Watershed Management (January, 2012).

²⁰⁹ Interview with team leaders

quality of some of the data can be questioned, but in general the evidence seems to be of as high a quality as could be expected.

All the sampled audits make some efforts to put the evidence into context. But since the reports do not contain any conclusions - only findings - they have a tendency to first present a list of positive findings, then a list of negative findings, without weighing them against each other to give an overall assessment. The evidence is therefore not put properly into context.

The audit plans of the three sampled audits are documented with sources in as much detail as could be expected. The audit files contain some information on important procedures, such as data collection, contact with the audited agency and internal quality control. And the three reports contain references to evidence and sources, and the audit files appear to contain documentation of the evidence. But all the reports could benefit from more detailed cross-referencing, as there are some instances where it is not clear exactly where the information comes from.

There is regular contact between the teams and chief of division. The top management monitors the progress of the audits through progress reports submitted by the divisions to the Auditor General's secretariat and through mid-term reviews.²¹⁰ However, as described in dimension (i) the assessment team questions the allocation of enough time and resources. Furthermore, the RAA does not have a systematic and documented procedure for following up lessons learned by the end of each audit. While efforts are being made to exchange ideas and lessons learnt through audit in different forums (Annual Audit Conference, Mid-term Review Meeting, Policy, Planning and Coordination Meeting, etc.), there is no established procedure for following up lessons learned at the end of each audit.²¹¹

(III) REPORTING IN PERFORMANCE AUDITS

The RAA sends a draft report to the audited entities for comment, and the entities reply in writing, commenting on factual misunderstandings and other issues. The RAA documents changes made to the draft report in the final report, by commenting on the instances where the RAA has not followed the suggestions made by the audited entities. The entities' full reply is annexed to the final report. The appendix is a bit difficult to cross refer for readers who have not seen the draft report, but it does show the changes requested by the audited agency.

The sampled audit reports contain findings that relate to at least one of the three E's. All the reports refer to the RAA auditing standards and performance auditing guidelines.

In general, the sampled audit reports contain all the information needed to address the audit objective and question and enough detail to provide an understanding of the subject and the findings. There are some examples where more information would be useful to understand the subject and the significance of the findings. But in general there is enough detail; it might even be argued that the reports are a bit too detailed on some points. There is however not sufficient detail to understand audit design. The reports contain enough information to understand the audit objective, but the more detailed audit questions are not always presented. Furthermore, the methodology is not described in any detail, and there is no discussion of the limitations of the data.

²¹⁰ Interview with Tashi Tobgay, Assistant Auditor General, Performance and Thematic Audit divisions. The assessment team has received a copy of a monthly progress report.

²¹¹ Interview with Tashi Tobgay, Assistant Auditor General, Performance and Thematic Audit divisions.

The findings are material in the sense that they are based on sufficient and appropriate audit evidence,²¹² and the reports clearly answer the audit questions. The reports go some way to explain how performance is hampered by presenting the findings. But since the reports do not include conclusions (only findings), they do not explain how the overall performance is hampered, and it is difficult for the reader to put the findings into perspective.

The sampled audit reports give recommendations that are clear, constructive and linked to the findings. Most of the recommendations are quite specific, and not aggregated up to show how they relate to the general audit objectives.²¹³ There is no clear and explicit link to the audit objective in the chapter on recommendations. Furthermore, while it is clear that the recommendations will lead to some changes if implemented, it is not clear that they will significantly improve performance. Many of the recommendations are at a quite detailed level.

Some reports have quite a lot of recommendations²¹⁴, some of which are fairly detailed and partially overlapping. The review report submitted on 1 January 2014 of the follow-up of five performance audits, suggests that the recommendations add value to the audited agency. There are a total of 80 recommendations in the five audit reports, and of these 50 % were fully implemented, 33 % partially implemented and 10 % not implemented or yet to be implemented.²¹⁵

The reports are reader-friendly, clear and concise. In some cases the reports are rather technical and may be difficult to follow, but in general they are readable. Extensive use of pictures and tables aid the understanding and make the reports more reader-friendly. The reports contain unambiguous language, and are balanced, addressing all relevant arguments. But the reports do not present a clear relationship between audit objective, criteria, findings, conclusions and recommendations. The reports do not have conclusions (only findings) and it is not always easy to see the link between the objective, criteria and findings.

For two of the sampled audit reports criteria are listed in the design matrix in the appendix, so it is difficult to see the relationship between the criteria and findings. In one of the reports²¹⁶ the criteria is not presented at all.

SAI-17: JUDGEMENT PROCESS

Not applicable. Indicator is for Courts of Accounts.

3.5 DOMAIN E: MANAGEMENT AND SUPPORT STRUCTURES

ISSAI 20²¹⁷ states that an SAI should manage its operations economically, efficiently, effectively and in accordance with laws and regulations. The INTOSAI Guidelines on internal control standards emphasize that a SAI should maintain an appropriate internal control environment to provide reasonable assurance

²¹² See dimension (ii) criterion (d) on this indicator for discussion.

²¹³ There are also some recommendations that are fairly vague (e.g. that the auditee should address the problem without detailing how, that the auditee should consider revising policies or doing analyses, or that the auditee should ensure compliance with regulations and guidelines). But most of the recommendations can be described as clear, practical and constructive.

²¹⁴ Based on the three sampled audits and review of the submitted follow up report for performance audit

²¹⁵ The RAA did not have enough information to assess whether the remaining recommendations were implemented.

²¹⁶ Environmental Audit Report on Timber Harvesting in FMUs & WSs (April, 2014)

²¹⁷ ISSAI 20 Principles of transparency and accountability, Principle 6

that this is done.²¹⁸ The internal control environment should provide assurance that the SAI's resources are safeguarded against loss due to waste, abuse, mismanagement, errors, fraud or other irregularities. It should also provide assurance that the SAI adheres to laws, regulations and management directives, and that the SAI develops and maintains reliable financial and management data.

ISAI 30²¹⁹ describes Code of Ethics as a comprehensive statement of the values and principles which should guide the daily work of auditors to ensure that their conduct is beyond reproach at all times and in all circumstances. Key concepts in ISSAI 30 are integrity, independence, objectivity, confidentiality and competence.

The Mexico Declaration on SAI Independence²²⁰ declares that SAIs “should have available necessary and reasonable human, material, and monetary resources” and “manage their own budget and allocate it appropriately”. This entails that an SAI needs to have effective planning and use of its assets, and have appropriate support services in place to operate effectively. This includes physical infrastructure such as offices and training centres, assets such as vehicles and archiving facilities, as well as IT hardware and software which enable employees to communicate, access information and document their work. It also includes the existence of well functioning support functions: IT support, archiving, and asset management. To ensure these assets are managed effectively, SAIs should: develop short and long term asset management plans based on current and future anticipated needs; regularly review asset utilisation to ensure assets are used effectively; and report to the Legislature where it considers its current assets and infrastructure to be insufficient.

SAI-18: ETHICS, MANAGEMENT AND INTERNAL CONTROL

The main basis of the scoring for SAI-18 are RAA's Oath of Good Conduct, Ethics and Secrecy of Auditors of the RAA, government rules and regulation regarding civil service and financial operations, RAA financial reports and RAA documentation on the organizational structure and responsibilities in RAA.

Indicator score: 2		
Dimension	Findings	Score
(i). Code of Ethics and Integrity	<p>Criteria a), e) and f) are met. Criteria b), c), d), g) and h) are not met.</p> <p>The RAA has high focus on ethics and even the Audit Act addresses the code of professional conduct to ensure that the integrity of the authority is maintained. Adherence to RAA's code of conduct (the Oath) is monitored as part of the annual appraisal of every employee. Deviations are dealt with by the disciplinary committee. However, the Oath has not been reviewed in the last five years, and is not publicly available.</p> <p>The RAA has not made a documented assessment of vulnerability and resilience to integrity violations.</p>	2

²¹⁸ INTOSAI GOV 9100 Guidelines for Internal Control Standards for the Public Sector, Chapter 1

²¹⁹ ISSAI 30 Code of Ethics

²²⁰ ISSAI 10 The Mexico Declaration on SAI Independence

(ii). Management of Staff	<p>Criteria a), b) c), d) and g) are met. Criteria e), f), h) and i) are not met.</p> <p>RAA has a clear organizational structure, and responsibilities and reporting lines are described in of each employee are described. Staff time and cost is not recorded against the task that is performed.</p> <p>Policies are in place to manage possible conflicts of interest.</p> <p>The RAA does not have written quality control procedures for non-audit work, but there exist procedures in practice for at least some areas. A review of the quality control system was done of the peer review report conducted by the C&AG of India in 2010, but this did not cover non-audit activities.</p>	2
(iii). Financial Management	<p>Criteria a), c), d), e), f), h) i), j), and k) are met. Criteria b) and g) are not met.</p> <p>The RAA follows the Ministry of Finance procedures for their financial management function, and have experienced and skilled persons performing the function. For the years assessed (last three financial years) an unmodified external audit opinion was given. The RAA uses the Ministry of Finance's electronic accounting system, and do not spend more than what is allocated in the budget.</p> <p>There is no management information system which links financial and performance information.</p>	3
(iv). Internal Control Environment	<p>Criteria d), e), h), i) and j) scored as met. Criteria a), b), c), and g) scored as not met. Criterion f) is scored as NA.</p> <p>The RAA has established no written policy and/or procedures on internal control. The RAA performs annual internal audits that are reported to the Audit Committee which follow up on the findings.</p> <p>There is no requirement that explicitly charge the heads of all SAI departments/units to carry out specific risk management responsibilities. The RAA does not have a continuous system for identifying, mitigating and monitoring major business risks.</p>	2

(I) CODE OF ETHICS AND INTEGRITY

The RAA does not have a document labelled "The code of ethics", but the 16 principles in the "Oath of good conduct, ethics and secrecy of auditors" can be seen as the RAA Code of Ethics. The Oath addresses the issues of "integrity, independence and objectivity (impartiality), confidentiality (professional secrecy) and competence". The Oath is signed at a ceremony when the employee begins employment in the

RAA.²²¹ The staffs are also expected to carry a booklet on the Oath at all times.²²² Adherence to RAA's code of conduct (the Oath) is monitored as part of the annual appraisal of every employee. It is the opinion of the assessment team that ethical issues are high on the agenda in the RAA and that the Oath covers all important issues when it comes to an ethical discharge of the responsibilities of the organisation. No evidence has been provided that the ethical framework has been reviewed in the last five years to make sure that it is in line with ISSAI 30. The Oath is not available on the RAA web page.

