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Royal Audit Authority

**SAI PERFORMANCE REPORT**



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## Foreword

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The Royal Audit Authority (RAA) is the Supreme Audit Institution (SAI) of Bhutan. The SAI Performance Report assesses the performance of the RAA against the International Standards of Supreme Audit Institutions (ISSAIs) and INTOSAI good practices following the methodology prescribed by the SAIs Performance Measurement framework (SAI-PMF) developed by the INTOSAI Working Group on the Value and Benefits of SAIs (WGVBS).

The SAI-PMF has played an important part in its effort to help RAA improve in its audit methodologies, internal governance and ethics, capacity development and engagement of stakeholders amongst many others. The assessment measures the current performance of the RAA across 6 domains. The domains covered are as follows:

- A. Independence and Legal Framework
- B. Internal Governance and Ethics
- C. Audit Quality and Reporting
- D. Financial Management, Assets and Support Services
- E. Human Resources and Training and
- F. Communication and Stakeholder Management

This assessment was carried out in 2019 as part of the Strategic Planning Monitoring Reporting (SPMR) programme of IDI and as a self-assessment by the team from the RAA.

The assessment team would like to thank all the top management of RAA and officials for their time and cooperation. We would like to acknowledge the IDI for their technical support and assistance and making it possible to conduct the SAI-PMF assessment in a timely manner.

## Acronyms



AAG	:	Assistant Auditor General
AG	:	Auditor General
AAR	:	Annual Audit Report
AC	:	Advisory Committee
ACC	:	Anti-Corruption Commission
ADB	:	Asian Development Bank
ADC	:	Austrian Development Cooperation
AFD	:	Administration and Finance Department
AFS	:	Annual Financial Statement
AG	:	Auditor General
AIMS	:	Audit Information Management System
AIN	:	Audit Identification Number
ANER	:	Adjusted Net Primary Enrolment Rate
APEMS	:	Audit Performance Evaluation System
AR	:	Audit Report
ARMS	:	Audit Resource Management System
ASOSAI	:	Asian Organization of Supreme Audit Institution
ASWS	:	Audit Staff Welfare Scheme
ATR	:	Action Taken Report
AWP	:	Annual Work Plan
BAS	:	Bhutanese Accounting Standards
BCCI	:	Bhutan Chamber of Commerce and Industry
BCSR	:	Bhutan Civil Service Rules and Regulations
BKP	:	Bhutan Kuen-Nyam Party
BTFEC	:	Bhutan Trust Fund for Environment Conservation
CA	:	Compliance Audit
CFID	:	Corporations and Financial Institution Division
CPA	:	Certified Professional Accountant
CPD	:	Continuous Professional Development
CPDP	:	Continuous Professional Development Policy
CSIS	:	Civil Service Information System
CSO	:	Civil Society Organizations
CSWS	:	Civil Servants' Welfare Scheme
DAG	:	Deputy Auditor General
DFRHRM	:	Department of Follow-up, Regions and Human Resource Management
DPA	:	Department of Public Accounts
DPT	:	Druk Phuensum Tshogpa
DNB	:	Department of National Budget

DNP	:	Department of National Property
EID No.	:	Employee Identification Number
EMS	:	Environmental Management System
e-PEMS	:	Electronic Public Expenditure Management System
EVI	:	Economic Vulnerability Index
FA	:	Financial Audit
FAM	:	Finance and Accounting Manual
FRR	:	Financial Rules and Regulations
FUCD	:	Follow-up and Clearance Division
FY	:	Financial Year
FYP	:	Five Year Plan
GDP	:	Gross Domestic Product
GER	:	Gross Enrolment Ratio
GIFT	:	Global Interchange for Financial Transaction
GNH	:	Gross National Happiness
GNI	:	Gross National Income
HAI	:	Human Asset Index
HR	:	Human Resource
HRGC	:	Human Resource & Governance Committee
HRIRD	:	Human Resource and International Relations Division
HQ	:	Headquarter
IAFP	:	International Auditors Fellowship Programme
iCAT	:	ISSAI Compliance Assessment Tool
iCISA	:	International Centre for Information System and Audit
ICT	:	Information and Communications Technology
IDI	:	INTOSAI Development Initiative
INTOSAI	:	International Organization of Supreme Audit Institution
ISA	:	International Standards of Auditing
ISSAIs	:	International Standards of Supreme Audit Institution
IT	:	Information and Technology
IWP	:	Individual Work Plan
JDWNRH	:	Jigme Dorji Wangchuck National Referral Hospital
LC	:	Letter of Credit
LDC	:	Least Developed Countries
LG	:	local Government
MAR	:	Management Appraisal Report
MAX	:	Managing for Excellence
MOG	:	Major Occupational Group
MoF	:	Ministry of Finance
MoU	:	Memorandum of Understanding
NGOs	:	Non-Government Organizations

NKRAs	:	National Key Result Areas
OAAG	:	Office of Assistant Auditor General
OAG	:	Office of the Attorney General
OPD	:	Outpatient Department
PA	:	Performance Audit
PAC	:	Public Accounts Committee
PDC	:	Professional Development Centre
PDP	:	Peoples Democratic Party
PEMS	:	Public Expenditure Management System
PFM	:	Public Financial Management
PMF	:	Performance Management Framework
PMM	:	Public Financial Management
PPAARD	:	Policy, Planning and Annual Audit Report Division
PPCM	:	Policy, Planning and Consultative Meeting
PSAD	:	Performance and System Audit Division
PW	:	Public Work
QA	:	Quality Assurance
RAA	:	Royal Audit Authority
RCSC	:	Royal Civil Service Commission
RGTS	:	Real-Time Gross Settlement Service
RIM	:	Royal Institute of Management
ROs	:	Religious Organizations
RQAD	:	Research & Quality Assurance Division
SAI	:	Supreme Audit Institution
SDG	:	Sustainable Development Goals
SOC	:	Statement of Commitment
SPMR	:	Strategic Planning Monitoring Reporting
SWOT	:	Strengths Weaknesses, Opportunities and Threats
TAD	:	Thematic Audit Division
TAT	:	Turnaround Time
ToR	:	Terms of Reference
UN	:	United Nations
UNDP	:	United Nations Development Programme
USD	:	United States Dollar
WGVBS	:	Working Group on the Value and Benefits of SAIs

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## a) Executive Summary

The SAI- PMF is being carried out as part of the Strategic Planning Monitoring Reporting programme of the IDI, to carry out an objective assessment of RAA's current capability in delivering its mandates in line with the ISSAIs. The specific objectives are to:

- Benchmark the performance of RAA against the ISSAIs which was adopted by RAA as an authoritative standard and INTOSAI best practices;
- Compare the current status with the baseline of the SAIs performance established in the last SAI-PMF assessment;
- Provide the basis for preparing a New Strategic Plan 2020-2025

### Summary of Overall Performance

The RAA's level of performance in this assessment ranges from 0-4 on the SAI-PMF scale. The summary of the scores achieved by each indicators and dimensions under its respective Domains is shown in Annex 1A.

It is important for readers to understand that the performance is measured specifically within the context in which the RAA functions and operates.

### Key findings

The legal framework for independence for RAA is established in the Constitution of the Kingdom of Bhutan 2008, and further defined in the Audit Act of Bhutan 2018. The RAA has full functional independence but fails to provide financial and organizational independence. As of now the dependence on the Ministry of Finance for budget seems to not affect the financial resources provided to RAA, but in future it is a matter of concern. Also dependence on the Royal Civil Service Commission for human resources pose a risk as RAA is not able to recruit people based on its needs and it is further aggravated by high attrition rate experienced during the last few years. The RAA enjoys a strong and wide mandate including all offices in the Legislature and Judiciary, all public authorities and bodies administering public funds, the police and defense forces as well as revenue, public and other monies received and the advances and all the reserves of Bhutan.

The RAA has initiated in enhancing accountability in the public sector by bringing private contractors (engaged in government constructions) extending accountability obligations in procurement of works. The Annual Audit Reports (financial audit reports), and performance audits being discussed and deliberated in the Parliament had rendered basis for numerous parliamentary resolutions and directives. The parliamentary directives are directed to the responsible agencies to initiate recommended actions based on the audit reports. Through this process, RAA is able to influence changes and remedial actions for improved governance and performance in the public sector. The RAA recovered total amount of Nu 106.368 million in 2018 on account of irregularities on fraud & corruption, mismanagement, non-compliance to rules & regulations and shortfall, lapses & deficiencies as one of the impact from RAA's work. This recovery represents cost savings to the government. The Ministry of Finance had initiated amendment of existing Procurement Rules and Regulations based on the recommendations of the reviews conducted by the RAA.



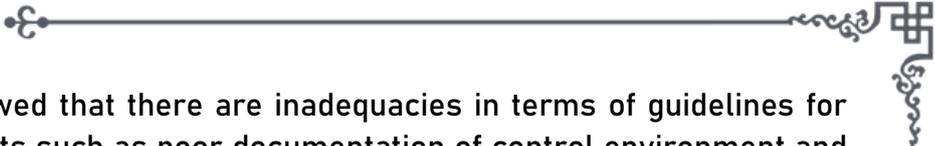
The strategic plan 2015-20 which was developed based on a logical framework; however the performance of RAA was not assessed on the basis of the indicators developed. Thus, the activities accomplished do not indicate whether the intended targets have achieved the goals and outcomes of RAA. This has thwarted the RAA's intent of establishing performance accountability for its own resources.

The internal control environment and internal control system are instituted to manage its operations economically, efficiently, effectively and in accordance with laws and regulations. However, there is no clearly defined system for identifying, mitigating and monitoring major operational risks within RAA. The quality assurance system is being put in place but currently limited to only financial audits to ensure quality of RAA's works. The RAA has many strengths, most notably leadership competencies and processes are well established and operating at a satisfactory level. The organization culture is open, with good communication between the staff and management.

Ensuring desirable audit coverage for financial and compliance audits is seen it to be a constant challenge as the audit universe constitutes government budgetary agencies holding separate letter of credit (LC) accounts, government corporations and financial institutions (its units and branches) as separate audited entities and other non-government agencies. The improvement however would depend on structural reforms of the Public Financial Management System in terms of regulating budgets and reporting of expenditures by budgetary agencies.

Performance in relation to audit work as measured in Domain C seems quite satisfactory as RAA has already initiated to improve its audit process and procedures through revision of its manuals and guidelines in line with the ISSAIs. There are opportunities to bring improvement in the overall audit quality and reporting through consistent application of the manuals, guidelines and quality assurances process for all streams of audits. Quality Assurance reviews were carried out only for financial audits and not performance and compliance audits. The audit process for all the disciplines of audit for the sampled audits indicated that the financial audit process displays many positive elements, such as clearly followed planning procedures, collection and evaluation of evidence, and a good quality control system. There are some inconsistencies in the studied sample files such as an explanation as to why all planned audit procedures not performed were not retained on the audit file and failing to evaluate the uncorrected misstatements for materiality, individually or in aggregate. In terms of financial audit results 40.71% of the financial audit reports examined were issued within the agreed timeframe which we consider the planned date of issue of report and the actual date of issue of report.

For performance audits in general the audit plans of the sampled audits provide a good basis for conducting the audit and the teams set a clearly-defined audit objective that relates to the principles of economy, efficiency and effectiveness. The document as to how auditors have actively managed audit risk cannot be traced through the audit documentation. The performance audit reports were all submitted to the audited entities and relevant stakeholders and published on the day of tabling the reports to the Parliament. Improvements are desirable if the follow-up reports include an analysis of different audits, possibly highlighting common trends, themes across a number of reporting areas and the impact from these corrective actions.



The compliance audits showed that there are inadequacies in terms of guidelines for conducting compliance audits such as poor documentation of control environment and internal control assessment leading to inadequate risk assessment and detailed audit procedures designed to address the identified risks. Also, the risk of fraud was not considered in the sample audits. There is no adequate documentation of audit strategy in both the sample audits. The process followed in subjecting the work to continuous reviews and documenting the process was not adequately documented. The consideration of materiality is not clear as it is not determined specifically. Similar to the financial audit reports, the compliance audit reports issued during the year are compiled and included in the Annual Audit Report which is submitted to the Parliament. 20 % of the compliance audit reports examined were issued within the agreed timeframe or the within the maximum timeframe of 51 days allotted through executive order.

The RAA has good working relationship with the Parliament through Public Accounts Committee. The Annual Audit Reports, Performance Audit Reports and Follow up Reports are submitted to the Parliament through this committee and published on its website. Both Media (broadcast and print) are engaged through press conferences for issue of the Annual Audit Reports and Performance Audit reports. Currently there is no formalized strategy to stimulate citizens to access in public sector audit and the RAA, beyond audit reports. The RAA has a robust follow up system which is facilitated through an IT enabled system called “Audit Information Management System” which ensures effective implementation of the recommendations and the value and benefits of its audits. It has played a major role in strengthening the fiscal discipline, making government accountable and ensuring economic and efficient use of scarce public resources.

The RAA has initiated several development programmes funded by development partners to address major challenges such as audit manuals and guidelines, audit information and management system, implementation of ISSAIs, risk-based methodology, capacity development of auditors (trainings including quality assurance) and infrastructure development. Most of these activities were carried out through in house expertise as well as experts from IDI and donors. The audit resource management system (ARMs) and using ISSAIs as authoritative standards has improved audit documentations immensely. The review of the manuals and guidelines provides good basis for conducting high quality audits. The pilot audits conducted for all the disciplines of audits under the 3i programmes by IDI indicated better compliances to ISSAI's, improved documentation, strengthened QA function and policy and the RAA is beginning to see the benefits of full compliances through this assessment after fully implementing the ISSAIs as an authoritative standard.

The past experiences of capacity building programmes of RAA had shown to be successful in terms of augmenting the overall capacity of RAA in terms of human resources and organizational systems. As the country is soon to graduate from least developed (LDC) category, RAA may face challenges of securing funds from donors outside the country for capacity building. However, the RAA needs to sustain its capacity building initiatives through collaborations with peer SAIs and professional bodies.

## b) Independent Review Statement

### SAI Performance Report of the Royal Audit Authority of Bhutan dated 28 December 2020

*The INTOSAI Development Initiative (IDI), as operational lead on SAI PMF, provides support to SAI PMF assessments where requested. Such support includes conducting independent reviews (IR) of draft assessment reports. A request for such an IR was received from the SAI on 18 January 2019 in agreement with the Head of SAI.*

This SAI Performance Report (SAI-PR) was prepared by Ms Rinzin Lhamo as team leader, supported by Mr Dorji Wangchuk and Mr Bikash Rai as team members. The team leader and the team members together are considered to have the appropriate skills and experience to produce a high-quality assessment.

The independent reviewers were selected by IDI. The design of the independent review process was included in the assessment Terms of Reference and approved by the Auditor General of the Royal Audit Authority of Bhutan. The Terms of Reference for the assessment was also sent to IDI for comment. The assessment has been conducted as a self- assessment through the IDI – ASOSAI initiative on Strategy, Performance Measurement and Reporting (SPMR). The initiative was funded by the Swiss State Secretariat for Economic Affairs (SECO) and IDI.

In compliance with recommended SAI PMF methodology, the Auditor General received the draft report for review and official comment with the objective of ensuring that the report is factually correct.

The independent review arranged by IDI was carried out by Mr Frank Grogan. The reviewer had no responsibility for preparing the SAI-PR and has been properly trained and is considered to have the knowledge and experience necessary for this task. The objective of this review was to ensure that the SAI PMF methodology had been adhered to, that the evidence in the SAI-PR was sufficient to justify the indicator scores, that the analysis was consistent with the evidence, and that the executive summary was consistent with the analysis in the rest of the SAI-PR. The review concluded that all objectives have been satisfactorily met in the final report dated 28 of December 2020.

Significant matters raised during the independent review process have been addressed in this version of the SAI-PR.

Prepared by: Mr Frank Grogan

Date: 8. January 2021

## c) Observations on the RAA's Performance and Impact

### i) Integrated Assessment of RAA's Performance

Performance change - comparing the results from the SAI PMF assessment of 2015 and the current assessment (repeat assessment)

Following the recommendations based on the results from the SAI PMF assessment in 2015, SAI Bhutan has prioritized ISSAI implementation as a part of its strategy for 2015-2020. The SAI PMF report indicated the need to further strengthen the audit processes and documentation of audit work performed, if the audits conducted by SAI Bhutan were to meet the requirements of ISSAIs. The RAA has embarked on implementation of ISSAIs as its authoritative auditing standards since 2016. The initiative was basically aimed at putting in place improved processes and procedures to enhance quality, credibility and professionalism of RAA.