Possible cases of non-compliance with the Oath can be referred to the Human Resource Committee of the RAA which acts as the Disciplinary Committee as detailed in chapter 19 of the Bhutan Civil Service Rules and Regulations (BCSR), that deals with administrative discipline. The rules regarding this aims to ensure that a civil servant observes a standard of behaviour in accordance with the Civil Service Code of Conduct and Ethics, Rules & Regulations and Laws of the Country. These regulations mandate the HR Committee of the RAA to function as the Disciplinary Committee, and to initiate disciplinary action against an employee if necessary.²²³ The BCSR 2012 specifies in detail how a matter is investigated, and what disciplinary action can be taken.

The National Code of Ethics is found in BCSR chapter 3: Civil service code of conduct and ethics. According to provision 3.2.1 of the BCSR 2012, "A civil servant shall be conversant with and uphold all the provisions of the Constitution, Civil Service Act of Bhutan²²⁴ and BCSR." The assessment team has not received any information that the RAA has taken any specific measures to ensure that all its auditors acquaint themselves with the values and principles of the national Code of Ethics.

The RAA has integrity as a core value, it is a value that is part of the code of professional conduct specified in the Audit Act and it is described in the Oath of professional conduct. However, no explicit integrity policy is adopted. The RAA has not formally assessed its vulnerability and resilience to integrity violations, through the use of tools such as IntoSAINT or similar.

(II) MANAGEMENT OF STAFF

The organisational structure of the RAA is approved and documented in the organizational chart and responsibilities are assigned to the various levels of the organisation. All staff is placed in a specific position in the organisation as evidenced by the "Who is who" section on the RAA home-page on the internet.

Chapter 7 of the Auditor General's Standing Instructions gives detailed description of the responsibilities of the Division Chief / Assistant Auditor General, the audit team leader(s), the audit team member(s) and the department head / Deputy and the acting reporting lines in the organisation. In addition a separate document: "Administration & Finance division Job responsibilities" describes the other positions in the RAA and what responsibilities they have. The specific tasks of each individual are elaborated on in the job descriptions made for each position.²²⁵

Each year a "work planning and review" form is filled in and discussed to further detail the responsibility of each individual employee.²²⁶

²²¹ An example of a form with the oath was shown to the team during the field visit to Thimpu, May 2014.

²²² Executive order RAA/ (AG-SP-PPD)/2010-11/246, signed 28 January 2011.

²²³ Bhutan Civil Service Rules and Regulations (BCSR) 2012, provision 19.2.4.

²²⁴ Civil Service Act of Bhutan, 2010

²²⁵ The assessment team was shown some examples during fieldwork

²²⁶ The assessment team has seen examples of these, both at the managerial and at the staff level.

According to the Auditor General's Standing Instructions, no team leader /member shall audit the same agency for more than three consecutive audits.²²⁷ It is further stated that "Should there be any conflict of interest, the division chief/Assistant Auditor General shall assign the auditor to another team where there is no conflict of interest".²²⁸

Staffs are allocated to specific audit assignments as part of the development and review of the annual audit plan. The RAA does record attendance of the staff, but does not have a time recording system where time worked is recorded and posted against what task or assignment is performed. Nor is there a cost recording system where cost is attributed to what task or assignment is performed.

The RAA has no written procedures for quality control of the non-audit activities, but there exists quality control procedures in practice for at least some non-audit areas, e.g. strategic planning, compliance with RAA's code of ethics (the Oath) and on the process of performance appraisal. A peer review conducted by the C&AG of India in 2010²²⁹ covered the quality control system for audit work, but did not cover quality control of non-audit activities.

(III) FINANCIAL MANAGEMENT

The responsibility for financial management in the RAA rests with the Administration and Finance division and specifically with the deputy Chief Audit Officer (finance). The annual financial statements of the RAA are signed by him and the division head.

The RAA uses the financial rules and regulations given by the Ministry of Finance for all aspects of financial management, including budgeting and reporting requirements.²³⁰ These are available on the web page of the ministry and a hard copy is provided to each auditor. The Budget Manual sets out the procedures and timetables and procedures of the annual budget process of the royal government and its agencies, including the RAA. Chapter four of the Finance and Accounting Manual details the state regulation on how expenditure shall be processed, and gives a framework for delegation of authority. A framework for delegation of authority on financial management matters for state agencies is also given in the Financial Management Manual. The assessment team has not received documentation on how authority on financial management matters is delegated in the RAA specifically, neither documentation on how responsibilities for major financial management activities are clearly assigned to specific staff in the organisation.

The Administration and Finance division has in total 19 employees, thereof 10 working with financial and administrative issues. According to information received from the RAA²³¹ the head of the division holds a P.G. Diploma (Finance). The deputy Chief Audit Officer (finance) and most of the employees hold diplomas or certificates in finance. A majority of the staff (including the head of division and the deputy Chief Audit Officer) have over 15 years of experience in the RAA. The staff tasked with budgeting and accounting has the appropriate skills, this is further indicated by the fact that the RAA has received unmodified audit opinion by their external auditor for the years assessed (last three years). For the same years, the assessment team has checked that the management letter from the external auditors show that all follow-ups from last year have been complied with.

²²⁷ The Auditor General's Standing Instructions, 2010, 2.1.4

²²⁸ The Auditor General's Standing Instructions, 2010, 2.5.5.9

²²⁹ Peer Review Report of Royal Audit Authority, Bhutan. Conducted by Comptroller and Auditor General of India, 2010

²³⁰ Financial Rules and Regulations (2001)

²³¹ RAA Staff list

The RAA does not at present have a Management Information System in place that includes financial and performance information.

The use of financial recourses is monitored using the electronic accounting system of the Royal Government of Bhutan. If there is a risk of too little recourses being available to a project, then the issue is raised on a case by case basis with the Auditor General as deemed necessary. Actual expenditure is managed so that there is little deviation from budgeted expenditure. For the last three years the numbers are:

2010-2011: Budget: 95,342,000.00, Actual: 90,157,498.39, deviation: 5 %.

2011-2012: Budget: 105,309,000.00, Actual: 102,969,066.38, deviation: 2 %.

2012-2013: Budget: 104,761,000.00, Actual: 101,814,938.74, deviation: 3 %.

(IV) INTERNAL CONTROL ENVIRONMENT

The Financial Management Manual of the Ministry of Finance states that "All Agencies shall be responsible to establish proper working systems and procedures including transparent and well defined controls and checks within the respective Agencies for achieving, as far as practicable, the financial management and accountability objectives of the Government." The general framework and requirements for internal control systems in state agencies are described in the Financial Rules and Regulations (2001) given by the Ministry of Finance.

The RAA has not established any written policy and/or procedures regarding how internal control shall be conducted in RAA specifically. However, some internal control procedures regarding financial management are described in the document that list job responsibilities of staff in the Administration and Finance division.²³² In addition the assessment team has been given a description of the practised internal control system related to the collection of audit recoveries at the RAA. Other than this, it is unclear to the assessment team to what degree internal control is conducted in practice in the RAA.

There is no requirement that explicitly charge the heads of all RAA departments/units to carry out specific risk management responsibilities. The RAA does not operate a specific defined system for identifying, mitigating and monitoring major business risks.

The RAA does not include a statement of internal control in RAA's annual audit report.

The internal control environment was reviewed as part of the peer review conducted by the C & AG of India, but this document was not published. In the document the adequacy of internal controls in the RAA is identified as an opportunity of improvement.

Employees that suspect violations of the rules and regulations of the RAA can use the "fraud alert" on the RAA web page.

The RAA uses the national policies and procedures for IT and information security.²³³ These are the responsibility of the Department of Information Technology and Telecom, the RAA have little or no influence over these policies.

The RAA performs internal audit of the regional offices and the head office every year. The audit teams are appointed by, and report to the Audit Committee of the RAA. The audit is performed by active

²³² Administration and Finance division Job Responsibilities, copy received during fieldwork

²³³ Available on the web page of the Department of Information Technology and Telecom, at <http://www.dit.gov.bt/it-standards>

auditors from the RAA and to the same standard as other financial audits by the RAA. The reports are reviewed by the Audit Committee and the Committee verifies that the recommendations are followed up. This is done as part of next year internal audit.²³⁴

SAI-19: ASSET MANAGEMENT AND SUPPORT SERVICES

The basis for scoring on SAI-19 is mainly RAA's strategic planning documents for institutional development, RAA documentation on responsibilities for administrative staff and review of sampled audit files.

Indicator score: 3		
Dimension	Findings	Score
(i). Planning and Effective Use of Assets and Infrastructure	<p>Criteria a), b), c) and e) are met. Criteria d) are not met.</p> <p>The RAA has developed a strategic planning document for institutional development of relevant areas, including physical infrastructure needs. The RAA has in the process of developing this, reviewed the organization's accommodation and IT infrastructure. The proposed activities have in little regard been addressed so far, due to financial constraints.</p> <p>RAA does not report on inadequacies relating to its assets and infrastructure.</p>	3
(ii). Administrative Support Services	<p>Criteria a), c) and d) are met. Criterion b) is not met.</p> <p>Responsibility for internal IT support, and infrastructure and asset management is assigned to individuals that have enough skills and resources to do the job.</p> <p>File management and archiving responsibilities are left with each division. The importance of keeping of working papers from audits is stated in the Auditor General's Standing Instructions, together with procedures for doing this. Review of sampled financial and compliance audit files and interviews with employees show that this has not been followed in practice in these audit disciplines.</p> <p>For performance audit, the review showed no breach of RAA's procedures for file management and archiving.</p>	3

²³⁴ The assessment team has reviewed mandates, internal audit reports and minutes from meetings in the Audit Committee of the RAA

(I) PLANNING AND EFFECTIVE USE OF ASSETS AND INFRASTRUCTURE

The RAA has recently reviewed the adequacy of its IT infrastructure, and the size, staffing and locations of its offices as part of the process of reviewing and planning the organisation's development needs as a whole. The review and the results of the review are documented in a four-year planning document/strategic document for institutional development for the organisation in several areas.²³⁵

Acquisition of laptops to all auditors was identified as an important physical infrastructure need especially related to the enrolment of the newly developed Audit Resource Management System (ARMS) that enables auditors to plan, execute and document audit findings and evidence in this system. A problem related to not having office spaces to an increasing number of staff was also identified. Regarding two of the regional offices it was discussed that these are situated in rented apartments and that this in addition to being expensive constitute a security threat for the safekeeping of audit documents. Construction of an additional building within the head office and construction of regional offices are proposed activities to solve these issues. Limited and old equipment for the physical making of audit reports (like printers and binding machine) and some other technical devices are further mentioned as physical infrastructure constraints, with a strong need for updating. The proposed activities have in little regard been addressed so far, due to financial constraints. However, the assessment team has been informed that almost all auditors now possess laptops.²³⁶

The RAA also addresses its physical infrastructure needs as part of the strategic plan 2010-2015, but not as comprehensively. An additional activity with great impact is listed here: the construction of a professional training centre in Tsirang. The construction of the trainings centre started in March 2014.²³⁷ Construction of the two regional offices is also listed as activities, but the RAA is still in the process of exploring funding options.²³⁸

The RAA does not report on any inadequacies relating to assets and infrastructure in its annual report or equal.

Each division and regional office in the RAA has a locked room for archiving of working papers from audits. The assessment team was also informed that the RAA has a central archive outside of the office where some documents are stored. However, the archiving rooms are not used according to internal written procedures (this is described in dimension (ii)).

(II) ADMINISTRATIVE SUPPORT SERVICES

The Administration and Finance division has the overall responsibility for internal IT and for the management of all major categories of assets and infrastructure. Responsibility for management of all major categories of assets and infrastructure is clearly assigned; all is documented except for the management of IT infrastructure.²³⁹ The staff tasked with the responsibility of management of assets and infrastructure have the necessary skills and experience.²⁴⁰

²³⁵ Institutional Development Initiatives of RAA, 2014-18

²³⁶ E-mail from Ms. Dechen Pelden, Assistant Auditor General, Human Resources and International Relations division 5. August 2014

²³⁷ Seen from the monitoring system of RAA's strategic plan

²³⁸ Seen from the monitoring system of RAA's strategic plan

²³⁹ Admin and Finance Division Job responsibilities, copy received during fieldwork

²⁴⁰ Interview with Dechen Pelden by phone, 26. August 2014. See also SAI-18 dimension (iii) for information on skills and experience of employees in the division.

The internal IT support is assigned to two staff members with IT Certificates and some years of experience in IT support.²⁴¹ Two additional employees of the RAA are currently in Australia taking master degrees in IT. The two current IT staffs are skilled to do the internal IT support as needed now.²⁴² Their qualifications are proven by the fact that they have been developing the ARMS system themselves, with the aid of an external consultant as process manager. However, with the future enrolment of the ARMS system to the whole organisation more IT support staff seems necessary.

The need for training of each employee in the administrative and finance division is captured in the annual training needs assessment. As a consequence of the training needs assessment conducted in 2014, administrative staff are given individual support for a period of one month to address individual needs in the financial year 2014-15.²⁴³

Both the internal IT support function and the admin staff have adequate financial resources to do their job as for now.²⁴⁴

The RAA has access to storage rooms for archiving of work files, as described in dimension (i). In addition, all auditors have access to a common drive where they can store audit files.

The Auditor General's Standing Instructions clearly states the importance of keeping working papers from audits, and that this is required for reference purposes and to substantiate assertions of auditors in the courts of law. According to the Auditor General's Standing Instructions each division shall ensure proper storage of all working documents in office store under lock and key.²⁴⁵ The responsibility for maintenance and documentation of working files is clearly assigned to the team leaders. The Auditor General's Standing Instructions also give clear rules for what should be included in the working files. Nonetheless, the review of a sample of financial and compliance audits and the difficulties in providing complete audit files showed that this has not been complied with in all audits. From interviews with team leaders, division heads and through seeing the archive of one of the divisions, the impression that this was not just occasionally was strengthened. Lack of compliance with procedures on the keeping of audit working files and use of facilities that exist indicates lack of training and knowledge on the issue, but also lack of management control of compliance with procedures. For performance audit, the review showed no breach of RAA's procedures for file management and archiving.

The administrative support functions were reviewed in the Manpower rationalization report of September 2013, the proposed improvements have been addressed by review but not implemented.

3.6 DOMAIN F: HUMAN RESOURCES AND LEADERSHIP

ISSAI 40²⁴⁶ argues that an SAI should establish policies and procedures designed to provide it with reasonable assurance that it has sufficient resources with the competence, capabilities and commitment to ethical principles necessary to:

²⁴¹ Received RAA Staff list and the "Who is Who" section on the RAA website

²⁴² Interview with Ms. Dechen Pelden, Assistant Auditor General, Human Resources and International Relations division by phone, 26. August 2014

²⁴³ Training needs assessment, received from Ms. Yangchen Karma 8.8.2014

²⁴⁴ Interview with Ms. Dechen Pelden, Assistant Auditor General, Human Resources and International Relations division by phone, 26. August 2014

²⁴⁵ The Auditor General's Standing Instruction, 2010

²⁴⁶ ISSAI 40 Quality Control of SAIs, element 4

- i. carry out its work in accordance with relevant standards and applicable legal and regulatory requirements; and
- ii. enable the SAI to issue reports that are appropriate in the circumstances

An SAI should have transparent processes for recruitment, reward and promotion, and this should be linked to the SAI's needs. The SAI should also have procedures in place to develop and train staff to enable them to perform their tasks with quality and efficiency.

An SAI should establish and implement appropriate plans for professional development and training to ensure its staff have the appropriate competency and skills to do their work and enable the SAI to achieve its objectives. The plans should be linked to the SAI's human resources strategy, particularly recruitment and promotion. The plans should cover the generic skills required by all staff, be linked to identification of development needs in the staff appraisal system and be monitored and evaluated. The SAI should develop staff that have the skills to undertake the different types of audits performed by the SAI.

SAI-20: HUMAN RESOURCE LEADERSHIP AND FUNCTION

SAI-20 covers aspects of leadership over staff, including a review of the HR strategy, the HR function and processes for recruitment, remuneration and promotion.

It is established in the Audit Act that RAA shall prescribe the service conditions and personnel policies for its staff broadly in accordance with the Civil Service Act.²⁴⁷ As the RAA has little or no influence in the implementation of the Civil Service Act, some of the criteria in this indicator are scored "not applicable" (NA).

The scoring of SAI-20 is based on review of minutes of various management meetings, samples of personnel records in the RAA, the HR-master plan, the regulations of the Bhutan Civil Service Regulations (BCSR) 2012 and interviews with RAA management.

Indicator score: NA		
Dimension	Findings	Score
(i) Leadership of Human Resources	<p>Criteria a), b), c) and e) are met. Criterion d) is not met.</p> <p>The RAA management holds periodic planning and coordination meetings. Decisions are disseminated through the line organisation and other channels. Values are formulated and actively promoted.</p> <p>Authority is delegated in the organisation, but managers are only to some degree held accountable for their actions. On-the-job performance is taken into account when selecting personnel for attendance on courses and for promotion, and prizes are given for the best audit performance in a given year.</p>	3
(ii) Human Resources	Criteria a), e), f) and g) are met. Criteria b), c) and d) are not met.	2

²⁴⁷ The Audit Act, article 19

Strategy	The RAA has not developed a separate Human Resource strategy, but some HR issues are covered by RAA's Strategic Plan 2010-15.	
(iii) Human Resources Function and Recruitment	<p>Criteria a), e), f), g) and i) are met. Criteria h) are not met. Criteria b), c) and d) are NA.</p> <p>The RAA has a capable HR management function. The procedures for recruitment are laid down in the BCSR 2012. Recruitment is done through two channels: the general intake to the civil service in Bhutan for low level positions (P5) and through a RAA controlled job application process for high level positions (P1 and higher). The RAA has a low-level procedure for the handling of conflicts.</p>	NA
(iv) Remuneration, Promotion and Staff Welfare	<p>Criteria a), b), c), d) are not applicable (NA). Criteria e) and f) are met. Criteria g) and h) are not met.</p> <p>The RAA follows the regulations in the BCSR 2012 in all matters relating to personnel administration. The last two promotions showed that the established procedures were followed. There are no specific measures taken, e.g. through an annual survey, by which the employees can express their views on the work environment.</p>	NA

(I) LEADERSHIP OF HUMAN RESOURCES

The RAA leadership holds periodic decision making meetings.²⁴⁸ Policy planning and coordination meetings (PPCM) and midterm review meetings are held as part of the annual work cycle. While the PPCM was originally targeted to be held on a monthly basis, due to a lack of issues brought to the meeting it is now held twice or thrice in a year. The Human Recourse Committee has meetings at regular intervals. The Annual Audit conference was initially held every year, with the participation of all staff. However, due to a lack of funds, it is now held once in two or three years. The last time was in December 2012.²⁴⁹

Decisions from top management are communicated to staff by sending them to line managers for distribution. Office circulars/orders are used and made available on notice-boards. The RAA webpage is also used for internal communication, and in addition there is biannual newsletter.