The World Bank has provided funding for a support programme from 2016 to 2017. The RAA signed Statement of Commitment (SOC) with the IDI to roll out 3i Phase II Pilot in April 2016 and agreed on range of activities stretching until July 2018.

To kick-start the project, two separate project facilitation team and mentors teams were selected. The project team comprised of members representing high level management to facilitate smoother decision making related to ISSAI implementation. Six mentors, two for each stream of audit were selected by the IDI based on the nominations made by the management. The mentors are assigned to facilitate the experts from the IDI in delivery of training as well as to act as a bridge between the training participants and IDI experts on any issue related to the subject matter throughout the implementation of the ISSAI. A total of 60 auditors, 20 for each stream were trained in July 2016 by the experts from IDI and respective mentors. Subsequently, after the trainings were availed, different groups for conducting initial mapping of audit practices and iCAT for all streams were formed and were assigned the respective tasks. With the completion of mapping exercises, each group has identified various gaps in the topics assigned to them and has proposed list of strategies in bridging the gaps. This document consolidated all those gaps and strategies proposed by each team.

The targeted capacity development projects have resulted in improved performance of RAA in terms of conducting audits which are increasingly aligned with the ISSAIs and with higher quality. For financial audit (FA) the review of the sampled audit files demonstrates that the RAA has substantially improved the documentation of the audits and the SAI plans and implements financial audits with higher quality. At the time of the assessment in 2015 the audit files were not very well documented. The performance audit (PA) files reviewed also demonstrates that performance audits have a higher quality. And one key improvement is that the SAI now publishes its performance audit reports which were not done earlier. A follow up system of PA recommendations was under implementation in 2015. Performance in this area has been strengthened, but there is still clear room for improvements. The quality of compliance audits (CA) is weaker compared to PA and FA. There has been a substantial improvement in planning CA in terms of communicating better with the auditee, and defining scope and criteria. The improvement in planning has not translated into stronger performance in implementing CA. Another aspect that can positively contribute to increased audit quality is by strengthening the quality assurance function. Responsibility of QA has been

clearly established, the QA reviewers are independent and the results are reported to the Head of SAI. A weakness still is that QA does not cover all the audit streams.

Other key aspects to highlight are substantial improvement in external communication. Since 2015 the RAA has developed Stakeholder Engagement Strategy 2018-2023 which is aligned to the overall strategic plan. Key stakeholders, messages and tools and approaches for external communication have been identified. There has been increased communication with the Executive that goes beyond communication during the individual audit engagements in terms of discussing key cross cutting issues of common concern. The RAA has also increased its engagement with the media. At the time of the SAI PMF assessment of 2015 there was minimal communication with media. Now the SAI conducts press conferences and issue press releases.

The development is in general positive for RAA. It is important to keep in mind that there is still scope for improvements across all domains, particularly in terms of consistency in application of manuals and guidance. This is further detailed in the next section that presents the analysis of the results of the current SAI PMF assessment.

### Results from the current assessment

Substantial improvements are required in areas of internal governance specifically on improving compliances to methodologies in conducting audits, risk assessment and consideration of materiality concepts, and engagement of stakeholders in the audit process. There is a need to sustain the initiatives of human resource development and quality control and assurance system to ensure that critical capacity of the organization is developed and sustained further. The RAA conducts training needs assessment and not based on the learning need analysis which will identify all the approaches of RAA's disposal and transfer of knowledge in a way that affects the performance. The learning needs strategy should be aligned to the strategic and operational plan. The gaps in the plans and processes for professional development and training can be attributed to lack of human resource strategy in place.

At the institutional level, the legal framework for independence of RAA and head of SAI is established in the Constitution of the Kingdom of Bhutan 2008, and further defined in the Audit Act of Bhutan 2018. The RAA has full functional independence but fails to provide financial and organizational. The RAA's budget is subject to scrutiny by the Ministry of Finance (MoF), and the budget proposed were deducted ranging from 5% to 16% during the last three FY 2016-17, 2017-18 & 2018-19. However, the supplementary budgets proposed by RAA were approved by MoF which surpassed the budget proposal for the last three years by 3.60% in FY 2016-2017, 13.18 % in FY 2017-2018 and 3.05 % in FY 2018-2019.

The RAA enjoys limited human resource independence as its employees are governed by the Civil Service. This may have potential to limit RAA in obtaining required professionals. Except for these two limitations of independence of Human Resource and budgeting, the legal framework under which the RAA operates substantially meet the basic INTOSAI principles and declarations as supported by UN resolutions. Although the Supreme Court is the guardian of the Constitution and having final authority on its interpretation it does not clearly stipulate legal protection by a supreme court against any interference with the RAA's independence.



Figure 1 : Performance audit coverage by sector

The coverage for performance audit has been assessed as adequate and also depicted in figure 1. Ensuring desirable audit coverage for financial audits and compliance audits is seen to be a constant challenge. The coverage for financial and compliance audit falls below the criteria specified for securing the minimum score. The audit universe constitutes government budgetary agencies holding separate Letter of Credit (LC) Accounts, Government Corporations and Financial Institutions (its units and branches identified as separate audited entity, and other non-governmental agencies under RAA's audit jurisdiction). The fragmentation of agencies results in duplicity of administrative



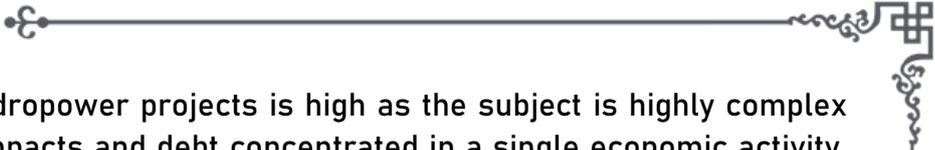
works related to auditing of those agencies and loss of focus and overview of performance or expenditure pertaining to specific functions/organs of the government. There is a scope for considering and re-examining audit universe and consolidating into fewer audited agencies based on functions/authorities of those agencies. Also the current practice of auditing donor assisted projects at component level is leading to fragmentation of audit resources. This apparently restricts the auditors to obtain overview of expenditure and operations on the whole.

As per the Public Finance Act, the MoF is required to submit the Annual Financial Statement of the Royal Government of Bhutan within six months from the closure of Financial Year (i.e 30<sup>th</sup> June). There is no requirement to submit accounts to the RAA by the agencies and therefore, submission of financial statements has not been put in place. The RAA does not report on non-submission of accounts by the agencies. There is a risk of RAA being not able to enforce accountability when agencies do not submit their accounts and timely audits are not facilitated. At least 40% of individual financial audit report and 20% of individual compliance audit reports were submitted within the agreed timeframe (plan date). However, the annual audit report which is the consolidation of both the financial and compliance audit reports are submitted within the statutory timeframe as per the Audit Act 2018.

The compliance audits are planned by merely listing out entities without any risk assessment and materiality. The stakeholder's expectations and emerging risks are not taken into account in the overall audit plan. There is no clarity of compliance audit universe. Currently, audit universe for compliance audits include only government owned corporations and financial institutions. These are fragmented resulting in multiple agencies as every sub-unit office under particular organization is considered as separate audit entity. Except for theme based compliance audits, government entities are not subject to regular compliance audits.

The improvements however, would depend on how RAA will be able to persuade relevant authorities for changes in the provision of the Public Finance Act. There is a need for structural reforms in the Public Finance Management System of the Royal Government of Bhutan in terms of regulating of budget and reporting of expenditure by budgetary agencies. In the existing PFM system, every budgetary agency is identified through specific LC accounts allotted by the Ministry of Finance. The MoF through the Departments (Department of National Budget (DNB) and Department of Public Accounts (DPA) regulate budget and expenditure of all LC holding agencies separately. There is no consolidation of accounts at Ministry/ Central Agency Level except at the central government level.

At the organizational level, there are opportunities to bring improvement in the overall quality of audit results and reports. Despite various initiatives of improving audit process and procedures through development of manuals and guidelines, the assessments show that there is a lack of consistency in application of manuals, guidelines and quality control processes specifically for compliance audits. The varied application of audit processes indicates different levels of technical knowledge of auditors attributable to new concepts and methodologies of compliance audits and also in the absence of approved compliance audit guidelines. The RAA also faces challenges in audit of hydropower projects as it requires specialized knowledge and skills. The risk



associated with audit of hydropower projects is high as the subject is highly complex with huge environmental impacts and debt concentrated in a single economic activity. The audit report on Public Debt Management (2014) raised audit findings on huge gap between the growth of expenditure and internal revenue, hydrological risk, projects achieve the values for money through audits. It seems that the inadequate audit coverage is because of market, construction, cost and time overruns risks that could have an adverse effect on the stability of the economy. As such, RAA need to develop appropriate expertise of auditors in this area to ensure that risk are managed and the fragmented audit entities without consolidation of accounts of sub-units and offices. It diffuses audit focus and over view of the whole operations at central office level (Ministry, Head Office level) and creates artificial gaps in human resource. The RAA developed strategies of prioritization and categorisation of agencies to ensure reasonable audit coverage. There is opportunity to improve on consideration of risk and materiality in the audit planning and execution particularly for performance and compliance audits. The inconsistencies in application of manuals and processes basically result from gaps in knowledge of auditors performing jobs and/or inadequate supervision by supervisors. A robust quality control (regular supervision throughout audit process) and independent quality assurance review systems for all streams are desirable to ensure consistent application of manuals and guidelines and better quality of output. The RAA already has Quality Assurance Division. However, it was involved in quality control of audit reports. With recent decision to do away with reviewing audit reports, the division is mandated to carry out regular quality assurance reviews of audits carried out by different auditing divisions. The quality assurance review was limited to only financial audits during the period of review and has excluded performance and compliance audits and other non-auditing activities of RAA. There is scope for improvement when the division operationalizes and implements its Quality Assurance Review Plans including all streams of audits, outsourced audits and other non-audit activities.

The Strategic Plan 2015-20 was developed aligning to the term of the current Auditor General. The document was prepared with technical assistance from the IDI. The strategic intents articulated in the plan are aligned to the ISSAI 12 - value and benefits of SAI. One of the strategies under being a model organization was developing performance management framework of RAA. It intended to develop performance indicators and to report performance and establish accountability of RAA for use of public resources. However, during the five year plan period of the Strategic Plan which ends in June 2020, the RAA has not been able to come up with its performance reports. The SAI PMF assessment showed that there were gaps in linking operational strategies and the strategic intents. There are no indicators to measure the performance of RAA in respect of intended outcomes. This had thwarted the RAA's intent of establishing its performance accountability for the resources it used. As an organization that seeks to be exemplar in good governance, it must demonstrate and subject itself to be accountable for the resources used.

The RAA has working relationship with the Parliament through Public Accounts Committee. The Annual Audit Reports, Performance Audit Reports and Follow up Reports are submitted to the Parliament through this committee and published within the legal and/or agreed timeframe. There is a scope for rationalizing the timeframe for

the issuing of individual audit reports as the assessment showed delays in such issuing. PAC holds public hearings with the audited agencies to discuss unresolved issues and involves RAA as observer. However, the existing relationship is based on rules of procedures of Public Accounts Committee. There is a scope for further engagement to maximize the benefits of RAA's reports and also enforcing accountability on responsible public officials and entities to take actions based on audit reports and recommendations. Recently, the RAA has developed Stakeholder Engagement Strategy and Communication Plans. The document identifies key stakeholders based on influence and interest and specifies a strategy of engaging them. The implementation of the communication plans was found not monitored. There are opportunities for RAA to strengthen relationship with Media and CSOs to demand accountability from responsible Ministries/officials and for dissemination of audit results to public at large.

RAA has a robust follow up system which is facilitated through an IT enabled system called "Audit Information Management System". All information about the audit and the details of audit issues and accountable officials are captured in the system. The review reports of AARs and performance audit reports are submitted twice in a year to the Parliament. There are different levels of follow up which regularly reviews the actions taken and implementations of audit recommendations. There is opportunity for RAA to carry out holistic reviews, trend analysis and study the impact of implementation of corrective actions taken.

## **ii) The value and benefits of Supreme Audit Institutions – making a difference to the lives of citizens**

ISSAI 12 propounds that the SAIs can deliver values and benefits under three broad headings:

- Strengthening the accountability, transparency and integrity of government and public sector entities
- Demonstrating ongoing relevance to citizens, Parliaments and other stakeholders
- Being a model organization through leading by example

*There is a tremendous opportunity for the RAA to demonstrate values and benefits under all aspects. The RAA's Strategic Plan 2015-20 articulates its intents which were in principle aligned to the ISSAI 12. The regular and/or annual audits of public sector entities render effective control and checks on public expenditure and in enhancing accountability across the board. However, the strategic intents merely reflect the desire and would remain the same, if not supported and operationalized through appropriate strategies and plans. There is scope for scaling up implementation strategies particularly through engaging stakeholders.*

**Strengthening the Accountability, Transparency and Integrity of Government and Public Sector Entity**

SAIs' fundamental responsibility is to provide assurance services to enhance credibility of public sector through its audit and report. Financial, Performance and compliance audits are basically tools of SAIs to bring about improved accountability – financial and performance, and improved compliance with laws, rules and regulations in the public sector. RAA being an independent and credible oversight body thus, has a greater role in building public trust and confidence in the use of public resources and performance of those charged with governance through its audit reports and recommendations. The

low audit coverage as assessed for FA and CA could undermine the RAA's intent of providing assurances on the public sector operations in terms of using public resources and ensuring compliances to rule of law in the public sector.

The most notable recent change that RAA initiated in enhancing accountability in the public sector was bringing private contractors (engaged in government constructions) under accountability net. The RAA engaged with the relevant regulating authorities such as Construction Development Board, Government Property Management Division under the Ministry of Finance, and Contractors Association Board (non-governmental organization) and signed a Memorandum of Understanding (MoU) that allows holding private contractors accountable for any wrongdoings/lapses in their engagement with the public sector. The RAA regulate the issue of audit clearances of private contractors for renewal of their licenses. There are opportunities to extend accountability obligations to other private businesses/firms engaging in contracts for all public procurements. This would add impetus to RAA's effort in creating a sense of accountability amongst non-government entities partnering with government in public procurements. As Bhutan spends substantial budget in public procurement, such mechanism of accountability would certainly promote ethical culture within private sector and enable the government to obtain the value for money in the resources spent.

RAA's Annual Audit Reports (financial audit reports), and performance audits are being discussed and deliberated in the Parliament. These reports had rendered basis for numerous parliamentary resolutions and directives. The parliamentary directives are directed to the responsible agencies to initiate recommended actions based on the audit reports. Through this process, RAA is able to influence changes and remedial actions for improved governance and performance in the public sector. Some of the performance audit reports discussed were Operation of BCCI, In-country travels, Delivery of OPD services of JDWNRH, Provision of Drinking Water Supply etc. Besides publishing the reports on the RAA's website, other platforms such as facebook and twitter are used to communicate its results to citizens at large. A substantial improvement since the SAI PMF assessment of 2015 is that the SAI now publishes its audit reports and has increased communication with media to make the reports more accessible to the public. This can contribute greatly in terms of increasing RAAs impact. Brochures for AARs also summarizes the audit findings and RAA's achievements. The audit of Punatshangchhu Hydroelectric Project Authority –I (July 2016) have reported on various shortcomings of preliminary studies in preparation of Detail Project Report that led to change in specifications or technology due to long delay in certain items of works which has cascading effect on subsequent stages. The RAA found that around 65% of total estimated cost overrun was attributable to execution of extra/deviated items and around 35% to price escalation over the period. A notional loss ranging from Nu 45,000 million to 65,000 million due to time and cost overrun was reported<sup>1</sup>. The RAA made 11 recommendations to take corrective actions and to draw lessons for future mega projects involving huge public funds.

The RAA recovered total amount of Nu 106.368 million in 2018 as one of the results of RAA's work. This recovery represents cost savings to the government. The Ministry had initiated amendment of existing Procurement Rules and Regulations based on the recommendations of the reviews conducted by the RAA.

As a cost saving to the government, the RAA recovered Nu. 106.368 million in the form of Audit Recoveries in 2018

<sup>1</sup>Auditor General's Term Report 2015-2020

The review of RAA's follow-up mechanisms indicates that it played a major role in strengthening the fiscal discipline, making government accountable and ensuring economic and efficient use of scarce public resources.

### Demonstrating Ongoing Relevance to Citizens, Parliament and other Stakeholders

SAls demonstrate ongoing relevance by being responsive to the expectations of different stakeholders, challenges of citizens and emerging risks and changing environment in which it operates. This involves factoring in stakeholders' expectations in SAl's priorities and to be able to deliver.