The RAA management has identified six core values, as well as a vision and mission statement. These are promoted on the RAA webpage and in central documents. The vision and mission statements are also promoted at the public awareness program, which is conducted by the RAA for the Bhutanese Civil Service.²⁵⁰

²⁴⁸ Interview with Ms. Dechen Pelden, Assistant Auditor General, Human Resources and International Relations division and evidenced by minutes from various meetings.

²⁴⁹ Interview with Ms. Dechen Pelden, Assistant Auditor General, Human Resources and International Relations division

²⁵⁰ The assessment team has received a copy of a power point presentation

Each level of staff and management at the RAA has their job responsibilities clearly described - in the Auditor General's Standing Instructions for audit staff and management, and in separate job-description documents for the support and administrative personnel.²⁵¹ There is delegation of authority that follows the organisational chart in e.g. development of the annual audit plan (as described in SAI-9). Further, authority and responsibility at each organisational level relating to the production of audit reports is described in the Auditor General's Standing Instructions and in auditing manuals. Authority and responsibilities in connection to administrative and financial management activities is to some degree described in the job descriptions for the financial and administrative staff.

Every employee in RAA signs a performance compact stating expected performance and outputs for next year. Each employee's expected performance outcomes are decided annually as part of the work planning process. The actual performance and output are reviewed the following year.²⁵² In connection with a new strategic plan, all the chiefs of the different divisions and regions (the Assistant Auditor Generals) sign a Performance Compact agreement that states what the division and region shall be doing for the next five years according to the strategic plan. The chief thereby commits to the Auditor General to deliver according to the Performance Compact, and that he /she shall be held fully responsible if the commitments are not fulfilled due to lapses of self in rendering proper supervision. In the Performance Compact the Auditor General also agrees to provide necessary support and resources for the delivery of it.²⁵³

The above described measures indicate that the RAA has established a system where managers at different levels to some degree can be held accountable for their actions. However, the assessment team has seen no documentation on that the chiefs of divisions and regions have been held accountable for non- compliance with procedures set in RAA's financial audit manual and in the Auditor General's Standing Instructions (regarding file management and archiving and quality control of implementation of financial audit manual).

The RAA are using various strategies to incentivise better performance. Performance reviews are taken into account when attendance on courses is decided, and for promotions.²⁵⁴ Another measure is that audits can be entered for "best audit" competition decided on by the Audit Technical committee. Cash prizes are given for the best audit report and most significant audit observation.²⁵⁵ The RAA is in the process of introducing the Audit Team Evaluation System (ATES), which can further be used to identify and promote top level performance. One of the objectives of ATES is as follows: "Promote professionalism in the delivery of audit services by adhering to professional standards/practices in all phases of audit".²⁵⁶

(II) HUMAN RESOURCES STRATEGY

The RAA has not developed a Human Resource Strategy, but human resource issues related to capacity development of auditors and remuneration are to some degree addressed in RAA's Strategic Plan 2010-15. The RAA follows the Bhutan Civil Service Rules and Regulations 2012 (BCSR 2012) which regulate all aspects of the management of personnel. This however does not mean that the RAA should not develop a strategy for the further development and improvement of their human resources.

²⁵¹ Administration and Finance Division Job Responsibilities, copy received during fieldwork

²⁵² The assessment team has seen RAA's Work Planning and Review Form and the Summative Performance review form that are used in this process.

²⁵³ The assessment team has received a copy of a signed Performance Compact agreement

²⁵⁴ Minutes from HRM Committee meetings

²⁵⁵ Interview with Ms. Dechen Pelden, Assistant Auditor General, Human Resources and International Relations division

²⁵⁶ RAA's Strategic Plan 2010-2015 and presentation of "Audit team evaluation system - a refined proposal", 2014

RAA's strategic plan does not contain consideration about the number and type of staff required for the planning period.

The RAA has not identified a specific set of indicators, baselines and targets to follow up HR-issues in the strategic plan. These could have been used to follow up development in turnover, vacancies and absenteeism, among others. See SAI-8 for more information about RAA's strategic plan and monitoring of it.

(III) HUMAN RESOURCES FUNCTION AND RECRUITMENT

The HR-management function is the main responsibility of the Human Resource and International Relations division (HIRD), a division with five employees in the Department of Follow-up, Regions and Human Resource Management.²⁵⁷ The division chief holds a Master in Accounting (Finance) and the Human Resource officer holds a BA in humanities. None of the employees in the HR function has a specialized degree in HR management, but the unit has acquired enough skills. Both the division chief and the Human Resource Officer have at least ten years of experience from the HR unit.²⁵⁸

Recruitment in the RAA is done according to the rules in the BCSR 2012, which is published on the webpage of the Royal Civil Service Commission (RCSC). The overriding policy is to recruit the most qualified and capable candidate with right attitude for the right job. There are no specific procedures in the recruitment process that ensure diversity.

The RAA recruits staff through two channels.²⁵⁹

- (i) The RAA receives employees from the general graduate intake to Bhutan's civil service. These graduates enter at P5 level.
- (ii) Vacancies in higher positions (P1 and higher) are advertised in the newspaper and on the RAA webpage and the RAA is in charge of the selection process. Applications can come from civil servants at other civil service institutions.²⁶⁰ Appointments have to be approved by the RCSC.

It is the RCSC that has the final approval of the number of staff in all positions in RAA, based on RAA's suggestion on manpower need.²⁶¹ According to the chief of the HIRD the RAA usually gets more than they ask for regarding manpower, also regarding qualifications of the new employees. She is of the impression that the RAA gets the best graduates.²⁶²

A manpower rationalization analysis²⁶³ was conducted by an external consultant in September 2013 to form a basis for RAA's communicated need for staff to the RCSC for Bhutan's five year plan 2014-18. The analysis contains considerations about the number and type of staff required to fulfil the RAA

²⁵⁷ RAA Website "Who's Who"

²⁵⁸ RAA Staff List

²⁵⁹ Interview with Ms. Dechen Pelden, Assistant Auditor General, Human Resources and International Relations division

²⁶⁰ Interview with Ms. Dechen Pelden, Assistant Auditor General, Human Resources and International Relations division

²⁶¹ The assessment team has received copy of an approval letter from the Bhutan Civil Service Commission from September 2009

²⁶² Interview with Ms. Dechen Pelden, Assistant Auditor General, Human Resources and International Relations division

²⁶³ The Manpower Rationalization Exercise, September 2013

mandate, and identifies the need of about 201 additional audit officers and 77 additional support staff. In the request to the RCSC the RAA asked for 48 new employees.²⁶⁴

For employees that are recruited directly by the RAA the process include advertising for candidates on the internet and newspapers with a list of Minimum Required Qualifications included; job interviews by a selection panel and a formal comparison between the candidates to ensure that the best qualified is chosen. The evaluation team has reviewed documentation of two selection processes (chief auditor and messenger) involving five and six people on the panel respectively. For the post of chief auditor two of the members of the selection panel came from outside the RAA as there were only internal applicants.

The RAA has made use of outside experts, for example when the manpower rationalization exercise was carried out in 2013 and on technical issues in conducting performance audits. The RAA has no specific procedures in place to ensure quality of the deliverables of the external experts.

The HR-committee of the RAA acts as the disciplinary committee and handles conflicts when necessary. However, the RAA tries to handle conflicts at the lowest possible level and has appointed two senior members of staff to act as counsellors to mediate any possible conflicts and other challenging matters relating to individuals.²⁶⁵

(IV) REMUNERATION, PROMOTION AND STAFF WELFARE

The remuneration and promotion procedures in the RAA are established by the BCSR. The criteria relating to this are therefore non-applicable. In the text below a description of how these procedures are operationalized by RAA is given.

As per the BCSR 2012 each individual staff and manager is given a job appraisal twice per year, production is evaluated against the agreed performance outcome.²⁶⁶

Remuneration and promotions is decided upon by the RAA within the rules laid down in the BCSR 2012. When an employee is suggested for promotion an assessment of performance and potential to perform at the higher level is conducted. The HRIRD compiles the promotions suggested from the respective divisions for submission to the HR Committee. The HR Committee approves the promotions for decentralized positions and recommends to RCSC for centralized categories. The evaluation team has seen copies of the last two remuneration adjustment letters and the last three promotion letters sent to the RCSC, these show that the established procedures have been followed. For managers of level P1 and above the promotion has to be done through open competition with advertisement in newspapers and on the RAA webpage.

The staff welfare policy of the RAA is laid down in the Audit Staff Welfare Scheme Bye-laws.

The RAA has no formal procedure or annual survey by which the employees have the opportunity to express their views on the work environment. It is however noted that management have a policy of "my door is always open" and there is a point of "any other issues" at all staff meetings.

²⁶⁴ Interview with Ms. Dechen Pelden, Assistant Auditor General, Human Resources and International Relations division

²⁶⁵ Interview with Ms. Dechen Pelden, Assistant Auditor General, Human Resources and International Relations division. The establishment of a Counseling Unit is described in RAA's Strategic Plan 2010-15

²⁶⁶ The evaluation team has seen examples of filled in job appraisal forms for staff and managers.

SAI-21: PROFESSIONAL DEVELOPMENT AND TRAINING

SAI-21 measures an SAI's plans and processes for professional development and training.

The scoring of SAI-21 is based on RAAs Continuing Professional Development Policy (2008) and the amended version that is in use today, as well as minutes from meetings, interviews with RAA management and the RAA's training needs assessment for 2014.

Indicator score: 1		
Dimension	Findings	Score
(i) Plans and Processes for Professional Development and Training	<p>Criteria c) and e) are met. Criteria a), b) and d) are not met</p> <p>The RAA has a Continuing Professional Development Policy that describes the procedures and place responsibilities for capacity development of staff. The annual training programme is not based on mandatory courses for all auditors (except for new recruits) but on an analysis of the training needs of each individual in the RAA.</p>	2
(ii) Professional Development and Training in Relevant Audit Disciplines	<p>Criterion a) is met. Criteria b), c) and d) are not met.</p> <p>RAA has to little degree focused on capacity development separating between the different audit disciplines.</p>	1

(I) PLANS AND PROCESSES FOR PROFESSIONAL DEVELOPMENT AND TRAINING

The RAA endorsed its first Continuing Professional Development Policy (CPDP) in 2008, a revised CPDP document is planned to be endorsed in 2015.

Both CPDP documents define the roles of the organisational units and individuals involved in professional development. The CPDP 2008 describes the mandatory courses for staff holding the various positions in the organisation. Since 2008 there has been a change from delivery of mandatory courses to need based training courses.²⁶⁷ The revised version of the CPDP gives no description of mandatory courses for various positions. This first CPDP required each individual to annually accumulate 60 hours of professional training, in the second version this was reduced to 40 hours. Credit for professional training can be given both for participation at in-house training programmes and external training as well as hours spent doing research, developing manuals and handbooks etc.

The RAA's assessment of training needs is done at three levels: organizational, divisional and individual. The needs assessment is conducted towards the end of the financial year. Organizational needs are determined by the Continuing Professional Development Committee (PDC) and HRIRD, divisional needs are proposed by division chiefs, individual needs are collected on a continuous basis after completion of each training session and by submitting these through respective division chiefs. The training needs

²⁶⁷ Interview with Ms. Dechen Pelden, Assistant Auditor General, Human Resources and International Relations division

assessment is used as the basis for the development of the annual training calendar, which is finally approved by the Auditor General and the Executive Committee.²⁶⁸ The overall process of training needs is monitored by the HRIRD. The HRIRD keeps a record over training courses every employee has attended, and the identified needs for the specific employee.²⁶⁹

The revised CPDP is very clear on the importance of enhancing employees skills and knowledge, but does not cover specifically what kind of courses RAA should provide for their employees. It is more a document that explains the procedures and placing the responsibilities for capacity development of staff in RAA. RAA has not developed an annual plan for professional development covering both internal and external training. However, the Five Year HRD Master Plan²⁷⁰ provides an overview of all planned support of staff to master degree programmes, chartered accountants or certified practicing accountants programs abroad. 20 slots are planned in total for the five year period, covering subjects related to finance, accounting, business administration, economy, civil engineering, IT and environmental development. The Five Year HRD Master Plan also includes slots for short term training programs abroad related to specific audit activities, mainly auditing of environmental issues and hydropower activities. The annual training calendar gives an overview over courses run internally. The training calendars from 2013-14 and 2014-15 show that RAA has run some courses these years in connection to auditing skills, writing skills, data analysis and some organizational processes. Further, RAA runs an operation course for new recruits that run for 10-30 days covering the organizational structure of the RAA as well as the basics of the different kind of audits, data analysis and report writing.²⁷¹ The RAA does not develop its training calendar based on staff performance appraisals.

In regard of in-house training courses, each employee applies for the courses of his/her choice through the division chief. The division chief endorses the division's final annual training nomination to the HRIRD, based on his/her judgment on what is needed. In regard of external courses, employees are nominated by the HR Committee as described in the BCSR 2012.²⁷²

RAA has not developed development plans for individual employees.

The RAA conducted an In-house Training Impact Study in 2013²⁷³, covering the implementation of the CPDP from 2008 onwards. It was found that overall the courses have contributed to the personal development of employees such as improved communication skills, auditing knowledge and skills and other relevant skills necessary for performing daily roles and responsibilities.

(II) PROFESSIONAL DEVELOPMENT AND TRAINING IN RELEVANT AUDIT DISCIPLINES

The CPDP provides no analysis that splits the different audit 'professions' or 'cadres' that should be targeted for developing appropriate skills to discharge its mandate. However, it is evident that RAA in practice to some degree separate between needs of the different audit disciplines in their assessment of needs and in their development of the annual training calendar.

²⁶⁸ Revised CPDP

²⁶⁹ Training needs assessment, excel file received from Ms. Yangchen Karma 8.8.2014

²⁷⁰ Human Resource Development Master Plan of RAA for the Eleventh Five Year Plan (2013-18)

²⁷¹ Orientation course for new graduates, excel file, received from Ms. Yangchen Karma 8.8.14

²⁷² Revised CPDP

²⁷³ In-house Training Impact Study Report (July 2008-June 2013), 2013

RAA has not developed a plan for professional development and training in each profession or cadre, neither assigned responsibility for development of each profession or cadre to specific people within the organization besides the responsibilities of the PDC and HRIRD. RAA has not developed appropriately tailored competency requirements for different staff grades in each profession or cadre.

3.7 DOMAIN G: COMMUNICATION AND STAKEHOLDER MANAGEMENT

Domain G assesses the SAI's management of its relations and communication with external stakeholders, as well as internal communication within the organization.

SAI-22: COMMUNICATIONS STRATEGY AND INTERNAL COMMUNICATION

This indicator assesses the SAI's strategy for communication as well as its internal communication procedures.

The basis for the scoring of SAI-22 is RAA's Policy on Disclosure of Information, RAA's strategic plan for the period 2010-2015, information given during interviews and copies of internal communication documents.

Indicator score: 1		
Dimension	Findings	Score
(i) Communication Strategy	No criteria are met. The RAA has not established a written communication strategy for communication with the main audiences with whom the RAA needs to communicate.	0
(ii) Good Practices Regarding Internal Communication	Criteria a), b), c) and d) are met. Criterion e) is not met There is evidence of effective communications from both top-down and bottom-up in the organisation of the RAA. The RAA uses several tools to promote effective internal communication in the organisation, in addition to regular meetings for the department, regional offices and divisions. The RAA uses e-mails in communicating with staff, but does not have an electronic archiving system. The shared drive is not consistently used, which limits the internal sharing of information in the RAA.	3

(I) COMMUNICATIONS STRATEGY

The RAA has not established a communication strategy as such. However, the RAA's strategic plan and the RAA's Policy on Disclosure of Information identify the audiences with whom the RAA needs to communicate with in order to achieve its organizational objectives: the Public Accounts Committee; the Executive (both local and central level), the Anti Corruption Commission, corporations in Bhutan and the media. Few concrete activities are listed - strategies or activities to improve communication with the Executive apart from awareness programs of the role and mandate of the RAA are not mentioned. Neither

are strategies or activities for better communication with the Public Accounts Committee or the media. The policy on disclosure of Information is not periodically monitored.²⁷⁴

The RAA's Policy on Disclosure of Information specifies that a spokesperson designated by the RAA shall represent the RAA in panel discussions and provide information on RAA as and when appropriate to the media. It is stated that the Auditor General exercise his own discretion to provide information when interviewed.

(II) GOOD PRACTICES REGARDING INTERNAL COMMUNICATION

There is evidence of effective communication from both the top-down and bottom-up in the RAA. Decisions from management are usually communicated to staff through the line-management. There are regular meetings at division/regional office level, where management communicate their decisions and the staff can raise issues of concern. There have not been any organisational wide meetings since December 2012, when the latest Annual Audit conference was held. Meetings are also held at the audit team level.²⁷⁵ All levels of the organization are involved in the development of the annual audit plan. However, staff below management level is not involved in the development of strategic plan.

The RAA uses several additional tools to promote effective internal communication in the organisation. The RAA has a webpage that the organisation also uses for internal communication and it issues a newsletter²⁷⁶ every six months that covers recent events and changes in the RAA in addition to printing articles on important subjects relevant to staff. The newsletter is put up on noticeboards at the head office and regional offices in addition to the RAA website. Office circulars/orders are also used to communicate management decisions; these are made available on noticeboards.²⁷⁷ The RAA also has a mailbox at the head office where employees can put suggestions for improvement, but this is never used.²⁷⁸ The communication between auditors and management is according to the Deputy Auditor General of the RAA "free, frank and honest".²⁷⁹

The RAA leadership uses several means to communicate its mandate, vision, mission and core values to the staff: they are published on the RAA website, they are usually stated in all the central documents, and also in the bi-annual newsletter.

The RAA has a shared drive where information can be stored and be available to all staff. However, the use of this drive seems to be varying – the working papers for the sampled financial/compliance audits were not consistently saved there. The RAA does not have an electronic archiving system. Effective communication between staff even during field visit is though fostered by the fact that all auditors possess mobile phones and almost all possess laptops.²⁸⁰

²⁷⁴ Interview with Mr. Karma Tenzin, Assistant Auditor General, Corporations and Financial Institutions division

²⁷⁵ E-mail from Dechen Pelden 5. August 2014

²⁷⁶ The assessment team has seen copies of the latest newsletters.

²⁷⁷ The assessment team has seen examples of these during field work

²⁷⁸ Interview with Ms. Dechen Pelden, Assistant Auditor General, Human Resources and International Relations division

²⁷⁹ Interview with Mr. Jamtsho, Deputy Auditor General

²⁸⁰ E-mail from Dechen Pelden 5. August 2014

SAI-23: COMMUNICATION WITH THE LEGISLATURE, THE EXECUTIVE, AND THE JUDICIARY

The basis for the scoring of SAI 23 is mainly interviews with RAA management and representatives from the Parliament and the Ministry of Finance, in addition to laws and regulation in relation to the RAA.