Generally, delivering quality audit reports on topical issues that render basis for informed decision making is one of the priorities of RAA. There is scope for enhancing

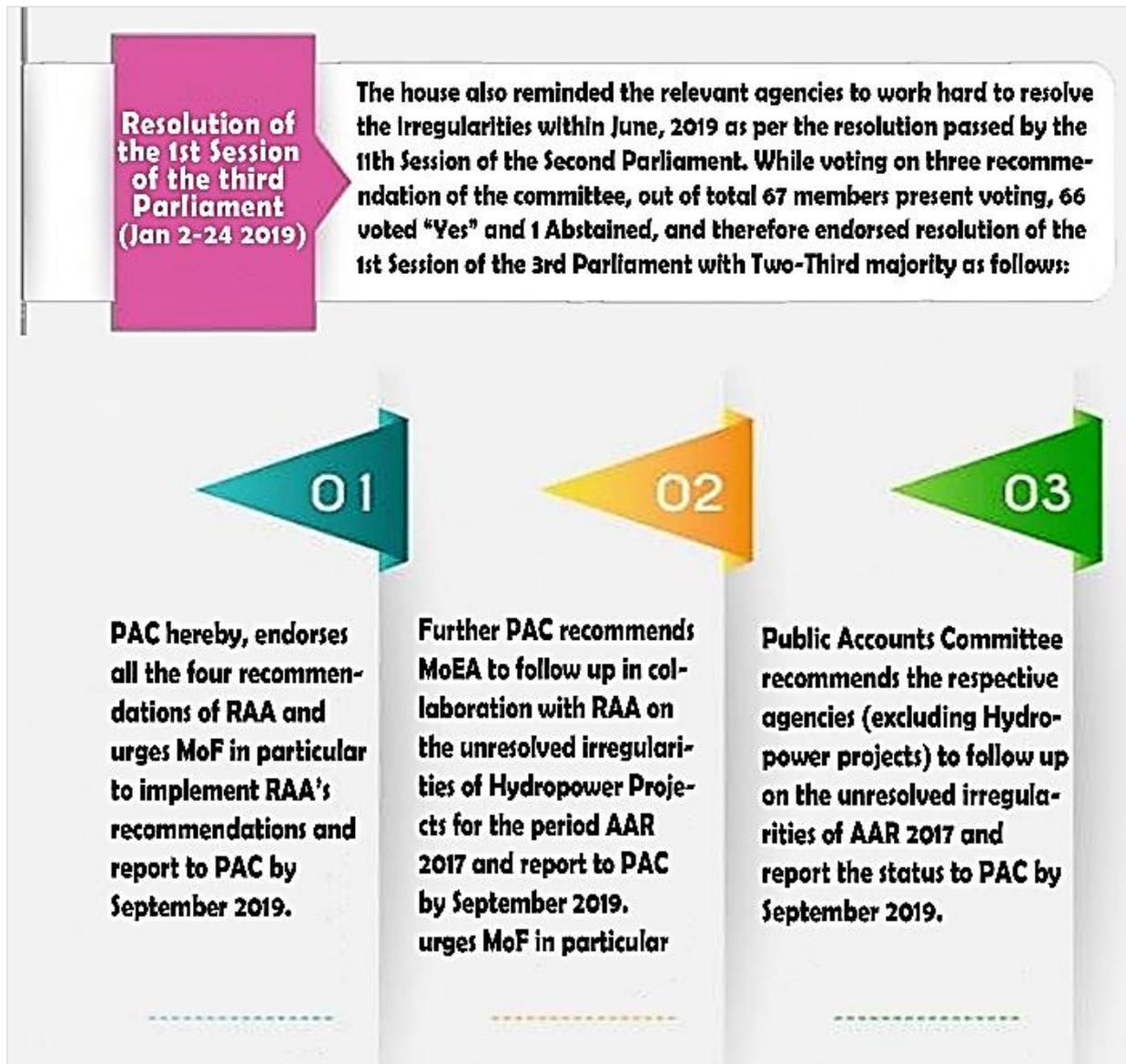


Figure 2: Example of Parliamentary resolutions based on audit reports

relevance by discerning expectations and formulating strategies to address their concerns, and disseminating audit results to general public to demand greater transparency and accountability in public operations. Engaging and supporting Parliament through a formalized process would generate greater interest in RAA's work and enforce accountability in the use of resources and performance of those charged

with governance. RAA's reports have rendered basis for various parliamentary resolutions and directives as depicted in figure 2 as sample. RAA's strategic plan needs to improve and factor in stakeholders' expectations. The relevant stakeholders could be engaged in identifying the potential topics for performance and compliance audits and also engaging during audit to focus on areas that have more potential to add value. Opportunities lie in engaging media in reporting RAA's results to the public at large. CSOs have specific social interests that may augment the audit results if engaged in the audit process.

The RAA initiated Stakeholders Satisfaction Survey in 2016 which was a one time exercise. It has developed RAA's Stakeholder's Engagement Strategy 2018-23 which prioritizes stakeholders and lays down communication plans based on the assessed interest and influence. However, except for communication protocols with media, most of the strategies remain to be implemented. In terms of dissemination of audit reports through media, RAA has been able to actively engage both broadcast and print media ( as in figure 3) There is an opportunity to scale up stakeholder engagement through implementation of those identified strategies with other stakeholders



Figure 3: RAA in the print media

**Being a Model Organization through leading by Example**

RAA's Strategic Plan 2015-20 identifies one of its goals as being a model organization. As per the assessment, RAA's leadership is committed to providing exemplary internal governance in terms of strategic directions, delegations of authority through different committees, effective internal communication and information dissemination process, external and internal audit and promulgation of ethical conduct of staff.



There are opportunities for instituting risk assessment systems for identifying, mitigating and monitoring major operational risks. The RAA does not include a statement of internal control in the RAA's Annual Audit Report. The other area for improvement is Strategic Planning Process and formulation of

operational/annual plans. The Strategic Plan should factor in expectations of stakeholders and formulated on the basis of gaps in internal processes and capacity. RAA has regularly subjected itself to external reviews of its systems and processes besides having regular internal audit appointed by the audit committee. The latest review was SAI PMF was carried out in 2014-15 by independent assessors from SAI Norway and IDI. The report was published and uploaded on the webpage.



The other opportunities are reporting on performance of RAA. The current practice of reporting is limited to reporting on achievement/completion of activities and not on achievement of envisaged goals. This was because the performance indicators could not be developed and there had not been regular monitoring of performance.

### iii) Analysis of the RAA's capacity development efforts and prospects for further improvement

As per the records reviewed, the RAA had continuously focused on development and sustenance of professional capacity of its staff. The adoption of ISSAIs as its authoritative auditing standards in 2017 saw scaled up trainings and development initiatives of RAA particularly on ISSAIs and core audit areas including quality control and assurance. The refresher courses were provided on a regular basis. To institutionalize the system and process aligned to the requirements of ISSAIs, existing manuals, guidance and templates were revised. Drastic improvements are visible in terms of complying with the requirements of ISSAIs although there are gaps and inconsistencies in applications of concept of risk assessments and consideration of materiality.



Through the Continuous Professional Development Policy (CPDP), the RAA implements the in-house trainings for its staff on a regular basis in line with the training schedules. The In-house training are conducted at the Professional Development Center in Tsirang by in-house facilitators as well as experts from outside the country.

The RAA had secured assistance from different projects (refer chapter 5.1 below) for enhancing the professional capacity of the auditors. The Austrian Development Cooperation (ADC) since 2012 has supported the RAA in strengthening the professional capacity for better governance. The RAA also received grants from the World Bank to strengthen its operational capacity to produce and disseminate quality audit reports as per the International Standards of Supreme Audit Institutions (ISSAIs). Our assessment indicates that the audit manuals and the policies developed under these projects are being used and have substantially helped in improving the quality of audits and the methodologies. The audit teams were also trained in risk based audit methodology which has proved to help the teams conduct the audits in line with the ISSAIs.

The RAA has also greatly benefited from the Implementation Initiatives 3i programmes by the IDI. ISSAI Compliance Assessment Tools (iCATS) for three audit disciplines of Performance, Financial and Compliance Audits was carried out in 2015. At the professional development level, Subject Matter Experts from IDI (one each in Financial, Compliance & Performance audit) conducted ISSAI complaint audit workshop to 60 field auditors in July 2016 at iCISA, Noida, India. The RAA have now a pool of over 206 ISSAIs trained auditors. At the organizational front the Financial Audit Manual, Compliance Audit Manual and Performance Audit Guidelines were revised by ISSAIs trained auditors and mentors. Under the programme, 6 ISSAI based pilots audits were conducted comprising of two from each discipline of audits and these reports underwent quality assurance review. The assessment team saw that these programmes assisted the RAA in improving in its audit quality and reporting through improved audit methodologies, better compliances to ISSAIs, improved documentation, strengthened QA function and policy.



The ongoing project from ADC on “Strengthening the professional capacity of the Royal Audit Authority for better governance” is expected to further enhance the professional capacity of the auditors by availing long term studies as well as short term trainings of both in-country and ex country.

The human resource strategy is being drafted to ensure effective implementation of the HR activities in line with the RAA strategic plan. In order to ensure that appropriate competencies is required for carrying out all the disciplines of audit a competency framework is also being drafted.

With the Professional Development Centre in Tsirang being operational in 2019, it has immensely benefited in its effort to continuously develop and upgrade the knowledge and skills of the auditors through various in-house training programmes, thus remaining relevant and adding value and benefits to the society by appropriately responding to the challenges of citizens, the expectations of different stakeholders, and the emerging risks and changing environments. The Centre aims to serve as a platform for professional growth, explore deeper collaboration, and promote research and exchange of expertise and training in auditing and in other related fields.

The past experiences of capacity building programmes of RAA had shown to be successful in terms of augmenting the overall capacity of RAA in terms human resources and organizational systems. As the country is soon to graduate from the least developed (LDC) category, RAA may face challenges of securing funds from donors outside the country for capacity building. However, the RAA needs to sustain its capacity building initiatives through collaborations with peer SAI's and professional bodies.

**d) SAI Management Use of Assessment Results**

This review was a new experience for the RAA as it was conducted as a self-assessment. The first SAI-PMF was conducted by IDI and SAI, Norway in 2014 as a peer review. The assessment results can be used for benchmarking its performance against INTOSAI best practices and ISSAIs which was adopted as an authoritative standards and improve the compliances to audit methodologies and other areas of RAA's management. The RAA will also be able to compare the current status with the baseline of the SAIs performance established in the last SAI-PMF assessment.

The result will also be used for development of the RAA's Strategic Plan 2020-2025 which is aligned to the term of the Auditor General. The report will also be used for RAA's fund mobilization efforts geared towards accomplishing the capacity development needs of the RAA. We hope that such assessment can also demonstrate progress and help in meeting the expectations of our stakeholders and particularly the value and benefits to the citizens of our country. The final report will be uploaded to the RAA's official website to show our stakeholders how RAA contributes to strengthening accountability, transparency and good governance in the public sector.



**(Auditor General)**

The Supreme Audit Institution - Performance Measurement Framework (SAI-PMF) is an objective performance measurement framework designed to give a high level overview of SAI performance and to facilitate managing, measuring and monitoring of SAI performance over time. The SAI -PMF assessment of RAA is based on SAI-PMF document endorsed at the INTOSAI Congress in Abu Dhabi in 2016. The purpose for undertaking the SAI-PMF assessment is to measure the performance of RAA and to see the state of affairs encompassing institutional framework, organizational systems and professional development spheres. The specific objectives are to:

- Benchmark the performance of RAA against the ISSAIs which was adopted by RAA as an authoritative standard and INTOSAI best practices;
- Compare the current status with the baseline of the SAIs performance established in the last SAI-PMF assessment;
- Provide the basis for preparing a New Strategic Plan 2020-2025

In line with these objectives RAA adopted self-assessment with an independent review from INTOSAI Development Initiative (IDI) as part of the Strategic Performance Monitoring Reporting Programme conducted by the IDI. The assessment was carried out by a team of three, led by Rinzin Lhamo and supported by Dorji Wangchuk and Bikash Rai from the Royal Audit Authority. All the three team members have the requisite knowledge to conduct the assessment as they possess adequate skills and knowledge in conducting all types of audits including Financial, Compliance and Performance Audits. All three of them have been actively involved in the ISSAI Implementation Initiative (3i Programme) of IDI. Rinzin Lhamo also participated in Training of Trainers and Assessors for SAI -PMF organized by IDI held in Bhutan in 2014. Dorji Wangchuk was involved in the preparation of RAA's Strategic Plan 2015-2020 and mentor of Compliance Audits under the ISSAI Implementation Initiative.

The assessment covered all domains given in the SAI-PMF guidance and all indicators in the endorsed version of SAI- PMF 2016 with the exception of SAI 18-20 which are not applicable to RAA with "Westminster model". The assessment was based on RAA's structure and legal framework and covered the Financial Year 2017-2018<sup>2</sup>. Where appropriate, evidence were obtained from audit and other support activities in the current financial year 2018-19. The Terms of Reference to carry out the SAI-PMF assessment was approved by the Auditor General.

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<sup>2</sup> The Financial Year is from 1st July to 30 June.

SAI PMF assessment is an objective and evidence-based assessment. The evidences were drawn principally from desk reviews, interviews, documentation and completed audit files as per approved Terms of Reference reviewed by IDI and approved by RAA. The Audit files included planning documentation, risk assessments, working papers, and draft reports, communications with the audited entities, quality control documentation and the final reports.

For sampling of Financial Audits stratification was adopted to pick audits from all the divisions and regions and the samples included audit of Ministries, Dzongkhags (Districts) and Local Government. The assessment team selected one audit each from the three Divisions under Department of Sectoral Audit in the RAA HQ and one audit each from the four regional offices.

The assessment team randomly selected two compliance audits conducted by the Corporations and Financial Institutions Division which is representative as only few Compliance Audits are conducted by the Regional Offices which was not included for the assessment. The team also included one additional sample for assessing the indicators for outsourced audits.

The team randomly selected three performance audits conducted by the Performance & Systems Audit Division and Thematic Audit Division under the Department of Performance and Commercial Audit Division in the RAA (HQ) for the assessment as no such audits are conducted by the regional offices. The selection of sample is as follows:

**Table 1: Selection of sample**

TYPES OF AUDIT	CATEGORY	HQ LEVEL	REGIONAL OFFICE	TOTAL SAMPLE
Financial	Ministries, Dzongkhags (District), Local Government	3	4	7
Outsourced Audits	Government Corporation	1	N/A	1
<b>Financial Audit Total</b>				<b>8</b>
Compliance	Government Owned Corporation	2	Not included in the assessment	2
<b>Compliance Audit Total</b>				<b>2</b>
Performance	Performance and Theme Based	3	N/A	3
<b>Performance Audit Total</b>				<b>3</b>
<b>TOTAL</b>				<b>13</b>

The lists of sample files can be found in **Annex 2**.

Initially, responsibilities for specific domains were allocated to each team member. The team worked together to conclude on scorings for each indicator under its respective domains. Quality control during the assessment was done on an on-going basis by the assessment team to ensure that the assessment was on-track and that any missing information was requested and received during the assessment phase of the assignment. The assessment Team Leader was responsible to receive comments from the management on the draft versions of the assessment. The Team Leader ensured that all team members were consulted when dealing with elements of the assessment report relevant to their individual areas of input.

The Research and Quality Control (RQAD) Division which is well acquainted with the RAA but not part of the assessment team reviewed the draft report for factual



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correctness as part of quality assurance and provided feedback to correct any possible errors in the draft report.

A list of interviewees, files and documents examined during the course of assessment can be found in **Annex-2**.

### 3.1 Bhutan Country Context and Governance Arrangements

Bhutan is a small and landlocked country, situated between China and India. It has an area of 38,394 square kilometres with altitude ranging from 150 meters to 7,500 meters above sea level<sup>3</sup> and with a population of 727,145. Of the total land area, 71 percent is under forest cover, seven percent under year-round snow and glaciers, about three percent is cultivable agricultural lands, while meadows and pastures occupy four percent, and the remaining is barren, rocky or scrubland. It has three distinct climatic zones: alpine climate in the northern belt (4,000 masl), a cool temperate central belt (2000-4000 masl) and a hot and humid southern belt (150-2000 masl)<sup>4</sup>.