Indicator score: 2		
Dimension	Findings	Score
(i) Good practices regarding communication with the Legislature	<p>Criteria a), b), c), d), f) and g) are met. Criteria e) and h) are not met.</p> <p>In practice there is good communication between the RAA and the Legislature, but no written policy and procedure for this communication is established.</p> <p>The RAA does not seek formal feedback from the Legislature on its performance.</p>	3
(ii) Good practices regarding communication with the Judiciary, prosecuting and investigating agencies	<p>Criteria b) and e) are met. Criteria a) and c) are not met. Criterion d) is considered NA.</p> <p>The RAA is obliged by law to communicate on audit findings to the Anti-Corruption Commission. The RAA is not enabled by law to require information on files in process from the Judiciary, prosecuting and investigating agencies regarding public finance and other issues within its mandate.</p>	2
iii) Good practices regarding communications with the Executive	<p>Criterion a) is considered as met, Criteria b), c) and d) are not met.</p> <p>The RAA is not involved in the management of the entities they audit.</p> <p>RAA's communication with the Executive is limited to communication in connection with the specific audits.</p>	1

(I) GOOD PRACTICES REGARDING COMMUNICATION WITH THE LEGISLATURE

The RAA considers questions raised during public debates in the Legislature when formulating its overall annual audit plan and deciding on its thrust areas.²⁸¹ Parliamentary directives are also considered. On some occasions the RAA has received concrete request for the conduct of performance audits by the Druk Gyalpo or the Parliament, and these have been followed.²⁸² The performance audits of Immigration Services and National Land Agency are examples of such audits.²⁸³

²⁸¹ Interview with Mr. Karma Tenzin, Assistant Auditor General, Corporations and Financial Institutions division

²⁸² The Druk Gyalpo can command the RAA to audit any entity or activity, and the Parliament can direct that the accounts of any public authority shall be audited by the Auditor General. See SAI-6 dimension (i) for elaboration on this.

²⁸³ Interview with Mr. Jamtsho, Deputy Auditor General

The RAA's communication with the Legislature is mainly through the Public Accounts Committee (PAC). When the RAA submits the annual audit report or performance audit reports, the PAC presents these to the Parliament followed by a discussion on the reports in Parliament. On some occasions performance audit reports are also presented to a group of parliamentarians when asked by them.²⁸⁴ The RAA's Policy on Disclosure of Information states that the RAA shall provide the PAC with technical backstop or additional information wherever necessary.

When results from RAA audits are discussed in Parliament, the Auditor General and Deputy Auditor General and other representatives from the RAA are present.²⁸⁵ When there is a new Parliament the Auditor General invites all newly elected members of the Parliament to be informed about the role and mandate of the RAA.²⁸⁶

The Annual audit report is discussed in the Parliament's winter session, while the performance audit reports are discussed in the Parliament's summer session. Before last winter session (October-November 2014) there were quite a bit of backlog²⁸⁷ when it comes to the treatment of performance audit reports in the Parliament, due to capacity problems. However, the backlog was cleared in the last winter session of Parliament.²⁸⁸

The chief of the Follow-up and Clearance Division is the main focal person for the communication with the Public Accounts Committee and the Parliament.²⁸⁹

The RAA proposes recommendations aiming at the improvement of the public management system in submitting their audit reports, and therefore contribute in the legislative process.²⁹⁰ The importance of the RAA in strengthening the accountability of the government in Bhutan was emphasised in interviews with representatives from the National Assembly Secretariat²⁹¹ and Ministry of Finance²⁹².

The RAA does not seek formal feedback from the members of the Legislature and relevant committees on its performance. This kind of feedback has though been given in the parliamentary sessions in the past, but this has not been documented.²⁹³

The RAA has not established a written policy or procedure regarding communication with the Legislature. However, it is clear that such procedures exist in practice.

(II) GOOD PRACTICES REGARDING COMMUNICATION WITH THE JUDICIARY, PROSECUTING AND INVESTIGATING AGENCIES

There is little mention of the relationship between the RAA and the Judiciary, prosecuting and investigating agencies in Bhutanese law, except from the Judiciary and Judicial bodies being covered by

²⁸⁴ Interview with Mr. Karma Tenzin, Assistant Auditor General, Corporations and Financial Institutions division

²⁸⁵ Interview with Mr. Jamtsho, Deputy Auditor General

²⁸⁶ Interview with Dasho Ugen Chewang, the Auditor General

²⁸⁷ Interview with Mr. Lobzang Dorji, National Assembly secretariat, 30th May 2014

²⁸⁸ Updated information received and verified by Mr. Lobzang Dorji, National Assembly secretariat, 5th February 2015

²⁸⁹ Interview with Mr. Karma Tenzin, Assistant Auditor General, Corporations and Financial Institutions division

²⁹⁰ The assessment team has seen examples of follow-up reports covering both financial/compliance audits and performance audits that list RAA's observations and recommendations.

²⁹¹ Interview with Mr. Lobzang Dorji, National Assembly secretariat, 30th May 2014

²⁹² Interview with Mr. Tara Nidhi Chimorya Sharma, Ministry of Finance, 30th May 2014

²⁹³ Interview with Mr. Karma Tenzin, Assistant Auditor General, Corporations and Financial Institutions division

the audit mandate of the RAA. The Audit Act of Bhutan states that the Auditor General has an obligation to testify before the Judiciary²⁹⁴, and that the Auditor General has a duty to inform the Anti-Corruption Commission (ACC) or relevant authority on any activity or person identified in an audit that may constitute as offences under the Audit Act or other laws. Further, the RAA shall submit copies of all audit reports to the Chairperson of the ACC where offences are serious and require urgent attention. A copy of the Annual audit report shall always be submitted to the Chairperson of the ACC.²⁹⁵ The RAA is not enabled by law or regulation to require information on files in process from the Judiciary, prosecuting and investigating agencies, regarding public finance and other issues within its mandate.

The RAA does not seek feedback from the Judiciary, prosecuting and investigating agencies on RAA's performance. However, the RAA and the ACC have regular meetings. The relationship between the RAA and the ACC is by the RAA considered to be close, as the commission's work often is a continuation of the RAA's work.²⁹⁶ The ACC is used to reading the reports of the RAA, so training courses in the ability to read and make effective use of RAA's reports are considered not necessary.²⁹⁷

The RAA has in cooperation with the Anti Corruption Commission developed an awareness program for delivery to private businesses. The roll out of the program will start later in 2014 and continue in 2015.²⁹⁸

(III) GOOD PRACTICES REGARDING COMMUNICATION WITH THE EXECUTIVE

The assessment team has the impression that the RAA not in any way can be seen to be involved in the management of the organizations they audit. This is based on reviews of audit files and other gathered data in addition to interviews with audit team leaders, RAA's management and representatives from the Ministry of Finance and the National Assembly Secretariat.

According to the Auditor General, the RAA experiences no problems getting required information from the Executive in relation to audits. He refers to the Audit Act that is very clear on the RAA's right to access to information.²⁹⁹

The RAA does not produce and disseminate any written guidance on the RAA's objectives and the principles governing interactions between auditors and auditees. Neither does the RAA host informal meetings with senior members of the Executive to discuss issues of concern to both the RAA and the Executive, apart from the formal meetings regarding concrete audits. The RAA conducts no survey to the Executive about the RAA's work, but plans to do so in the future.³⁰⁰

SAI-24: COMMUNICATION WITH THE MEDIA, CITIZENS AND CIVIL SOCIETY ORGANIZATIONS

This indicator measures how the SAI communicates with the public, the media and citizens, and whether its practices are effective.

²⁹⁴ Audit Act of Bhutan, 2007, article 78

²⁹⁵ Audit Act of Bhutan, 2007, article 73

²⁹⁶ Interview with Mr. Karma Tenzin, Assistant Auditor General, Corporations and Financial Institutions division

²⁹⁷ Evaluation made by the assessment team

²⁹⁸ Review of Strategic Plan 2010-15 and Annual Audit Schedule 2014-15

²⁹⁹ Interview with Dasho Ugen Chewang, Auditor General

³⁰⁰ Interview with Mr. Karma Tenzin, Assistant Auditor General, Corporations and Financial Institutions division

The basis for the scoring of SAI-24 is mainly interview with RAA's media spokesperson, Mr. Karma Tenzin.

Indicator score: 1		
Dimension	Findings	Score
(i) Good practices regarding the communication with the media	<p>Criterion f) is met. Criteria a), b), c), d) and e are not met.</p> <p>The RAA does not seek communication with the media to disseminate audit reports by issuing press releases and holding press conferences. However, when the RAA is contacted by the media the RAA provide information on their submitted audit reports</p>	1
(ii) Good practices regarding communication with citizens and civil society organizations	<p>Criteria c), g) and h) are met. Criteria a), b), d), e) and f) are not met.</p> <p>RAA uses some mechanisms to stimulate access by regular citizens to information on its work and the results of its audit. However, RAA does not actively stimulate citizens' access to public audit besides audit reports, nor for citizens to participate in the audit process.</p>	2

(I) GOOD PRACTICES REGARDING THE COMMUNICATIONS WITH THE MEDIA

The RAA issues no press releases and holds no press conferences in relation to the publication of the Annual audit report or the submittal of performance reports to the Parliament. The Annual audit report is available to the media by being published on the RAA website. The performance audit reports are not published on the website, but the media usually gets hold of the reports through members of Parliament or the audited agencies. The RAA does not use the media to specifically disseminate audit reports and summaries of audit reports, but when contacted by the media the RAA gives clarifications that are required on any significant audit reports discussed in the public.³⁰¹

The RAA has not established a media communication plan, but has a designated spokesperson towards the media. The RAA has not performed a content analysis to how it is depicted in the media.³⁰²

(II) GOOD PRACTICES REGARDING COMMUNICATION WITH CITIZENS AND CIVIL SOCIETY ORGANIZATIONS

The RAA uses some mechanisms to stimulate access by regular citizens to information on its work and the results of its audits: The RAA's website contains information about the organization, and several of the organizations' central documents in addition to the annual audit report and a bi-annual newsletter are published there. Published documents are free of charge. A written summary of the annual audit report is included in the report itself and in an accompanying flyer. The RAA website is only in English, but central documents are also published on the website in Dzongkha. RAA's Annual Audit report 2013 and 2012 are

³⁰¹ Interview with Mr. Karma Tenzin, Assistant Auditor General, Corporations and Financial Institutions division

³⁰² RAA's Policy on Disclosure of Information and verified summary from interview with Karma Tenzin

not published in Dzongkha on the website though. In 2012 the RAA conducted awareness programmes to local leaders teaching them about the role and mandate of the RAA.³⁰³

The RAA has not done any specific activities to stimulate citizens to participate in the audit process by providing mechanisms to receive and monitor information about government programmes and suggestions for improved public administration and services.³⁰⁴ However, the RAA has an online channel on its website where citizens can report on alleged cases of corruption.

The RAA has not actively participated in public debates on relevant matters such as good governance, PFM and tackling corruption. The RAA has taken part in one conference: the annual conference on local governments held by the Ministry of Home and Cultural Affairs'. On this conference the RAA held presentations and took part in panel debates.³⁰⁵

The RAA does not frequently meet with academic groups to discuss the roles and function of the RAA, except from participating in providing lectures to students of Royal Institute of Management. The RAA has not established any procedures to formally seek feedback from the readers of its reports to improve them in the future.³⁰⁶

4. SAI CAPACITY DEVELOPMENT PROCESS

4.1 DESCRIPTION OF RECENT AND ON-GOING REFORMS

The RAA prioritizes organizational and audit capacity development. The RAA has developed a strategic document on development initiatives³⁰⁷ that is intended to be implemented in parallel with the Eleventh Five Year Plan 2013-2018 of the royal government of Bhutan. The document identifies specific challenging areas along with proposed activities and programs to address these. The biggest identified challenge is to streamline approaches to auditing to enhance sustainability of the RAA as an organization. Inadequate skills and competences are identified as major challenges in relation to this. The strategic document on development initiatives has activities related to three main focus areas: professional staff development; development and updates of audit manuals, guidelines and policy documents; and infrastructure development.

The RAA has initiated several development reforms and programs that target challenges identified in their strategic document on institutional development. The majority of these are funded by an external partner. Due to very limited resources the RAA is dependent on external funders to be able to further increase its performance. However, the Auditor General emphasizes the importance of internal ownership to development projects. He believes that the development projects should mainly be carried out with internal staff resources to ensure ownership and usefulness.³⁰⁸

Below is a list of recent and ongoing capacity development reforms or programs in the RAA:

³⁰³ Strategic Plan 2010-15

³⁰⁴ Interview with Mr. Karma Tenzin, Assistant Auditor General, Corporations and Financial Institutions division

³⁰⁵ Interview with Mr. Karma Tenzin, Assistant Auditor General, Corporations and Financial Institutions division

³⁰⁶ Interview with Mr. Karma Tenzin, Assistant Auditor General, Corporations and Financial Institutions division

³⁰⁷ Institutional Development Initiatives of RAA, 2014-2018

³⁰⁸ Interview with DASHO UGEN CHEWANG, Auditor General

- The RAA intends to implement risk-based financial/compliance auditing. Audit methodologies used for risk based audit require auditors to have comprehensive professional competencies in terms of knowledge and skills, which are lacking in the RAA.³⁰⁹ To deal with this the RAA embarked on a professional collaboration with M/s Deloitte Haskins & Sells, Chartered Accountants, Kolkata, India. The collaboration consisted of training and hands on practice of using the risk-based audit methodology. The first phase consisted of four experts from Deloitte providing training courses to almost all financial audit team leaders in the RAA at the RAA Head quarter in 2011. The second phase was conducted in 2012 in the office of Deloitte in Kolkata, and consisted of a deeper level training course with the attendance of 15 financial audit team leaders. The third phase of the collaboration, pilot audits of three agencies in Bhutan under the direct supervision of three experts from Deloitte, was conducted in 2013.³¹⁰ The World Bank financed the first phase of the collaboration with Deloitte, while UNDP and the Royal Government of Bhutan funded the second phase. The third phase was funded by the Austrian Development Agency.³¹¹
- The RAA adopted the ISSAIs in 2010. Understanding and interpreting the standards were foreseen as the major challenges given the complexity and technicalities of the ISSAIs.³¹² Three officials of the RAA were in 2013 certified as ISSAI facilitators in financial, compliance and performance auditing on successful completion of the 3i Programme initiated by the INTOSAI Development Initiative (IDI). As trained facilitators they will promote and support ISSAI Implementation at the RAA.
- Through INTOSAI Development Initiative's 2011 Global Call for Proposals a project for development of 22 audit manuals³¹³ and two policy documents³¹⁴ was initiated. The documents will provide guidance on relevant aspects of the audit assignments including standards and procedures to be followed and basis for measuring audit performance. The project is funded by the Austrian Development Agency. Draft manuals and policy documents have now been developed, and shall undergo review by internal and external experts before they are pilot tested.³¹⁵
- The RAA launched Environmental Audit Guidelines in March 2014. The guidelines were drafted by in-house environmental auditors and with financial assistance from the UNDP, and were reviewed by external experts and stakeholders before finalization.³¹⁶
- An Audit Resource Management System (ARMS) has been developed by the in-house team of IT professionals with professional guidance of an external consultant. It was launched in July 2014 and captures both audit and non-audit functions. It comprises the different organizational processes related to audit management (risk assessment, strategic planning, annual audit planning) and is a computerized audit system for use in the audit process itself and in the process of follow-up of former audits. The system also comprises modules related to audit team performance evaluation, time and attendance of staff, human resource management and other administrative

³⁰⁹ Institutional Development Initiatives of RAA, 2014-2018

³¹⁰ See SAI 12 and 14 for a description of the audit process and scoring on the basis of these pilot audits

³¹¹ Interview with Mr. Karma Tenzin, Assistant Auditor General, Corporations and Financial Institutions division and the later years RAA Annual Reports

³¹² Institutional Development Initiatives of RAA, 2014-2018

³¹³ E.g. on Disposal of Properties; Fund raising activities; Management of Schools, colleges and Institutions; Corporate Governance; IT Audit; Compliance Audit Manual; Public Debt Audit

³¹⁴ Continuing Professional Development Policy and Audit Outsourcing Policy

³¹⁵ RAA Annual Report 2013

³¹⁶ RAA Annual Report 2013

matters. The development of ARMS was funded by the Asian Development Bank. The system will be pilot-run in the period 2014-15.³¹⁷

- A professional development center in Tsirang is under construction. The first phase of the project consisting of e.g. drawing the buildings, construction of approach road and water supply is completed. The second phase consisting of the construction of main academic block, two general hostels that will host 120 people and landscaping works was commenced in March 2014. The project is financed by the Government of India.³¹⁸
- The RAA and SAI India have started collaboration in auditing of the Government of India supported hydroelectric projects in Bhutan.³¹⁹

4.2 USE OF SAI RESULTS BY EXTERNAL PROVIDERS OF FINANCIAL SUPPORT

All foreign aid (grants and loans) to Bhutan are channeled through the normal budgetary and accounting mechanism of the Royal Government of Bhutan. The government's budget and accounting system captures all the information related to external assistance and the system tracks the information by donors as well as by projects.³²⁰

The RAA conducts audit of the consolidated fund/annual financial statement for the Government of Bhutan. In addition, the RAA conducts audits of financial statements of non-governmental organizations, civil society organizations and all donor funded projects, as required by the Audit Act of Bhutan.³²¹ According to RAA, most of the external providers of financial support to the Royal Government make full use of country audit systems and reporting requirements. They rely on the audit opinion/reports issued by the RAA and do not make additional requirements on government of Bhutan for auditing. However, some donors and lenders such as World Bank has different reporting requirement. The auditor's report for World Bank Projects differs from that of other projects.

Through the audits of financial statements of non-governmental organizations and civil society organizations, the RAA provides an independent opinion as to whether the financial statements present a fair view of the financial operations of the organizations. In an interview with the Austrian Development Agency³²² the agency confirmed that the RAA audit reports are used by the Agency to confirm/verify that the project funds are utilized judiciously and correctly as per the agreed terms and conditions of the bilateral agreement and the project document. The findings/recommendations of the audit reports are pursued with the implementing partners to further improve the project implementation and use of money and e.g. improve internal control, financial management and application of proactive planning.

³¹⁷ RAA webpage and RAA Annual Report 2013

³¹⁸ RAA Annual Report 2013

³¹⁹ Interview with Dasho Ugen Chewang, Auditor General

³²⁰ Bhutan Public Financial Management Accountability Assessment, June 2010 (PEFA report)

³²¹ Audit Act of Bhutan, 2006, Section 39

³²² Interview with Mr. Ramesh Chhetri, the Austrian Development Agency, 30th May 2014

ANNEX A PERFORMANCE INDICATOR SUMMARY

The following table provides a summary of the RAA performance indicators. For each indicator, the table specifies the scoring assigned by dimensions and the overall score. SAI-12 and SAI-14 are scored 0 due to lack of documentation.