#### Gross National Happiness: Bhutan's Development Philosophy

Gross National Happiness (GNH), the guiding development philosophy of Bhutan was expounded by His Majesty the Fourth Druk Gyalpo Jigme Singye Wangchuck. His Majesty enunciated the visionary statement that, "Gross National Happiness is more important than Gross Domestic Product"<sup>5</sup>. The Constitution of the Kingdom of Bhutan mandates, "the State shall strive to promote those conditions that will enable the pursuit of Gross national happiness"<sup>6</sup>. The GNH consists of four pillars namely 1) Sustainable and equitable socio-economic development, 2) Conservation of environment, 3) Preservation and promotion of culture, and 4) Good governance and nine domains.

The GNH was operationalized through policy and legislation during the reign of the Fourth Druk Gyalpo and GNH index was introduced in 2008 to measure our progress towards maximising GNH. The Index comprise of nine domains: psychological well-being, health, time use, education, cultural diversity and resilience, good governance, community vitality, ecological diversity and resilience, and living standards. The nine domains include both conventional aspects of development such as standard of living, health and education as well as unconventional aspects such as psychological well-being, community vitality, cultural diversity and time use<sup>7</sup>.

The GNH Commission was established to ensure that the development concept is mainstreamed into government planning, policies and implementation. In its efforts to operationalise GNH, the 17 National Key Result Areas (NKRAs) of the 12th Five Year Plan were formulated guided by the nine domains of GNH. The GNH Index score is an important determining factor for allocation of resources to the Local Governments (LGs) in the 12th FYP<sup>8</sup>. The development philosophy of Gross National Happiness is inherently aligned with the Sustainable Development Goals (SDGs). A rapid integrated assessment conducted by UNDP in October 2015 indicated high level of integration of the SDG targets with 11th Five Year Plan. Out of 143 relevant SDG targets, 134 were found to be included in the 11th FYP<sup>9</sup>.

<sup>3</sup> NSB, Statistical Year Book 2016

<sup>4</sup> Twelve Five Year Plan, Volume I(2018-2023). GNHC

<sup>5</sup> Twelve Five Year Plan, Volume I(2018-2023). GNHC

<sup>6</sup> Article 9, Section 2 of the Constitution of the Kingdom of Bhutan

<sup>7</sup> Twelve Five Year Plan, Volume I(2018-2023). GNHC

<sup>8</sup> Twelve Five Year Plan, Volume I(2018-2023). GNHC

<sup>9</sup> Twelve Five Year Plan, Volume I(2018-2023). GNHC

## Recent development and challenges

The five jewels namely Hydropower, Tourism, Agriculture, Small & Medium Enterprises and Mining has also expanded rapidly. Our main driver of the economy however continues to be hydropower. The earnings increased mainly on account of increase in export tariff.

The protection and preservation of pristine environment is another key pillar in the pursuit of Gross National Happiness. Bhutan is perhaps the only country in the world that is carbon negative and which pledged to remain carbon-neutral for all times to come.

Bhutan's Human Development Index value in 2017 was 0.612 which put the country in the medium human development category positioning it at 134 out of 189 countries and territories<sup>10</sup>. The GDP has grown from Nu. 100 billion in 2013 to Nu. 180 billion in 2018 allowing the economy to be identified as one of the fastest growing in the world by several reputed international institutions such as the World Bank, ADB and The Economist. The GDP growth figures reached as high as 8% in 2016 and about 7% in 2017<sup>11</sup>.

Marking a key development milestone, Bhutan will graduate from the UN's list of Least Developed Countries in December, 2023 and the decision on Bhutan's graduation was endorsed during the 73rd session of the United Nations General Assembly held in December, 2018<sup>12</sup>. Bhutan had fulfilled the threshold levels for the Gross National Income (GNI) per capita and Human Asset Index (HAI) criteria during the 2015 and 2018 triennial reviews, however had not meet the threshold for the Economic Vulnerability Index (EVI) during both the reviews. Bhutan will continue to receive the benefits of an LDC during the transition period of three years<sup>13</sup>.

However, the Bhutanese Economy is still facing numerous challenges and vulnerabilities which need to be carefully considered. Some of the challenges facing the economy includes single driven economic growth, capital intensive, youth unemployment, limited market access, trade deficits and high reliance on external aid.

## Economic and Social Development

The Bhutan's Gross Domestic Product (GDP) was Nu. 1,673 million in 1980- 81 and Nu.180 billion in 2018. In 2013, GDP per capita was USD 2,464 and in 2017, it was USD 3,438. The human development index improved from 0.510 in 2005 to 0.612 in 2017 and poverty reduced from 31.7 percent in 2003 to 8.2 percent in 2017<sup>14</sup>. Hydropower has been the main growth driver through direct export earnings. The economic growth is primarily driven by agriculture sector with a GDP share of about 41 percent followed by services and industrial sectors at 18 percent<sup>15</sup>. The share of industrial sector to GDP increased to 40.6 percent and tourism remained the highest foreign exchange earner.

In Bhutan, people have free access to basic public health care as mandated by the Constitution. The public health care system delivers services through both traditional

<sup>10</sup>Human Development Indices and Indicators:2018 Statistical Update, UNDP

<sup>11</sup> The State of the Nation, 11<sup>th</sup> Session of the Second Parliament of Bhutan, June, 2018

<sup>12</sup> Twelve Five Year Plan, Volume I(2018-2023). GNHC

<sup>13</sup> Twelve Five Year Plan, Volume I(2018-2023). GNHC

<sup>14</sup> Twelve Five Year Plan, Volume I (2018-2023). GNHC

<sup>15</sup> Twelve Five Year Plan, Volume I(2018-2023). GNHC

and modern medicines. Average life expectancy has increased from 66.1 years in 2000 to 70.2 years in 2017<sup>16</sup>.

Bhutan has free access to basic education to all and with rapid progress and is very close to achieving Universal Primary Education. As of 2018, the Adjusted Net Primary Enrolment Rate (ANER) stood at 96.8 percent, indicating that about 97 percent of 6-12 years old children are attending primary education and other equivalent forms of structured learning<sup>17</sup>. The Gross Enrolment Ratio (GER) for secondary education (Classes VII-XII) was estimated at 89.3 percent<sup>18</sup>. The literacy rate in Bhutan stands at 71.4 percent in 2017. Higher education in Bhutan is one of the most recent and important additions to the country's educational system, with the Royal University of Bhutan (RUB) having been set up in 2003 with 10 constituents and 2 affiliated colleges. These colleges cater to the needs of RAA with courses on accounting, commerce, business studies, finance, development economics, information technology, social science, financial management, engineering being offered.

Despite achievements, the economy remains relatively undiversified with electricity constituting a significant share of GDP at approximately 13.2 percent<sup>19</sup>. Nearly 85 percent of trade is still with India. The changing disease patterns, onset of a triple burden of diseases and escalating cost of delivering health care amidst rising expectations are some of the key emerging challenges in the health sector<sup>20</sup>. With a majority of the population dependent on agriculture, and the economy heavily reliant on hydropower and tourism, climate change also has serious implications for Bhutan's socio economic development. Bhutan faces large fiscal gap with two-thirds of public expenditure funded by domestic revenue<sup>21</sup>.

The Bhutan InfoComm and Media Authority (BICMA) is a regulatory body who regulates the ICT and media sector, while fostering an environment for fair and sustainable competition, stimulating innovation, encouraging investment and ensuring that all Bhutanese have access to quality ICT and media services at affordable prices, founded on the principles of GNH<sup>22</sup>. The authority facilitates continuous technological innovation towards improving the standards of ICT and media services. The development of media in Bhutan started with the national paper, Kuensel, and the national broadcaster, Bhutan Broadcasting Service (BBS) which are both state -owned. Television in Bhutan was introduced in 1999. Bhutan's first private newspaper, Bhutan Times and Bhutan Observer started in 2006 and others like Bhutan Today in 2008, Business Bhutan in 2009 (Bhutan's first business paper), The Journalist in 2009 and The Bhutanese in 2012. There were other private papers in our national language such as Druk Neytshuel in 2010, Druk Yoedzer in 2011, Gyalchi Sarshog in 2012 and Druk Melong in 2012. During the same period, a news magazine, Drukpa, and entertainment magazines, Trowa and Yeewong, were also launched.

<sup>16</sup> Twelve Five Year Plan, Volume I (2018-2023). GNHC

<sup>17</sup> Twelve Five Year Plan, Volume I (2018-2023). GNHC

<sup>18</sup> Twelve Five Year Plan, Volume I (2018-2023). GNHC

<sup>19</sup> Twelve Five Year Plan, Volume I (2018-2023). GNHC

<sup>20</sup> Twelve Five Year Plan, Volume I (2018-2023). GNHC

<sup>21</sup> Bhutan: Public Financial Management Performance Report

<sup>22</sup> 12<sup>th</sup> Five Year Plan (volume II)

## Governance structure and Political System

Bhutan became a Democratic Constitutional Monarchy with the adoption of the Constitution of the Kingdom of Bhutan in 2008 where the DrukGyalpo is the Head of State and the Prime Minister, the Head of the Government. The Constitution of Bhutan provides for a government consisting of three main branches namely Executive, Legislature and Judiciary. The country held its first general election for the National Assembly in 2008. The Constitution created a framework for a multi-party system of governance that is democratic.

The executive power is vested in the Cabinet, headed by Prime Minister who is the leader of the party securing the majority of seats in the National Assembly. The Druk Gyalpo appoints ministers from the members of the National Assembly on recommendations of the Prime Minister.

The legislative power is vested in the Parliament, which consist of the Druk Gyalpo and two houses: the National Council and the National Assembly. The National assembly consists of 47 members representing 47 constituencies in 20 Districts. The National Council consists of 25 non-partisan members representing one member from 20 Districts and 5 members nominated by the Druk Gyalpo. The Parliament consists of 72 members in total and is elected for five years. The Parliament is held twice a year during the summer and winter session.

Bhutan has four major parties presently- The People's Democratic Party (PDP). Druk Phuensum Tshopa(DPT), Druk Namrup Tshogpa (DNT) and Bhutan Kuennyam Party (BKP). During the first election in 2008, DPT won 45 out of 47 seats which was the majority of seats won. In 2013, DPT won only 15 seats and PDP won 32 seats and won the elections. During the third parliamentary elections in 2018, DNT won the majority of 30 seats and presently the ruling party.

The judiciary authority is vested in the Royal Court of Justice which consists of the Supreme Court, the High Court, Dzongkhag<sup>23</sup>Courts and Drungkhag<sup>24</sup> Courts, and any other Courts and Tribunals that may be established from time to time by the King on the recommendation of the National Judiciary Commission<sup>25</sup>. The Chief Justice of Bhutan and the Drangpon of Supreme is appointed by the Druk Gyalpo in consultation with the National Judiciary Commission. There is an Anti-Corruption Commission, headed by a Chairperson, which is an independent authority and has the mandate to take necessary steps to prevent and combat corruption in the Kingdom<sup>26</sup>.

Power and authority is decentralized and devolved 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<sup>27</sup>. The Local Government Act 2009 establishes local government at two tiers: in each of the twenty Dzongkhags (districts) and in each 205 gewogs (group of villages).

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<sup>23</sup> Dzongkhag - District

<sup>24</sup> Drungkhag - Sub-district

<sup>25</sup> The Constitution of the Kingdom of Bhutan, 2008, Article 21, Section 2

<sup>26</sup> The Constitution of the Kingdom of Bhutan, 2008, Article 27, Section 1

<sup>27</sup> The Constitution of the Kingdom of Bhutan, Article 22, Sectl1

## 3.2 Bhutan's public sector budgetary environment

### PFM Sector in Bhutan and applicable legal framework

The Constitution of the Kingdom of Bhutan 2008 lays down the principles for Public Financial Management (PFM). The key legislation which is the Public Finance Act, 2007 regulates financial management for the effective and efficient use of public resources, accountability and fiscal policy and vests the overall responsibility of managing the public finances with the Council of Ministers<sup>28</sup>. The Financial Rules and Regulations (FRR) 2016 governs the Public Financial Management in Bhutan. The Public Finance Act, along with the FRR, empowers the Ministry of Finance (MoF) to set the government accounting standards and determine the financial reporting framework. The Ministry of Finance (MoF) is responsible for executing public financial management in Bhutan. It tables before Parliament three key documents: the audited financial statement of the financial year ended during each summer session, the budget policy and fiscal framework statement and the budget and appropriation bill<sup>29</sup>. The financial year in Bhutan is between 1 July and 30 June.

In June 2019, the Ministry of Finance implemented Electronic Public Expenditure Management System (e-PEMS) and Global Interchange for Financial Transaction (GIFT) - an important milestone towards enhancing the Public Financial Management and to promote cashless and digital payments in the country. The GIFT payment system launched by the Royal Monetary Authority is a payment platform developed to complement and support the settlement of interbank transactions for e-PEMS and the general public. The GIFT payment system supports 3 types of payment services - BITS (or batched) settlement service, Real-Time Gross Settlement Service (RTGS) and Bulk Payment Service, BITS (or batched) settlement service. The implementation of e-PEMS and GIFT payment system is expected to eliminate the use of manual cheques, simplify bank reconciliation process, improve public service delivery through reduced turnaround time (TAT), minimize risks of fraud, corruption and rent seeking opportunities, reporting and consolidation of the Government accounts, support initiative of moving towards cashless economy and reduce administrative burden<sup>30</sup>. Further, it will also improve timely reporting and consolidation of the Government accounts which will help in making informed decisions.

In Bhutan, the Financial Rules and Regulations is the financial reporting framework applied for all government agencies although not aligned to the internationally accepted accounting standard. The Bhutanese Accounting Standards (BAS) is released by the Accounting and Auditing Standard Board of Bhutan which is applicable to the incorporated/registered companies for preparation of accounts as their financial reporting framework and international auditing standard launched in 2015 applicable for audits of the incorporated/registered companies.

According to the Public Financial: Performance Report 2016, "over the past decade, Bhutan has been making steady progress in strengthening public financial management covering budget preparation, budget execution, control, reporting and oversight. There is increased legislative oversight on budget approval through a Finance Committee and

<sup>28</sup> Public Financial Management, Performance Report 2016

<sup>29</sup> Public Finance Act 2007, Article 13

<sup>30</sup> [www.mof.gov.bt/news/e-pems-launch-22-july-2019/](http://www.mof.gov.bt/news/e-pems-launch-22-july-2019/)

of audit reports through a Public Accounts Committee. As in other countries, the public at large has become more demanding in terms of transparent and efficient government”.

### **Budget Process and accountability**

The public sector in Bhutan comprises the central government (including local governments- dzongkhag, gewog, thromdes, constitutional bodies and autonomous institutions), which form the budgetary agencies.

MoF prepares the budget which is subject to scrutiny by the legislature and sent to the Parliament for approval. The Ministry of Finance tables the audited financial statement, the budget policy and fiscal framework statement and the budget and appropriation bill before the Parliament. According to the Public Financial Management, Performance Report 2016 there exists a clear budget calendar and the budget circular is comprehensive, clear and reflects ministry expenditure ceilings approved by the cabinet. Budget Calendar and Guidance on budget preparation gets score of A in the Public Financial Management Performance Report 2016. In May 2015 Finance Committee was constituted by the Parliament to review the budget, but the legislative procedures for budget reviews are not comprehensive as there was no procedures for negotiation or public consultations<sup>31</sup>.

After the end of the financial year the annual financial statement (AFS) is prepared by MoF and sent to RAA for audit. The Public Financial Management Performance Report 2016 states that the AFS were submitted to RAA within 6 months of the end of the fiscal year.

The annual audit report is sent to the Parliament during the fourth quarter of the fiscal year on audits carried out during the previous fiscal year which consist of the report on the audit of the financial statements of the government. The Public Accounts Committee (PAC) have members representing from both the ruling and opposition party as well as the National Council. The five member PAC review and report to the Parliament on all the reports received from the RAA. There is clear evidence of follow-up by RAA on audits and gets a score of A as per the Public Financial Management, Performance Report 2016.

### **Internal Audit**

Ministry of Finance is the parent agency for a government wide internal audit function. An Internal Audit Central Coordinating Agency report to the Secretary, Ministry of Finance administratively and to a high level Committee of Secretaries in case of any disrespect or disregard of any internal audit functions and its recommendations<sup>32</sup>. The internal audit is one of the important components in the national internal control framework along with RAA and the Anti-corruption Commission. The internal audits are functioning in all the twenty dzongkhags, ten ministries and two autonomous bodies. The International Standards for Professional Practice of Internal Auditing is being adopted by the Internal Audit Service in Bhutan. The audit engagements have been limited to only financial compliances securing a score of C in the Public Financial Management: Performance Report 2016. The report also states that management provides a partial response for majority of the entities audited.