Indicator	Indicator Name	(i)	(ii)	(iii)	(iv)	Overall Score
Domain A	Reporting (audit coverage, submission, publication and follow-up)					
SAI-1	Financial Audit Results	1	3	4	2	2
SAI-2	Compliance Audit Results	2	3	4	2	3
SAI-3	Performance Audit Results	2	1	1		1
SAI-4	Judgement Results	NA				NA
SAI-5	Annual Report & other reports	2	2	0	3	2
Domain B	Independence and Legal Framework					
SAI-6	Independence of the SAI	2	2	1	3	2
SAI-7	Mandate of the SAI	4	4	4	3	4
Domain C	Strategy for Organizational Development					
SAI-8	Strategy for Organizational Development	1	2	1	4	2
Domain D	Audit Standards and Methodology					
SAI-9	Overall Audit Planning and Quality Management	1	2	2	1	1
SAI-10	Quality Assurance of Audit Process	0	0	0	3	1
SAI-11	Financial Audit Foundations	2	1	2	2	2
SAI-12	Financial Audit Process	0	0	3		1
SAI-13	Compliance Audit Foundations	1	1	1	2	1
SAI-14	Compliance Audit Process	0	0	2		1
SAI-15	Performance Audit Foundations	4	1	2	2	2
SAI-16	Performance Audit Process	2	2	1		2
SAI-17	Judgement Process	NA				NA
Domain E	Management and Support Structures					
SAI-18	Ethics, Management and Internal Control	2	2	3	2	2
SAI-19	Assets Management and Support Services	3	3			3
Domain F	Human Resources and Leadership					
SAI-20	Human Resource Leadership and Function	3	2	NA	NA	NA
SAI-21	Professional Development and Training	2	1			1
Domain G	Communication and Stakeholder Management					
SAI-22	Communications Strategy and Internal	0	3			1

	Communication					
SAI-23	Communication with the Legislature, Judiciary and Executive	3	2	1		2
SAI-24	Communication with the Media, Citizens and the Civil Society Organizations	1	2			1

ANNEX B SOURCES OF INFORMATION AND EVIDENCE TO SUPPORT INDICATOR SCORING

GENERAL SOURCES OF INFORMATION

Website of the National Statistics Bureau of Bhutan (NSB)

<http://www.nsb.gov.bt/main/main.php#&slider1=4> retrieved 20. November 2014

Eleventh Five Year Plan 2013-2018, Gross National Happiness Commission Royal Government of Bhutan, 2013

Website of the Gross National Happiness Commission, <http://www.gnhc.gov.bt/mandate/>

“Bhutan 2020: A Vision for Peace, Prosperity and Happiness”, Planning Commission Royal Government of Bhutan 1999

World Bank statistics <http://data.worldbank.org/indicator/NY.GNP.PCAP.CD/countries/BT-8S-XN?display=graph> retrieved 18-20 November, 2014

UN DESA’s LDC Review Data,

http://www.un.org/en/development/desa/policy/cdp/ldc/ldc_definitions.shtml retrieved 20 November 2014

“International Development Association and International Finance Corporation Country Partnership Strategy for the Kingdom of Bhutan for the period FY 11-14”, World Bank, October 27, 2010

The Kuensel, <http://www.kuenselonline.com>

UNDP Human Development Report 2014, Explanatory note on the Human Development Report composite indices – Bhutan

“A country report: Higher Education in the Kingdom of Bhutan”, Tertiary Education Division, Department of Adult and Higher Education, Ministry of Education, Royal Government of Bhutan, 2009

“Higher Education: Current Status and Future Possibilities in Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka”, Analytical Reports in International Education, Vol. 2. No. 1, March 2008

Programmes of Study, The Royal University of Bhutan, 2013

The Constitution of the Kingdom of Bhutan, 2008

The Local Government Act of Bhutan, 2009

The Public Finance Act of Bhutan, 2007

Bhutan Public Financial Management Accountability Assessment, June 2010 (PEFA report)

Consolidated annual financial statement of The Royal Government of Bhutan for the year ended 30th June 2013

“Dynamics of Public Sector Reforms in Bhutan: Interaction of Values within a Hybrid Administration.”
Crawford School Working Paper No. 13 – 01, Lhawang Ugyel, 2013

EVIDENCE TO SUPPORT INDICATOR SCORING

The Constitution of the Kingdom of Bhutan, 2008

The Audit Act of Bhutan, 2006

Bhutan Civil Service Rules and Regulations 2012

Companies Act of the Kingdom of Bhutan, 2000

Civil Service Act of Bhutan, 2010

The Royal Government of Bhutan: Financial Rules and Regulations, 2001

RAA: Strategic Plan 2010-15

RAA: Operational Activities for RAA’s Strategic Plan 2010-15

RAA: List of Agencies under various Functional Divisions (2013-14), received 17th June 2014

RAA: Annual Audit Plan and revised annual audit schedules 2012-2013, 2013-2014 and 2014-2014

RAA: Correspondence between PPAARD to Chiefs of divisions and regions in April and May 2014 regarding annual audit schedules and thrust areas

RAA: Annual Audit Report 2013, with forwarding letters.

RAA: Annual Audit Report 2012

RAA: List of Agencies under RAA’s Jurisdiction 2013-14

RAA: List of Agencies under RAA’s Jurisdiction 2014-15

RAA: List of audits planned and conducted 2013-2014, received from RAA 14th July 2014

RAA: Performance Audit Reports issued from 1st January 2009 to 30th April 2014, list provided by RAA during fieldwork

RAA: Copies of monthly audit progress report and mid-term reviews

RAA: The Auditor General’s Standing Instructions, 2010

RAA’s Auditing Standards, not dated

RAA: Financial Audit Manual, not dated

RAA: Performance audit guidelines, 2011

RAA: Sampled audit files

RAA: Follow-up reports issued by the division for Follow-up and Clearance, both financial/compliance audits and performance audits

RAA: Example letter sent to auditee as part of follow-up of audit report

RAA: Empanelment of Firms of Chartered Accountants for carrying out Statutory Audits of companies registered under the Companies Act of the Kingdom of Bhutan 2000, 16 April 2012

RAA: Terms and Conditions for Empanelment, Empanelment of Firms of Chartered Accountants for carrying out Statutory Audits of companies registered under the Companies Act of the Kingdom of Bhutan 2000, 16 April 2012

RAA: Terms of Reference for specific assignments of outsourced audits

RAA: Sequence of Report Compilation Letter (sent to all statutory auditors), 29 January 2014

RAA: Non-compliance letter sent to an external auditor, April 2014

RAA: Draft Policy on Outsourcing Audits – B5, not dated

RAA: Handbook for Quality Assurance of Performance Audit, 2009

RAA: Handbook for Quality Assurance, 2009

RAA: Presentations on findings/areas for improvement held by the Research and Quality Assurance Division.

RAA: Copies of minutes and memos from meetings at different level of RAA and its committees

RAA: Mandates and internal audit reports and minutes from meetings in the Audit Committee of the RAA

RAA: Institutional Development Initiative of RAA, 2014-2018

RAA's Policy on Disclosure of Information, not dated

RAA: Oath of Good Conduct, ethics and secrecy of auditors

RAA: Continuing Professional Development Policy and Audit Outsourcing (CPDP) Policy, 2008

RAA: draft version of the revised CPDP policy

RAA: Staff list (includes e.g. educational background and date of appointment)

RAA: for a sample of financial and compliance audits - list of auditing experience, provided by RAA during fieldwork

RAA: documentation on in-house training courses and external training courses

RAA: Training needs assessment, excel file, received from Ms. Yangchen Karma 8.8.2014

RAA: Manpower Rationalization Exercise, September 2013 (external)

RAA: Orientation course for new graduates, excel file, received from Ms. Yangchen Karma 8.8.14

RAA: In-house Training Impact Study Report (July 2008-June 2013), 2013

RAA: Examples of Biannual newsletter

RAA: examples of Office Circulars

RAA: Human Resource Development Master Plan of RAA for the Eleventh Five Year Plan (2013-18)

RAA: Examples of promotion letters sent to RCSC by RAA

RAA: Examples of remuneration adjustment letters sent to RCSC by RAA

RAA: Example of job advertisement

RAA: Approval letter from the Bhutanese Civil Service Commission, September 2009

RAA: Examples of Work Planning and Review forms, Job Appraisal forms and Summative Performance review forms, at managerial level and staff level

RAA: Example of signed Performance Compact agreement

RAA: Presentation “Audit team evaluation system – a refined proposal”, 2014

RAA: Executive order RAA/ (AG-SP-PPD)/2010-11/246, signed 28 January 2011.

RAA: Administration & Finance Division Job Responsibilities, copy received during fieldwork

RAA: Presentation from RAA’s Public Awareness Program, 2010

Review of RAA’s Audit Information System (AIM)

Review of RAA’s system for monitoring implementation of the Strategic plan

Review of RAA’s system for monitoring implementation of the annual audit plan

Peer Review Report of RAA, Conducted by Comptroller and Auditor General of India, 2010

“Performance or Compliance?” J. Lonsdale (pp. 179-183), in C. Pollitt et al., Oxford: Oxford University Press, 1999.

“Guide to Quality Control for Small- and Medium-Sized Practices”, Third Edition, by the International Federation of Accountants (IFAC), 2011

INTERVIEWS

All interviews have been verified through verification of summaries or verification of text in draft report

RAA

Dasho Ugen Chewang, Auditor General of Bhutan

Mr. Jamtsho, Deputy Auditor General at the time of the assessment's fieldwork in May 2014. At the time of issuance of the SAI PMF report, February 2015, he had been appointed Joint Auditor General.

Mr. Karma Tenzin, Assistant Auditor General, Corporations and Financial Institutions division

Mr. Tashi Tobgay, Assistant Auditor General, Performance and Thematic audit divisions

Ms. Dechen Pelden, Assistant Auditor General, Human Resources and International Relations division

Mr. Kelzang Namgyel, Assistant Auditor General, Resource, Trade, Industry and Commerce division

Mr. Tempa Gyeltshen, Assistant Auditor General, Social, Commerce and Information division

Mr. Minjur Dorji, Assistant Auditor General, Follow-up and Clearance division

Mr. Ugyen Dorji, Assistant Auditor General, Office of the Assistant Auditor General, RAA, Tsirang

Mr. Dilliram Das, Assistant Auditor General, Office of the Assistant Auditor General, RAA, S/Jongkhar

Mr. Prem Mani Pradhan, Assistant Auditor General, Research and Quality Assurance division

Mr. Kencho Dorji, Deputy Chief Audit Officer, Research and Quality Assurance division

Mr. Gyeltshen, Assistant Auditor General, Administration and Finance division

Mr. Gattu Dukpa, Deputy Chief Auditor (Finance)

Ms. Tashi Lhamo, Senior Audit Officer, Policy Planning and Annual Audit Report division

Team leaders of sampled audit files

External

Mr. Tara Nidhi Chimorya Sharma, Ministry of Finance

Mr. Lobzang Dorji, National Assembly secretariat

Mr. Ramesh Chhetri, Austrian Development Agency,