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<sup>31</sup> Public Financial Management, Performance Report 2016

<sup>32</sup> Bhutan: Public Financial Management Performance Report

### 3.3 RAA's legal and institutional framework, organizational structure and resource

The legal framework for RAA is established in the Constitution of the Kingdom of Bhutan and the Audit Act 2018. As per Article 25.1 of the Constitution of the Kingdom of Bhutan, it is responsible to audit and report on the economy, efficiency and effectiveness in the use of public resources. The RAA follows the Westminster model of Audit and reports to the Druk Gyalpo, Prime Minister and Parliament.

Article 25.4 of the Constitution provides the mandate for the Auditor General to audit without fear and favour, or prejudice 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 defence forces as well as the revenues, public and other monies received and advances and reserves of Bhutan. The RAA has the mandate to conduct financial audits, compliance audits, performance audits and any other form of audit that the Auditor General may consider significant and necessary. The mandates to carry out these audits are derived from the Section 69, 70, 71, 74 of the Audit Act, 2018.

RAA undertakes financial audits at two tiers, one at the national level which is the consolidated financial statements of the Royal Government and submitted to the Parliament as part of the Annual Audit Report (AAR). The other at the individual entity level financial audits are carried out by the four regional offices and the division in the HQ on the financial statements submitted by the individual entities. These audits express an audit opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework of the financial operations as presented in the financial statements for the consolidated financial statements of the Government as well as for the individual audit reports of the entities. RAA submits the Annual Audit Report (AAR) which comprises of unresolved audit findings issued during the calendar year<sup>33</sup> in the individual financial and compliance audit reports to parliament during the summer session (probably in May or June). The AAR also includes a separate chapter on the financial audit of the consolidated financial statements of the government.

The performance audit reports are submitted to the Parliament and deliberated during the winter session.

The Public Accounts Committee appointed by the Parliament reviews the Annual Audit Report and the Performance Audit Reports separately and accordingly deliberate in the Parliament during the summer and winter session respectively. The RAA has access to information and has the powers to unhindered access to all of the books, accounts and related records, personnel records, information, performance monitoring and evaluation reports, records and reports pertaining to internal audits and such other records<sup>34</sup>.

#### Organizational Structure

The RAA Headquarter (HQ) located in Thimphu is supported by four regional offices located in different parts of the country namely: Tsirang, Bumthang, SamdrupJongkhar and Phuentsholing. The RAA's organogram is attached in **figure 1**.

<sup>33</sup> Calendar year- 1 January to 31 December

<sup>34</sup> Audit Act of Bhutan 2018, Section 61,1

The RAA HQ audits all Government Ministries, Headquarters of Government Owned Corporations, Financial Institutions, Autonomous Agencies, Armed Forces, Judiciary, Non-Government Organizations (NGOs), Civil Society Organizations (CSOs), Religious Organizations (ROs) and three of the 20 Dzongkhags [8] in Bhutan. The four regional offices audit the remaining 17 Dzongkhags including the Local Government, branch offices of Government Owned Corporations and Financial Institutions and Regional Offices of the Central Government Agencies.

RAA has four departments namely Department of Performance and Commercial Audits, Department of Follow-up and Regions, Department of Sectoral Audits and Directorate of Services each headed by a Deputy Auditor General. The four regional offices lie under the Department of Follow-up and Regions each headed by an Assistant Audit General. Each department is further divided into several functional divisions.

The four regional offices and the three divisions namely General Governance Division, Social, Communication & Information Division, Resource, Trade, Industry and Commerce Division under Department of Sectoral Audit conducts financial audits of the audited entities under its respective jurisdictions. However, the RAA outsource financial audits of Government Owned Corporations and Financial institutions to external auditing firms empaneled by RAA. The financial audits of NGOs, CSOs and ROs are also outsourced to the local audit firms empaneled by RAA.

The Compliance and Outsourced Audit Division under the Department of Performance and Commercial Audit conducts compliance audits of the Government Owned Corporations and Financial Institutions since financial audits of these agencies are carried out by the external auditing firms. This division is also responsible for arrangement of outsource audits. The four regional offices also carry out entity based compliance audits for the Government Owned Corporations and Financial Institutions under their jurisdiction. Such compliance audits are conducted to assess whether the

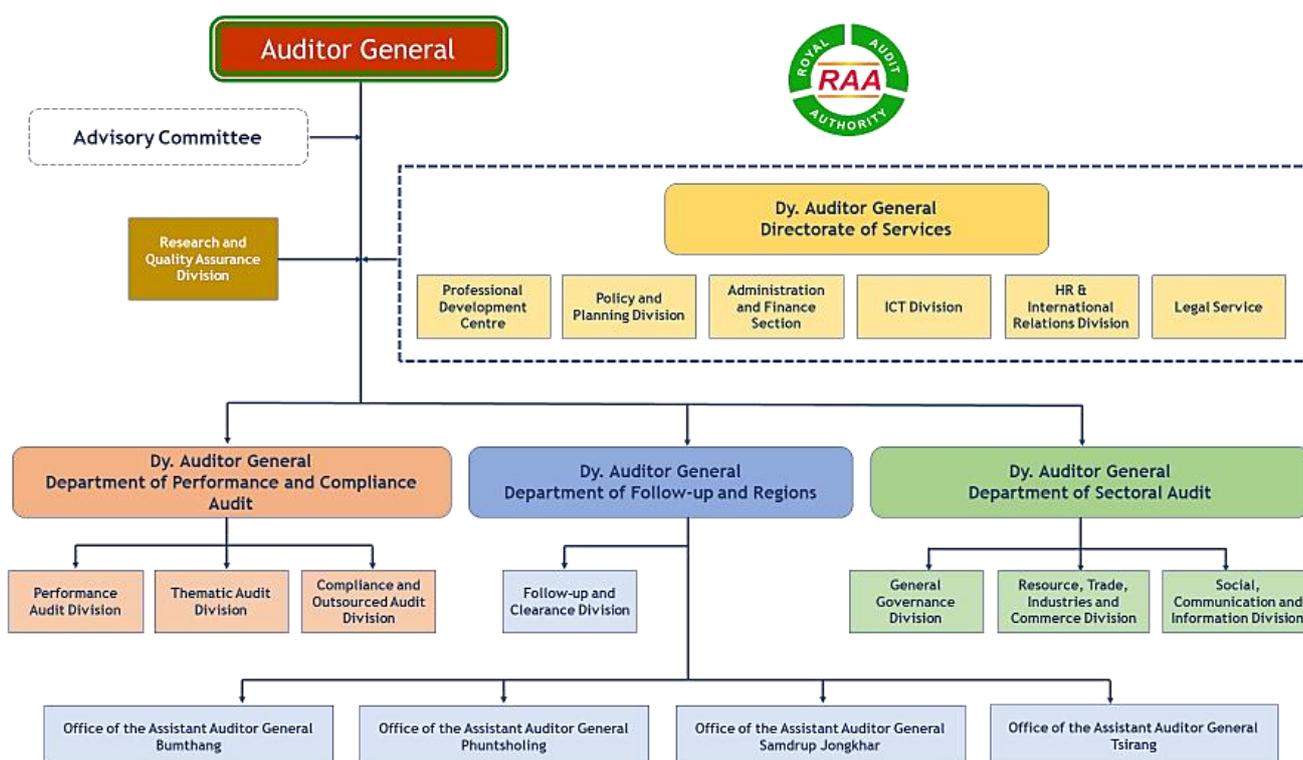


Figure 4: RAA's Current Organizational Structure

activities of the public sector are in accordance with the relevant laws, rules and regulations and policies governing such activities.

The Performance Audit Division and Thematic Audit Division under the Department of Performance and Commercial Audits conducts the performance and theme based audits. Performance audits are conducted to ensure that the government activities and programmes achieve economy, efficiency and effectiveness and the intended objectives have been met and reports separately to the Parliament on such audits.

### Governance Structure

The RAA is headed by the Auditor General. The Auditor General is assisted by an Advisory Committee consisting of the four Deputy Auditors General in discharging his mandates including making major policy and executive decisions of the Authority.

The other Governance Committees includes the following:

1. Advisory Committee
2. Human Resource and Governance Committee
3. Audit Committee
4. Procurement Committee
5. Annual Audit Report Technical Committee
6. Follow-up Committee
7. Finance Committee
8. Dzongkha Development Committee

These committees formed for specific functions hold regular meeting either as per scheduled timing or as and when required by nature of their responsibilities and assist on day to day management and operational issues and make decisions on all activities of auditing and non-auditing activities

### Budget

RAA's budget process follows the standard process used by all government agencies as provided in the Budget Manual 2016. The Department of National Budget under the Ministry of Finance provides the overall guidance and timetable in line with the Budget Call notifications. The RAA budget of Nu. 312.09 million in 2017 -2018 included Nu 136.04 million as capital budget for the construction of Professional Development Centre in Tsirang funded by the Government of India.

**Table 2: Budget of RAA (FY 2016-2019)**

Sl. No.	Financial Year	Proposed Budget (Nu in million)	Approved Budget (Nu in million)	Supplementary Budget (Nu in million)	Revised Budget (Nu in million)
1	2016-17	366.18	311.05	68.79	379.84
2	2017-18	270.95	257.54	54.55	312.09
3	2018-19	239.11	198.76	47.87	246.63

Source: AFD, RAA

## Human Resource

During the financial year (FY) 2018-2019, the Authority had 280 employees comprising of 190 male and 90 female representing 67.86 % and 32.14% respectively<sup>35</sup>. Out of 22 staff that was recruited in FY in 2018-2019, 20 staff left the organization indicating net increase of merely 2 staff. During the FY 2017-2018 there were in total 277 staff (170 in the RAA HQ and 107 in the four regional offices) and in FY 2020-22 there was in total 278 staff (151 in RAA HQ and 127 in the four regional offices).

**Table 2: Current Staffs in RAA**

Audit Staff	RAA HQ		Four Regional Offices	
	2017-2018	2020-2021	2017-2018	2020-2021
Deputy Auditor General	2	4	0	0
Assistant Auditor General	7	8	3	3
Deputy Chief Auditors	16	17	2	9
Audit Officers	56	50	22	28
Auditors	29	28	39	40
On Secondment	4	3	0	0
<b>Total Audit Staff</b>	<b>114</b>	<b>110-</b>	<b>66</b>	<b>127</b>
<b>Non-Audit Staff</b>				
Accounts/Administration/HR/Planning/IT & Program Officers	56	41	41	47
<b>Total Non-Audit Staff</b>	<b>56</b>	<b>41</b>	<b>41</b>	
<b>Total Audit and Non-Audit Staff</b>	<b>170</b>	<b>151</b>	<b>107</b>	127

Source: Human Resource and International Relations Division

## Oversight Accountability Model

The RAA's Oversight Audit Model depicts the allocation of resources to the Executive by Parliament, to implement plans and programmes of the Government. The Government Executive is responsible and accountable to implement plans and activities and report to Parliament. The RAA, as an independent body, provides third party opinion on the accounts and operations of public entities to Parliament. From this relationship, the RAA draws its roles and responsibilities in promoting accountability.

Through the Model the RAA aims to increase the impact of its audit results through partnership with its stakeholders. The RAA considers Parliament, which is the representative of the citizens, as the key stakeholder in determining the effectiveness of its audit services. The Government and its agencies play a vital role in supporting the RAA to discharge its Constitutional Mandates. Peer institutions like the ACC, Judiciary and OAG are enablers for addressing effective accountability issues towards promoting good governance. For professional growth and collaboration, the RAA seeks to strengthen its ties with international organizations and bodies like INTOSAI, ASOSAI, IDI and regional bodies. The engagement of the media, CSOs and citizens is essential to

<sup>35</sup> RAA HR Report 2018-2019

attract the attention of our stakeholders on the issue of efficiency and effectiveness of the public resources accountability system in the country.

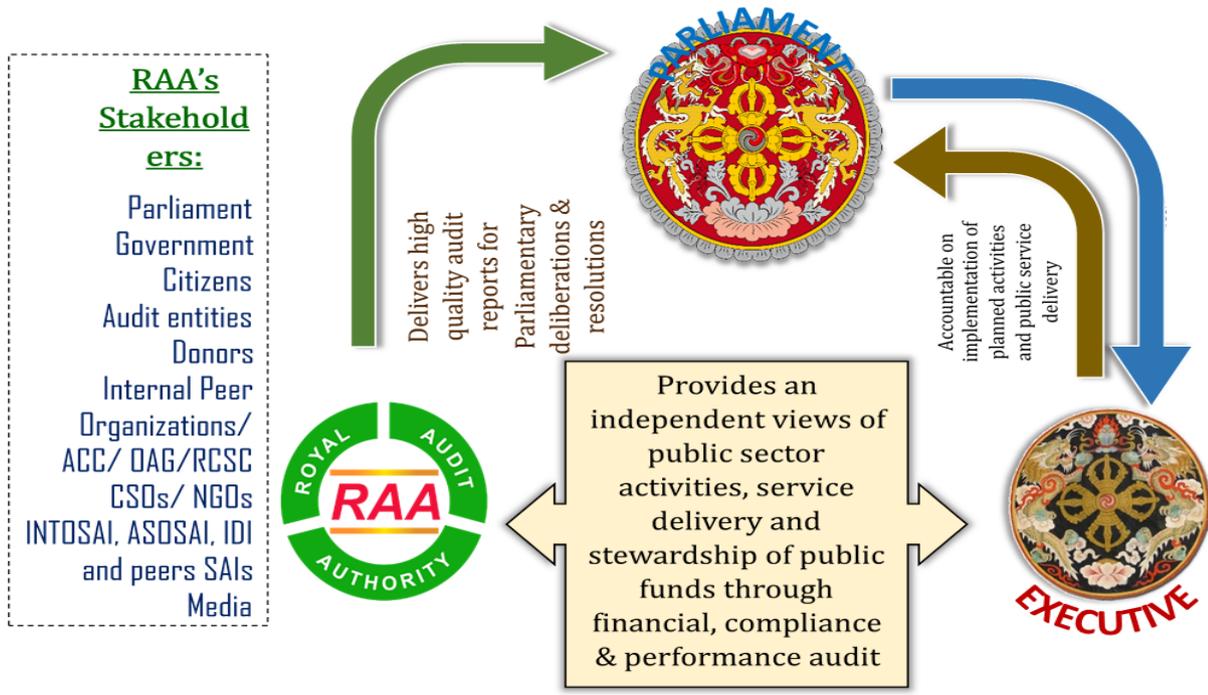


Figure 4: Oversight Accountability Model, Source: RAA Strategic Plan 2015-2020

#### 4.1 DOMAIN A: INDEPENDENCE AND LEGAL FRAMEWORK

**Domain A** covers the independence of the Supreme Audit Institution (SAI) and its legal mandate. The independence of the SAI has to be clearly defined in the Constitution or a comparable legal framework in order to ensure and guarantee appropriate and effective legal position of SAIs within the state.

ISSAI 1 (The Lima Declaration) and ISSAI 10 (The Mexico Declaration on SAI Independence) are the main source of best practice of this domain. Section 6 and 7 of ISSAI 1 also calls for independence of the members and officials and financial independence of SAIs. ISSAI 10 further reiterates the existence of an appropriate and effective Constitutional/statutory/legal framework and the independence of SAI heads and members (of collegial institutions), including security of tenure and legal immunity in the normal discharge of their duties. It gives SAI the mandate to conduct financial, compliance and performance audits.

**Domain A** comprises two indicators. The following table provides an overview of the dimension and indicator scores. Section 4.1.1 and 4.1.2 provide further details.

**Table 3: Domain A**

Domain A: Independence and legal framework		Dimensions				Overall score
Indicator	Name	i	ii	iii	iv	
SAI – 1	Independence of the SAI	3	2	2	4	3
SAI – 2	Mandate of SAI	4	4	4		4

##### 4.1.1 SAI -1: Independence of the SAI - Score 3

###### Narrative

SAI-1 measures the degree of independence enjoyed by the SAI, by assessing the key aspects of independence set out in the Lima Declaration (ISSAI 1) and the Mexico Declaration (ISSAI 10).

The indicator consists of four dimensions:

- (i) Appropriate and effective constitutional framework
- (ii) Financial Independence/Autonomy
- (iii) Organizational Independence/Autonomy
- (iv) Independence of the Head of SAI and its members

The legal framework for independence for RAA is established in the Constitution of the Kingdom of Bhutan 2008, and further defined in the Audit Act of Bhutan 2018. The RAA has full functional independence as it has the power to determine its own rules and procedures for managing the core audit function and in fulfilling its mandates enshrined in both the Constitution and the Audit Act of Bhutan 2018 however limited financial and organizational independence. The budget of RAA is proposed to the Ministry of Finance as part of the national budget and approved by the Parliament. There is no right of direct appeal to the legislature in case it falls short of the budget approved by the Parliament.

The Auditor General is not free to independently decide on all human resource matters, including appointments of staff and establishment of their terms and conditions. The



Royal Civil Service Commission (RCSC) determines the organizational structure and the power to regulate appointment, management and dismissal of its staffs in accordance with the Civil Service Act. As such, RAA is not free from direct interference from the executive in the organization and management of its office. There is also no legal protection by the Supreme Court against any interference with RAA's independence.

#### **Dimension i: Appropriate and effective Constitutional framework**

The Constitution of the Kingdom of Bhutan provides legal framework for establishment and independent functioning of the Royal Audit Authority<sup>36</sup> (RAA) headed by the Auditor General.

The Constitution under Article 4 envisages RAA to audit the public resources and giving mandate to audit all government agencies including Legislature, Judiciary and the Defence.

As per Section 11 of the Audit Act of Bhutan, the RAA enjoys full functional independence including planning and programming, investigation and reporting with regard to auditing. As stated in Section 56 (1) of the Audit Act of Bhutan 2018, the RAA has the power to determine the objectives, scope, frequency and findings of audits in accordance with the laws and Generally Accepted Auditing Practices. The RAA has the power to issue statements on the Generally Accepted Auditing Standards or adopt international standards and other best practices<sup>37</sup>. The Auditor General may re-audit accounts and operations on any organization or its specific matter and accounts under its jurisdiction if necessary. The RAA can conduct physical verification of stores, stocks, assets, services and cash balances or perform site visit to confirm the existence, conditions, locations, adequacy of assets or infrastructures and may also conduct ad-hoc check or visit premises of public entity without prior notice to the concerned entity. The RAA is the final authority to settle or resolve any audit issues.

RAA has wide jurisdiction to carry out performance, financial, compliance, special audits and any other form of audits that the Auditor General may consider appropriate as per the Section 69 of the Audit Act of Bhutan 2018. The Druk Gyalpo (His Majesty the King) can command to audit any entity or activity, and the Parliament, by resolution can direct that the accounts of such entities be audited by the Auditor General. Existence of such powers and jurisdiction in the Constitution and the Act ensures a high degree of initiative and autonomy.

The appointment, terms and cessation of the Auditor General is guaranteed by the Constitution<sup>38</sup>. The Auditor General is appointed by His Majesty the King for a term of five years or until attaining the age of sixty- five years, whichever is earlier.

The legal protection in case of any interference with the RAA's independence is not adequately provided in the Constitution as it only declares the Supreme Court as the guardian of the constitution and the final authority on its interpretation<sup>39</sup>.

RAA can report on any matters that affect their ability to perform their work in the Annual Audit Report (AAR) in line with the Section 113 (10) of the Audit Act of Bhutan 2018. The AAR 2018 briefly describes RAA's challenges and issues such as inadequate

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<sup>36</sup> Article 25.2, 25.1,25.4 and 25.5 of the Constitution of the Kingdom of Bhutan 2008

<sup>37</sup> Section 55 (3) of the Audit Act of Bhutan 2018

<sup>38</sup> Article 252 and 25.3 of the Constitution of the Kingdom of Bhutan 2008

<sup>39</sup> Article 1.11 of the Constitution of the Kingdom of Bhutan 2008

manpower, competency gap, sustainability of ISSAI's and inadequate infrastructure impacting work performance and also in the subsequent Annual Audit Reports.

The RAA has strived to promote, secure and maintain an appropriate and effective constitutional, statutory/ legal framework as the Audit Act of Bhutan 2006 was repealed and Audit Act of Bhutan 2018 came into effect on 18<sup>th</sup> July 2018. The main purpose of the new audit act was to make changes in accordance with the Constitution which was adopted in 2008 later to the enactment of the Audit Act of Bhutan 2006. As the Constitution guarantees full independence of RAA, it proposed for both financial and organizational independence in the Audit Bill 2018 as RAA's budget is being approved in line with the Budget Appropriation Bill proposed to the Parliament as part of the National Budget and the management of the human resources being governed by the Royal Civil Service Commission (RCSC) in line with the Civil Service Act 2010. However, explicit financial and organizational independence being proposed in the Audit Bill was not approved by the Legislative Committee of the Parliament<sup>40</sup>.

### **Dimension ii: Financial Independence/Autonomy**

As per Article 14 of the Constitution, the State shall make adequate financial provisions for the independent administration of the Authority. It implicitly provides financial independence that the State shall provide financial provisions for the independent administration of the Authority. However, the RAA's budget is approved by the Parliament as part of the National Budget in line with the Public Finance Act 2007. Since the RAA follows the government budgeting procedure and request budget through the Ministry of Finance (MoF) to the Parliament, the RAA in practice cannot be described as being independent of the MoF.

According to the Administration and Finance Section, RAA submits the budget proposal to the MoF at the end of every third quarter of the financial year in line with the budgetary process of the government as stated in the Budget Manual 2016 of the Ministry. The budget call for the FY 2019-2020 was issued by the MoF on 25<sup>th</sup> January 2019. The budget call notification contains specific instructions on the forms, budget heads and limits that need to be adhered to by all budgetary agencies. The budget discussion is held between RAA and the Department of Budget in line with the budget call notification. The budget ceiling of RAA in FY 2019-2020 was Nu 62.698 million and Nu. 40 million for current and capital activities respectively. The RAA's budget is subject to further scrutiny by MoF before submission to the Parliament for appropriation. For the past three financial years, 2016-2007, 2017-2018 and 2018-2019, there has been deduction of the proposed budgets ranging from 5% to 16%. As such, independence could be impaired as the budget is subject to review by the MoF before submission to the Parliament for approval.

In the Finance and Accounting Manual 2016, the RAA has full authority and is entitled to use the budget allotted under its budget heading (108.01/01) and its own separate letter of credit accounts for RAA (HQ) and the four regional offices. Once the budget is approved by the Parliament, the MoF does not control the budget and timely quarterly releases is ensured with submission of the budget utilization plan at end of each quarter. The quarterly releases are made timely, usually within 10<sup>th</sup> day of the Quarter. The supplementary budgets proposed were approved as proposed which indicated that

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<sup>40</sup> Interview with Sonam Yangchen, Dy. Legal Officer

RAA in totality received the budget proposed in the beginning of each financial year. Budget re-appropriations were allowed within the limit and specific budget heads.

There is no laid down procedures to right of direct appeal to the Parliament in case the funds approved fall short of actual requirements. Section 16 of the Audit Act of Bhutan 2018 provides mechanisms that in case the national budget is delayed, the MoF shall provide an interim funds which is at least equal to previous year's current budget.

During the past three years there has been no undue interference from the executives with regard to RAA's access to the budget as confirmed by the Administration and Finance Section instead supplementary budgets proposed by RAA were approved by MoF which surpassed the budget proposal for the last three years by 3.60% in FY 2016-2017, 13.18 % in FY 2017-2018 and 3.05 % in FY 2018-2019.

### **Dimension iii: Organizational Independence/Autonomy**

The Audit Act of Bhutan 2018 does not ensure full organizational independence. The requirement to consult the Royal Civil Service Commission<sup>41</sup> (RCSC) in determining the organizational structure and the power to regulate appointment, management and dismissal of its staff in accordance with the Civil Service Act 2010 limits the flexibility of creating responsive organization structure. However, in the year 2017, the RCSC gave some autonomy to recruit employees on contract for a period of two years to fill the human resource gap. Twenty new auditors were recruited by RAA from pool of graduates in the fields of accounting, financial management, media, and economics. Five auditors were recruited on lateral transfer from other government agencies. Engineers with a background in civil and electrical engineering were also recruited. The recruitment process is independently carried out by the recruitment committees of RAA in line with the Bhutan Civil Service Rules and Regulations (BCSR) 2018.

The RAA enjoys full functional independence in audit planning and programming, investigation and reporting with regard to auditing in accordance with the Act. It has the power to frame policy, guidelines, rules and regulations required to carry out the audit functions, duties and responsibilities effectively<sup>42</sup>. The RAA is currently drafting the RAA rules and regulations to ensure effective implementation of the Act. However, the Auditor General cannot independently decide on all human resource matters, including appointments of staff and establishment of their terms and conditions, as RAA need to consult RCSC in matter of human resource.

The RAA's relationship with the Legislature and Executive is clearly defined in the Constitution and the Audit Act of Bhutan 2018.

The Audit Act of Bhutan 2018 ensures accountability and transparency by covering the oversight of RAA's activities. The Parliament appoints independent auditors with appropriate terms of reference for a term not exceeding three years to audit the annual accounts of RAA and report to the Parliament as a part of the Annual Audit Report<sup>43</sup>. The accounts and operations of RAA was audited for the financial year 2017- 2018 by Gupta & Co., Kolkata<sup>44</sup>. A system of internal audit is conducted annually on the accounts and operation of RAA and its four regional offices confirming to sound internal audit

<sup>41</sup> Section 17 of the Audit Act of Bhutan 2018

<sup>42</sup> Section 60 of the Audit Act of Bhutan 2018

<sup>43</sup> Section 132 and 134 of the Audit Act of Bhutan 2018

<sup>44</sup> Annual Audit Report 2018



practices. Internal audits on an annual basis are carried out as per the terms of reference provided by the RAA's audit committee. Peer reviews are also being undertaken on a timely basis. The first peer review was undertaken in 2004 and then in 2010 by the Office of the Comptroller and Auditor General (C&AG) on audit practices and management system. SAI-PMF assessment was conducted by SAI Norway and IDI in 2014. Further, in 2016 RAA volunteered for assessment on SAI Independence by the Austrian Court of Audit and Board of Audit, Japan. In order to ensure greater transparency and accountability, peer review reports and any other reports of RAA are on our webpage.<sup>45</sup>

The RAA has the power to contract professional services in accordance with the policies and procedures of the government when required to discharge its functions under the Act<sup>46</sup>. The service of a nutritionist in the performance audit of school feeding programme was hired in 2017.

#### **Dimension iv: Independence of the Head of SAI and its members**

The Constitution specifies the appointment and tenure of the Auditor General. The process of appointment of the Auditor General is also clearly stipulated under Section 19 and 20 of the Audit Act of Bhutan 2018. The term of the Auditor General is five years and is not eligible for reappointment. The first Auditor General under the Constitution was appointed in 2010 and served for 5 years as per the terms specified in the Constitution and the Audit Act and the current Auditor General was appointed in July 2015. He is expected to carry out his mandate without fear and prejudice and the term of five years is deemed sufficient and long enough.

The Auditor General as a Constitutional Post Holder enjoy immunity from normal discharge of his duties by law and can be removed only by way of impeachment by the Parliament<sup>47</sup>.

The current Auditor General Dasho Tshering Kezang's appointment in July 2015 was within less than two weeks from the completion of the tenure of the former Auditor General. The Appointment of the Auditor General by His Majesty the King on the recommendation by the Prime Minister, the Chief Justice of Bhutan, the Speaker, the Chairperson of the National Council and the Leader of the Opposition Party implies that the process is independent as each member represents the Executive, Legislature and the Judiciary and the process can be seen as transparent. The process is transparent as the nomination of the Auditor General is carried out as per the Audit Act.

During the last three years, there have been no cases of the Auditor General being removed through an unlawful act or in a way that compromised the SAI's independence.

The Audit Act of Bhutan 2018 requires the employees of RAA to comply with the Oath of Good Conduct, Ethics and Secrecy of Auditors of the Authority and civil service code of conduct prescribed by the Civil Service Act. The Code of Conduct, Ethics and Secrecy ensures that the employees will not be influenced by the audited organizations and not dependent on such organizations. Every new recruit joining RAA is administered to the 16 Principles of the Oath of Good Conduct, Ethics and Secrecy.

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<sup>45</sup> Section 139 of the Audit Act of Bhutan 2018

<sup>46</sup> Section 55 (6) of the Audit Act of Bhutan 2018

<sup>47</sup> Article 33 (1,2,3,4 and 5) of the Constitution of the Kingdom of Bhutan 2008 and Section 28 of the Audit Act 2018

## Assessment Scores by Dimension

**Table 4: Assessment Scores by Dimensions**

Dimension	Score
(i) Appropriate and effective constitutional framework	3
(ii) Financial Independence/Autonomy	2
(iii) Organizational Independence/Autonomy	2
(iv) Independence of the Head of SAI and its members	4
<b>Overall score</b>	<b>3</b>

## Assessment Findings and Observations

**Table 5: Assessment Findings and Observations**

Dimension	Findings	Score
(i) Appropriate and effective constitutional framework	<p><b>Criteria a, b, c, d, f and g are met.</b></p> <ul style="list-style-type: none"> <li>The Constitution of the Kingdom of Bhutan 2008 provided the legal framework for the establishment and independent functioning of RAA, including the roles, powers and duties.</li> </ul> <p><b>Criterion e is not met</b></p> <ul style="list-style-type: none"> <li>The legal protection in case of any interference with its independence is not adequately provided in the Constitution.</li> </ul>	<p><b>3</b></p> <p><b>Criteria a, b and at least 3 of the other criteria are in place</b></p>
(ii) Financial Independence/Autonomy	<p><b>Criteria a, b, d, e and g are met.</b></p> <ul style="list-style-type: none"> <li>The Audit Act 2018 implicitly provides financial independence.</li> <li>The RAA's budget is approved by the MoF and the Parliament as part of the national budget.</li> <li>Following approval of the budget the RAA has the freedom to use the budget as per the financial rules and regulations.</li> <li>Budgets have been released on time and supplementary budgets were approved.</li> </ul> <p><b>Criteria c, and f are not met</b></p> <ul style="list-style-type: none"> <li>While proposing the budget to the MoF, it is subject to further scrutiny by MoF before submission to the Parliament.</li> <li>There has been deductions in the proposed budgets, thus impairing financial independence of RAA.</li> <li>The RAA does not have laid down procedures to right of direct appeal to the parliament in case the fund fall short of actual requirements.</li> </ul>	<p><b>2</b></p> <p><b>Criteria a and at least two of the other criteria in place</b></p>
(iii) Organizational Independence/Autonomy	<p><b>Criteria c, e, f, and g are met.</b></p> <ul style="list-style-type: none"> <li>The RAA has the power to determine its own rules and regulations for managing its core audit functions in accordance with its mandate.</li> <li>The Act covers the oversight of RAA's activities thus ensuring accountability and transparency.</li> <li>The RAA can engage external expertise when necessary.</li> </ul> <p><b>Criteria a, b and d are not met</b></p> <ul style="list-style-type: none"> <li>RAA enjoys limited organizational independence as the HR matters have to be prescribed broadly in accordance with the Civil Service Act.</li> </ul>	<p><b>2</b></p> <p><b>At Least three of the criteria are in place</b></p>

	<ul style="list-style-type: none"> <li>• The RAA is not free from direct interference from the legislature and executive in the organization and management of RAA.</li> <li>• The RCSC determines the organizational structure and the power to regulate appointment, management and dismissal of its staffs.</li> </ul>	
(iv) Independence of the Head of SAI and its members	<p><b>All Criteria are met.</b></p> <ul style="list-style-type: none"> <li>• Both the Constitution and the Audit Act 2018 specifies the conditions of appointment and the tenure of the Auditor General.</li> <li>• The appointment of the Auditor General was done through and transparent and independent process.</li> <li>• The Auditor General is immune from normal discharge of his duties by law and can be removed only by way of impeachment.</li> </ul>	<p style="text-align: center;"><b>4</b></p> <p><b>All the criteria are in place</b></p>

#### 4.1.2 SAI- 2: Mandate of SAI - Score 4

##### Narrative

SAI -2 measures RAA's audit mandate, its access to information and the right to obligation to report. The indicator consists of three dimensions:

- (i) Sufficiently Broad Mandate
- (ii) Access to information
- (iii) Right and Obligation to Report

The RAA has broad mandate to audit all government agencies including all offices in the Legislature and Judiciary, all public authorities and bodies administering public funds, the police and defence forces as well as revenue, public and other monies received and the advances and all the reserves of Bhutan. The RAA has the mandate to carry out financial, compliance and performance audits, and any form of audits that the Auditor General may deem appropriate. The Audit Act ensures unrestricted right of access to records, documents and information and has the right to decide which information is needed for audit and has established procedures to enforce action to secure access to the needed information in case information is restricted or denied. RAA has right to access to premises, office space and other facilities in the audited entities.

The RAA publishes the Annual Audit Report and upload in the webpage upon tabling in the Parliament. The performance audit reports are also published and uploaded to the webpage upon tabling in the Parliament.

##### Dimension i: Sufficiently Broad Mandate

The Constitution broadly defines the mandate to audit and report on the 3E's in use of public resources<sup>48</sup>. Further, it states that, "without fear, favour and prejudice, audit all the accounts of all departments and offices of government including all offices in the Legislature and Judiciary, all public authorities and bodies administering public funds, the police and the defence forces as well as revenue, public and other monies received and the advances and all the reserves of Bhutan".

<sup>48</sup> Article 25 (1) of the Constitution of the Kingdom of Bhutan 2008

The Audit Act of Bhutan 2018 further elaborates the mandate to carry out financial, compliance and performance audits, and any form of audits that the Auditor General may consider appropriate<sup>49</sup>. The mandate also covers any private or public engaged in extracting, processing, trading and mining of natural resources of the State, audit the consolidated financial statement of the Government, taxes, revenue, aid, grants, loans, public debt, reserves, revolving funds, trust funds, welfare funds of the country. The mandate covers both the central and the local government including the municipalities.

RAA is free to select the audit subject matter, plan, conduct, report and follow-up of their audits. There is no evidence during the last three years that RAA had taken any tasks which may influence the independence of its mandate and instances of interference in RAA in the selection of its audited entities or subjects.

As mandated by the Act, RAA conduct compliance audits on a wide range of subject matter providing assurance to the intended users about the evaluation of a subject matter against suitable criteria<sup>50</sup>. Financial audits are conducted, and in these, RAA expresses an opinion as to whether the financial statements have been prepared in accordance with applicable financial reporting standards and regulatory framework<sup>51</sup>. The RAA also conducts performance audits and report on the economy, efficiency and effectiveness in public operations on selected schemes, themes or topics<sup>52</sup>.

#### **Dimension ii: Access to Information**

The Audit Act ensures unrestricted right of access to records, documents and information and has the right to decide which information is needed for audits<sup>53</sup>. RAA has established procedures to enforce action in order to secure access to the needed information in case information is restricted or denied<sup>54</sup>. Section 3 and 4 of the Audit Act 2018 clearly stipulates that RAA can enforce or initiate enforcement action to secure access to needed records, which are not produced and can include law enforcement agencies to help the RAA in exercising enforcement actions to secure needed access to records and documents where necessitated. RAA has the right to access to premises, office space and other facilities in the audited entities<sup>55</sup>. An interview with the audit teams which carried out the assessment of the reports included in our sample stated that they did not experience any problems in getting information from the Executives.

#### **Dimension iii: Right and Obligation to Report**

The Auditor General is mandated by the Constitution and the Audit Act of Bhutan 2018 to submit an AAR to the Druk Gyalpo, the Prime Minister and Parliament and published in the first quarter of the financial year<sup>56</sup> on the audits carried out during the year. RAA can publish the AAR and upload it in the webpage upon tabling in the Parliament. The Public Accounts Committee (PAC) appointed by the Parliament reviews the AARs and the performance audit reports that are submitted separately twice during the winter

<sup>49</sup> Section 69 of the Audit Act 2018

<sup>50</sup> Section 74 (1-8) of Audit Act 2018

<sup>51</sup> Section 73(1-4) of Audit Act 2018

<sup>52</sup> Section 70 of the Audit Act 2018

<sup>53</sup> Section 61 (1-11) of the Audit Act 2018

<sup>54</sup> Section 61(3-6) of the Audit Act 2018

<sup>55</sup> Section 61(8) of the Audit Act 2018

<sup>56</sup> Financial Year- 1<sup>st</sup> July to 30<sup>th</sup> June

and summer session of the Parliament. The performance audit reports are published and uploaded to the webpage upon tabling in the Parliament.

The audit report can include any significant audit findings during the year<sup>57</sup>. Cases of fraud and corruption, mismanagement, violation of laws, rules and regulation shortfalls, lapses and deficiencies are also reported<sup>58</sup>. The AG's Advisory Series and AG's Occasional Papers are issued on various deficiencies such as strengthening the Internal Audit in the Government, Construction & Procurement, Review on Bhutan Schedules of Rates and its applications by the Government Agencies and Consultancy Services. The RAA in fulfilling its advisory role periodically undertakes focused studies on specific issues that are significant, pervasive and cross cutting in nature and merit timely intervention by the Government for taking necessary corrective actions. The reports of such studies contain analysis of issues, likely impacts, conclusion and recommendations issued through the Auditor General's Advisory Series.

The RAA has the right to decide the content of the audit report<sup>59</sup>. The audit report is to be tabled before the joint sitting of Parliament in the manner established for the purpose.

During the past 3 years, there is no evidence to prove that RAA's decision has been interfered on the content of the audit report and on the decision to report or publish.

#### Assessment score by Dimension

**Table 6: Assessment Scores by Dimensions**

Dimension	Score
(i) Sufficiently broad mandate	4
(ii) Access to Information	4
(iii) Right and Obligation to Report	4
<b>Overall score</b>	<b>4</b>

#### Assessment Findings and Observations

**Table 7: Assessment Findings and Observations**

Dimension	Findings	Score
(i) Sufficiently broad mandate	<p><b>All criteria are met.</b></p> <ul style="list-style-type: none"> <li>Both the Constitution and the Audit Act 2018 broadly defines the mandate to audit and report on the economy, efficiency and effectiveness in the use of public resources.</li> <li>The RAA is mandated to carry out audit of all central government activities including the audit of the Annual financial statements of the government.</li> <li>It elaborates the mandate to carry out FA, CA and PA or any forms of audit deemed appropriate by the Auditor General.</li> </ul> <p><b>Criterion b is not applicable</b></p>	<p><b>4</b></p> <p><b>All the criteria in place</b></p>
(ii) Access to Information	<p><b>All criteria are met.</b></p> <ul style="list-style-type: none"> <li>The Audit Act ensures unrestricted right of access to records, documents and information and has the right to decide which information is needed.</li> <li>It has established procedures in place to enforce and secure access to information.</li> </ul> <p><b>Criterion d is not applicable</b></p>	<p><b>4</b></p> <p><b>All criteria are in place</b></p>

<sup>57</sup> Section 111(4) and (6) of the Audit Act 2018

<sup>58</sup> Annual Audit Report 2018

<sup>59</sup> Section 111(11) of the Audit Act 2018

(iii) Right and Obligation to Report	<p><b>All criteria are met</b></p> <ul style="list-style-type: none"> <li>Both the Constitution and the Audit Act 2018 mandate the Auditor General to submit an Annual Audit Report to the Druk Gyalpo, the Prime Minister and the Parliament.</li> </ul>	<p><b>4</b></p> <p><b>All criteria are in place</b></p>
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## 4.2 DOMAIN B: INTERNAL GOVERNANCE AND ETHICS

One of the objectives of ISSAI 12 is that SAIs should lead by example and be a model organization. A SAI should promote transparency and accountability through good governance and ethical conduct in order to fulfil their mandates. ISSAI 20 states that in its introduction: “SAIs are responsible for planning and conducting the scope of their work and using proper methodologies and standards to ensure that they promote accountability and transparency over public activities, meet their legal mandate and fulfil their responsibilities in a complete and objective manner”. It is important that this responsibility is taken clearly at the top management level and is reflected in governance of the SAI that is consistent throughout the organization.

Long term and short-term planning is the basis for an SAI's operations. The overall audit plan for the SAI describes the audits the SAI will carry out in a set period of time. It should comply with the SAI's mandate. The overall audit plan could be annual or multiple year rolling audit plan.

ISSAI 20, Principle 4 states that SAIs must apply high standards of integrity and ethics for staff at all levels. Internal control is an overarching principle to all the SAI's operations, and is therefore central in most domains in the SAI PMF. To ensure a practice of high integrity the organization needs to clearly communicate what is expected from staff and facilitate an environment characterized by functioning internal control systems and ethical behaviour of staff. Top management should promote these standards by demonstrating an appropriate tone-at-the top and take initiatives to encourage high-quality work and a strong culture of internal control.

**Domain B** seeks to assess whether the RAA manages its own affairs effectively and through good governance setting as appropriate example to others.

**Domain B** comprises five indicators. The following table provides an overview of the dimension and indicator scores. Section 4.2.1 to 4.2.5 provides further detail.

**Table 8: Assessment Findings and Observations**

Domain B: Internal Governance and Ethics		Dimensions				Overall Score
Indicator	Name	i	ii	iii	iv	
SAI 3	Strategic Planning Cycle	2	1	2	2	2
SAI 4	Organizational Control Environment	2	1	3	1	2
SAI 5	Outsourced Audits	4	2	1		2
SAI 6	Leadership and Internal Communications	4	3			3
SAI 7	Overall Audit Planning	3	3			3

## 4.2.1 SAI 3: Strategic Planning Cycle - Score 2

### Narrative

A strategic plan is important to provide organizational direction, and its publication communicates its intentions to external and internal stakeholders. It should consider stakeholders' expectations and emerging risks as well as the institutional environment in which the SAI operates, and where appropriate, measures to strengthen this environment. The objectives set in the strategic plan should be operationalized in an annual/operational plan for the SAI. 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.

This indicator comprises of four dimensions:

- (i) Content of Strategic Plan
- (ii) Content of Annual Plan/Operational Plan
- (iii) Organizational Planning Process
- (iv) Monitoring and Performance Reporting

SAI 3 is based on the review of the documents of Strategic Plan, Operational Plan, Annual Plans, and minutes of meetings, official correspondences and interviews with RAA management.

The current strategic plan is for the period 2015-20 was developed based on a logical framework. The Performance Indicators have been established to measure the performance. However, the baseline indicators were not developed for some areas.

The Operational Plan 2015-20 contains detailed activities under different programmes identified with Divisions, Sections and officials responsible for implementation and timeframe for completion of activities. The annual plans are prepared based on the annual meeting to prioritize activities for implementation during the year. It contains both the audit and non-audit activities based on the Operational Plan 2015-20. The Annual Audit Plans also identify thrust areas of financial, performance and compliance aspects to be focused for detailed review. The annual plans does not contain budget nor it is linked to the budget.

The RAA assesses the implementation of Annual Plans during Mid Term Review Meeting and Annual Review. The annual performance report is included in a separate chapter in the Annual Audit Report. The performance report is limited to activity based rather than performance based reporting containing summary of activities accomplished during the year.

The SP 2015-20 has formulated performance measurement framework, the performance of RAA was not assessed on the basis of the indicators developed. Thus, the activities accomplished do not indicate whether the intended targets have achieved the goals and outcomes of RAA.

### Dimension i: Content of Strategic Plan

The Strategic Plan 2015-20 was developed based on logical framework showing the hierarchy of goals. It shows logical linkages of vision, mission, strategic goals and programmes. It contains SWOT analysis to identify gaps between the current and the



desired state of the organization<sup>60</sup>. The wide of issues were discerned on various aspects of organizational systems, institutional systems and professional development of RAA and gaps were identified. The Policy, Planning & Annual Audit Report Division (PPAARD) spearheaded the discussions with staff and management in various workshops and meetings. The comments and suggestions were also solicited through mails to all officials through official mail accounts. The SP 2015-20 was also based on the SAI PMF report published in 2015.

In the Appendix II: SWOT Analysis in the Strategic Plan, it recognizes that RAA is an independent constitutional body with strong mandates and having unrestricted to access to information. It also recognizes that the audit reports are discussed in the Parliament. Inadequate financial, organizational and human resource independence is recognized as one of the weaknesses in the institutional arrangements. And also that it has identified limited engagement of stakeholders as its weakness. As a practice, it recognizes strong support of parliament and increasing media attention and increasing public expectations as opportunities. The SP intends to engage with the stakeholders (Parliament and PAC) on continuous basis in presenting and discussing audit report.

Aligned with the Strategic Plan, the RAA has developed Operational Plan 2015-2020<sup>61</sup>. The operational plan identifies four programmes containing various activities to be implemented during five years. The document also establishes linkages of each programme to the outcomes. The Plan identifies responsible divisions or officials, cooperating partners, source of funding and strategies. The implementation matrix is drawn along with a timeline for implementation.

The areas for Performance Indicators were indicated in the Plan<sup>62</sup>. The areas of performance indicated are audit coverage, implementation of recommendations, audits conducted as per ISSAIs, stakeholders satisfaction, and leading by example. However, the baseline indicators were not developed for most of the performance areas and hence, it is difficult to measure the performance of RAA in totality.

While consultations with internal stakeholders have taken in a series of meetings and workshops<sup>63</sup>, there is no evidence of communication with the external stakeholders to discern their expectations and factor in risk emerging from external environment.

#### **Dimension ii: Content of Annual/ Operational Plan**

The Annual Audit Plan is prepared in line with the programmes formulated in the Operational Plan. The activities are clearly defined in the form of implementation schedules for non-audit activities and Annual Audit Schedules for audit activities. The responsibilities for implementation and timeframe for implementation are specified for each activity. Annual Audit Plan contains both audit and non-audit activities which have definite time frame to be completed along with responsible officials/divisions identified<sup>64</sup>.

The annual plan does not contain budget nor it is linked to the budget. The RAA follows government budgeting process and the regular employee cost such as salaries, travel

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<sup>60</sup> RAA's strategic plan 2015-20

<sup>61</sup> Operational Plan 2015-20

<sup>62</sup> Page 13, Performance Measurement Framework of strategic plan 2015-20

<sup>63</sup> Presentations made by PPD in annual conferences, and workshops

<sup>64</sup> Annual Audit Plans

and other recurrent costs are proposed based on employee strength and past budgets. However, the capital budgets such as for infrastructure, facilities and trainings are proposed based on the activities/programmes.

There is no risk assessment being conducted in connection to achieving the objectives of the plan.

The plan contains indicators at the outcome and output level. There is no baselines for current performance and milestones for major indicators.

### **Dimension iii: Organizational Planning Process**

The Auditor General's Standing Instructions states the procedures for development and approval of RAA's annual audit plan. The Policy, Planning & Annual Audit Report Division (PPAARD) initiates the development of Annual Audit Plan. The Division solicits specific agendas from all employees to be discussed prior to organizing planning workshop amongst the Division Chiefs. The PPAARD solicits proposals from all employees before the annual planning workshop amongst Division Chiefs is organized. The division prepares agendas based on the inputs from all employees and is discussed and deliberated in the meetings. The results of meetings go into formulating strategies for implementation and are presented to the top management. These are done through mail sent to all employees by the PPAARD. The draft plan is the outcome of the workshop which is presented to the top management comprising of Auditor General and executive members. Auditor General approves the plan. The annual audit plan is communicated to all employees through the departments and divisions and it is uploaded on RAA's web.

Since the RAA cannot cover all audited agencies in one year, it has instituted a system of categorizing agencies for inclusion in its Annual Audit Plans. The categorization of the entities was done in a meeting with all heads of divisions and regions and used in preparation of annual audit schedules. The agencies are categorized into five categories: P1, P2, P3, P4 and P5. Agencies under category P1 are audited annually and those under P2 are audited once in two years and so on. The categorization is mainly based on parameters such as; regulatory requirements on the frequency/timing of audit by acts or/and agreements; perception of risk based on experience of the RAA from the recent years. The audit of agencies under P2, P3, P4 and P5 entails auditing of previous unaudited years.

The strategic plan 2015-20 was intended to be put in place by 1st July 2015 right after the previous plan which ended on 30th June 2015 and also coinciding with the appointment of new Auditor General. The draft was completed within the expected time of June 2015. However, on the assumption of office by the new Auditor General towards the end of July 2015 the top management felt the necessity of factoring in the vision of new leadership into SP and entailed review of the whole draft consuming substantial time. In the absence of in-house expertise, the implementation of the SP 2015-20 was deferred until the professional guidance was sought from the INTOSAI Development Initiative in April 2016. The effective date of putting in place the SP 2015-20 was in fact delayed by one year.

There are clearly defined responsibilities for planning the annual audit plan<sup>65</sup> and these are followed in practice. The PPAARD communicates<sup>66</sup> with the auditing divisions to

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<sup>65</sup> Auditor General's Standing Instruction

<sup>66</sup> Copies of letter sent to Divisions/regions



propose annual audit schedules as per the categorization of agencies generally in April-May every year. It also solicits proposal for thrust areas based on their experiences in recent years. The Division Chiefs organize the teams based on the availability of resources and distribute agencies based on the categorization. The teams prepare the schedules for assigned agencies and allocate time for each assignment as per the allotted man-days. It is discussed within the Division and the proposed schedules are consolidated at the Division Level and are submitted to the PPAARD for review and approval.

The Annual Audit Schedule for audit activities are fed into the Audit Performance Evaluation System (APEMS) which is an IT enabled system developed in-house for monitoring and evaluation. The changes in the schedules take place as and when it is proposed. The changes are proposed by the team through their respective divisions and approved by the Auditor General. Mid Term review meetings are conducted to review the status of overall plan implementation (both audit and non-audit services) and any changes proposed by the Divisions are approved in this meeting.

The annual audit plan identifies teams, members, divisions or regions for implementation of each audit along with a focal person responsible for coordination.

There is no documentation on any evaluation of the organizational planning process to provide input to the next.

#### **Dimension iv: Monitoring and Performance Reporting**

The RAA assesses the implementation of Annual Plans during Mid Term Review Meeting and Annual Review. The annual performance report is included in a separate chapter in the Annual Audit Report. The performance report is limited to activity based rather than performance based reporting containing summary of activities accomplished during the year.

The SP 2015-20 has formulated performance measurement framework, which was not assessed on the basis of the indicators developed. Thus, the activities accomplished do not indicate whether the intended targets have achieved the goals and outcomes of RAA.

The RAA had engaged an external consultant to conduct Stakeholders Satisfaction survey. The report was published, but there is no evidence of RAA using the results of the survey to formulate new strategies to enhance satisfaction level of stakeholders.

The RAA reports on Audit Recoveries are made and deposited into Government Account on the basis of its reports representing savings and efficiency gains on government programmes<sup>67</sup>.

The SAI PMF report of 2015 was published and uploaded on RAA's webpage. The peer review on assessment of SAI independence was carried out jointly by SAI Japan and Austria in 2016. The report has not been uploaded on RAA's web. The detailed information on ISSAI as RAA's auditing standards is uploaded on the RAA including background information, implementation strategies and outcomes.

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<sup>67</sup> Section 2, Annual Audit report 2018

## Assessment Scores by Dimension

**Table 9: Assessment Scores by Dimensions**

Dimension	Score
(i) Content of Strategic Plan	2
(ii) Content of Annual/ Operational Plan	1
(iii) Organizational Planning Process	2
(iv) Monitoring and Performance Reporting	2
<b>Overall Score</b>	<b>2</b>

## Assessment findings and observations

**Table 10: Assessment Findings and Observations**

Dimension	Findings	Score
(i) Content of Strategic Plan	<p><b>Criteria a, d, g and f are met.</b></p> <ul style="list-style-type: none"> <li>• The Strategic Plan 2015-20 is prepared based on SWOT analysis. It articulates strategic outcomes and goals linked to vision and mission of the RAA.</li> <li>• The Operational Plan is prepared as supplementary documents outlining the activities to be implemented under four Programmes.</li> <li>• The Performance Measurement Framework which contains performance indicators have been developed.</li> </ul> <p><b>Criteria b, c and e not met</b></p> <ul style="list-style-type: none"> <li>• The performance is assessed on accomplishment of activities rather than outcome indicator.</li> <li>• External stakeholders were not directly involved in the strategic planning process.</li> <li>• Basically, the plan was prepared to address the issues discerned through internal stakeholders and top management.</li> <li>• The Strategic Plan included amendment of Audit Act of Bhutan 2008 as one of the strategies to influence changes in the institutional environment of RAA.</li> </ul>	<p><b>2</b></p> <p><b>At least three of the criteria are in place</b></p>
(ii) Content of Annual/ Operational Plan	<p><b>Criteria a and b are met.</b></p> <ul style="list-style-type: none"> <li>• The annual plan contains all activities (auditing as well as non-auditing) with definite time frame.</li> <li>• The responsibility is also assigned to individuals/divisions to accomplish the activities.</li> </ul> <p><b>Criteria c, d, e, f and g are not met.</b></p> <ul style="list-style-type: none"> <li>• The activities included in the annual plans are drawn from five year operational plan.</li> <li>• There is no clear linkage of annual plans to the strategic objectives in terms of performance indicators.</li> <li>• There is no risk assessment being conducted in connection to achieving the objectives of the plan. The risk identified are against the programmes identified in the operational plan but there is no clarity on how it would be mitigated or addressed and neither there is any documentation of monitoring of risks throughout the Strategic Plan period.</li> </ul>	<p><b>1</b></p> <p><b>At least one of the criteria is in place</b></p>

(iii) Organizational Planning Process	<p><b>Criteria a, b, d, e and f are met.</b></p> <ul style="list-style-type: none"> <li>• The Auditor General’s Standing Instructions states the procedures for development and approval of RAA’s annual audit plan.</li> <li>• The PPARD initiates the development of Annual Audit Plan.</li> <li>• The Division solicits specific agendas from all employees to be discussed prior to organizing planning workshop amongst the Division Chiefs.</li> <li>• There is an ownership of the plan and it is communicated to all employees.</li> <li>• The plan is monitored and revised as needed.</li> </ul> <p><b>Criteria c, g, h and i are not met</b></p> <ul style="list-style-type: none"> <li>• There is no evidence of consultation with external stakeholders as a part of planning process.</li> <li>• There is no planning of plan in developing RAA’s plan.</li> <li>• There was no continuity of SP 2015-20 right after completion of previous SP 2010-15.</li> </ul>	<p style="text-align: center;"><b>2</b></p> <p><b>At least four criteria in place</b></p>
(iv) Monitoring and Performance Reporting	<p><b>Criteria a, e, f, and g are met.</b></p> <ul style="list-style-type: none"> <li>• The RAA assesses the implementation of Annual Plans during Mid Term Review Meeting and Annual Review.</li> <li>• The annual performance report is included in a separate chapter in the Annual Audit Report.</li> <li>• The performance report is limited to activity based rather than performance based reporting containing summary of activities accomplished during the year.</li> <li>• The RAA reports on Audit Recoveries made and deposited into Government Account on the basis of its reports representing savings and efficiency gains on government programmes .</li> <li>• The SAI PMF report of 2015 was published and uploaded on RAA’s webpage.</li> </ul> <p><b>Criteria b, c, and d not met</b></p> <ul style="list-style-type: none"> <li>• The performance report is limited to activity based rather than performance based reporting containing summary of activities accomplished during the year.</li> <li>• The SP 2015-20 has formulated performance measurement framework, the performance of RAA was not assessed on the basis of the indicators developed.</li> <li>• Thus, the activities accomplished do not indicate whether the intended targets have achieved the goals and outcomes of RAA.</li> </ul>	<p style="text-align: center;"><b>2</b></p> <p><b>At least three of the criteria are in place</b></p>

#### 4.2.2 SAI 4: Organizational Control Environment - Score 2

##### Narrative

This indicator measures SAI's internal control environment and internal control system instituted to manage its operations economically, efficiently, effectively and in accordance with laws and regulations. It also measures the systems for quality control and quality assurance system to ensure quality of SAI's works.

This indicator comprises of four dimensions:

- i) Internal Control Environment- Ethics, Integrity and Organizational Structure
- ii) Systems of Internal Control

iii) Quality Control System

iv) Quality Assurance System

The RAA's code of conduct and ethics is compliant with the ISSAI requirements and there is sufficient process to ensure that the officials comply as it is monitored as part of the annual performance appraisal system.

The Financial Management Manual issued by the Ministry of Finance ensures proper working systems and procedures including transparent and well defined controls and checks as part of the financial management and accountability objectives of the Government. The National Internal Control Framework developed by the Ministry of Finance also provide a managerial guide to internal control formulation and practice. However, there is no clearly defined system for identifying, mitigating and monitoring major operational risks within RAA. The RAA does not include a statement of internal control in RAA's annual audit report. There is a periodic internal audit of RAA HQ and regional offices who are appointed by the Audit Committee and directly reports to Head of SAI or Audit Committee. The Audit Committee reviews and follows up the implementation of internal auditors' recommendations.

The AG's Standing Instructions prescribes process for quality control of audits and reports and until July 2019, the Research and Quality Assurance Division (RQAD) was responsible for quality control as well as Quality Assurance functions. The RQAD now has the responsibility of Quality Assurance functions. However, the review was conducted for only financial audits.

#### **Dimension i: Internal Control Environment – Ethics, Integrity and Organizational Structure**

The Audit Act of Bhutan 2018 addresses the issue of code of conduct<sup>68</sup>. The AG's Standing Instructions also address the professional code of conduct of RAA's officials<sup>69</sup>. The RAA has document called, "Oath of good conduct, ethics and secrecy of auditors". This spells out 16 principles of good conduct, including the issues of integrity, independence, objectivity, confidentiality and competence. The Oath is administered to new employees who subscribe to the principles by signing a document in a ceremony. It is published in the form of pocket size booklet, which is convenient for employees to carry at all times. Adherence to RAA's code of conduct is monitored as part of the annual performance appraisal of every employee<sup>70</sup>. The requirement for auditors to declare compliance with code of ethics and to declare "no conflict of Interest" is laid down in the Audit Manuals and Guidelines. It also specifies template for recording the assessment of ethical threats and suggests appropriate safeguards. The RAA's Code of Conduct, Ethics and Secrecy is uploaded on RAA's web and publically accessible. The managers and supervisors oversee the compliances including protection of those who report suspected wrongdoing. On the basis of the fact that top management reiterating the importance of professional and ethical conduct to employees in every occasion, the ethical issues are high on the agenda in the RAA<sup>71</sup>. There was no evidence of review of ethical framework being carried out during the last five years.

<sup>68</sup> Chapter 3 of AG's Standing Instruction on professional code of conduct

<sup>69</sup> Chapter 4 of AG's Standing Instruction on Conduct, Behaviour & Ethics

<sup>70</sup> 30% weightage given for assessment of performance as per Bhutan Civil Service Rules and Regulation

<sup>71</sup> Auditor General and top management executive orders (Minutes of Meetings)

Bhutan Civil Service also prescribes Civil Service Values and Conduct under Chapter 3 of BCSRR 2018. Clause 3.2.1 of BCSRR 2018 states that, “A civil servant shall maintain and uphold the highest standard of, amongst others, integrity, honesty, fortitude, selflessness, loyalty, the right attitude, right aptitude, patriotism, professionalism and be apolitical in service of the Tsa-Wa-Sum”. Further, Clause 3.2.2 states that, “Civil Service Values and Conduct shall form part of the terms of employment for all civil servants who shall read, understand and sign the commitment to the Civil Service Values and Conduct form as per Form 3/1”.

The RAA has clear organizational structure approved by the Royal Civil Service Commission. It is bifurcated into Departments, Divisions and Sections for both auditing and non-auditing functions along with clear line of reporting including the regional audit offices. The job responsibilities for different positions for both auditing and non-auditing works are clearly defined in the Terms of References uploaded in RCSC’s web which facilitates delegation of responsibilities at different positions. The AG’s Standing Instructions also defines basic roles and responsibilities for different levels and positions. For the outsourced audits, the Policy on outsourcing audit services requires the contracted firms to comply with the ethical requirements of the RAA. However, there is no explicit integrity policy adopted. The RAA has not formally assessed its vulnerability and resilience to integrity violations, through the use of tools such as IntoSAINT or other similar tools.

#### **Dimension ii: System of Internal Control**

The Financial Management Manual issued by 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”. Clause 3.3.6 states that, “... the Heads of Agencies shall be responsible for ensuring that a proper system of Internal Control exists in their respective Agencies”

The National Internal Control Framework developed by the Ministry of Finance provide a managerial guide to internal control formulation and practice covering the aspects of internal control best practices in Financial Management, Property Management, Procurement, Human Resource Management, Information Technology and internal audit related internal controls<sup>72</sup>.

The RAA has not established any written policy or procedures regarding how internal control shall be conducted in RAA. However, some internal control procedures regarding financial management and procurement are described in the form of ToRs and list of job responsibilities of staff in Administration and Finance Division. Further, the RAA has developed procedures for collection and account of Audit Recoveries in the Follow Up Guidelines.

There is no clearly defined system for identifying, mitigating and monitoring major operational risks. The RAA does not include a statement of internal control in RAA’s annual audit report.

There is a periodic internal audit of RAA HQ and regional offices. The internal auditors are appointed by the Audit Committee and directly reports to Head of SAI or Audit

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<sup>72</sup> National Internal Control Framework of Ministry of Finance

Committee. The Audit Committee reviews and follows up the implementation of internal auditors' recommendations.

### **Dimension iii: Quality Control System**

The RAA has defined processes and responsibilities for both audit and non-audit functions in promoting quality in performing its functions. The audit functions are guided by various audit guidelines and manuals. For non-audit functions such as Human Resource, Administration, Information Technology, Procurement, Audit Recoveries etc. also have defined process through specific rules, regulations, and guidelines. The reporting line establishes control procedures where every level is given the responsibilities for the system of quality control. Ultimately the AG assumes the overall responsibility for quality control management. The AG's Standing Instructions prescribes process for quality control of audits and reports. The RAA has put in place following process for quality control of audits and reports:

1<sup>st</sup> Level Review: Team Leader

2<sup>nd</sup> Level Review: Division Chief/AAGs of Regional Offices

3<sup>rd</sup> Level Review: Deputy Auditors General (Department)

4<sup>th</sup> Level Review: Research and Quality Assurance Division

5<sup>th</sup> Level Review: Executive Committee

6<sup>th</sup> Level Review: Auditor General

Review of the sampled (financial, compliance and performance) audit files, the individual working papers are signed by the respective teams and AAGs. The involvement of management (AAG and DAG) is visible from the documents maintained for each audit assignments. The pre-engagement processes are completed with signing by the supervisors (AAG). The draft report along with necessary documents such as Minutes of Exit Meeting, financial statements, accountability statements, and Management Appraisal Reports are submitted to Department Heads (DAGs). The RAA through Executive Order had bifurcated the Quality Control and Assurance Functions and from the beginning of July 2019, the RQAD which was involved in vetting of the reports is given the responsibility of Quality Assurance Functions. Hence, the reports need not be sent to RQAD for reviews. Before approving the reports, the Department Heads (DAG) scrutinizes all the issues in the draft reports in relation to the documents submitted and suggest changes. Once the changes are made, the reports are printed and issued by the respective Divisions.

The Quality Control by the Division Chiefs, and Department heads can be tracked through the track changes in MS Word.

The audit reports of significantly larger agencies or if it contains significant issues, is signed either by the Department Head or Auditor General.

### **Dimension iv: Quality Assurance System**

Until July 2019, the Research and Quality Assurance Division was responsible for quality control as well as Quality Assurance functions. The RQAD now has the responsibility of Quality Assurance functions. However, the review was conducted for only financial audits and not extended to performance audits, compliance audits and range of activities of RAA owing to lack of manpower.

The RAA is currently conducting the Quality assurance reviews for financial audits using the QA tools developed by the IDI. The RQAD as an independent division, it is assigned with the QA functions and is currently manned by three experienced (senior) officials including the legal professional. The RQAD has conducted QA of selected audits spread over divisions and regional offices mainly comprising of only financial audits. Further, to see the compliances to the methodologies of ISSAIs after it was adopted in 2017, the RAA also assigned one of the experienced officials to conduct QA review of audit reports based on samples from different divisions/regions. The report along with recommendations of reviewer was communicated to all divisions and teams [10].

The RAA had undergone assessment under SAI PMF in 2014-15.

### Assessment Scores by Dimension

**Table 11: Assessment Scores by Dimensions**

Dimension	Score
i) Internal Control Environment – Ethics, Integrity and Organizational Structure	2
ii) System of internal control	1
iii) Quality Control System	3
iv) Quality Assurance System	1
<b>Overall Score</b>	<b>2</b>

### Assessment findings and observations

**Table 12: Assessment findings and observations**

Dimension	Findings	Score
(i) Internal Control Environment – Ethics, Integrity and Organizational Structure	<p><b>Criteria a, b, d, e, f, g, h, I, and j are met</b></p> <ul style="list-style-type: none"> <li>• The Audit Act of Bhutan 2018 and AG’s Standing Instruction address the issue of code of conduct. The RAA has document called, “Oath of good conduct, ethics and secrecy of auditors”. This spells out 16 principles of good conduct, including the issues of integrity, independence, objectivity, confidentiality and competence.</li> <li>• On the basis of the fact that top management reiterating the importance of professional and ethical conduct to employees in every occasion, the ethical issues are high on the agenda in the RAA.</li> <li>• For the outsourced audits, the Policy on outsourcing audit services requires the contracted firms to comply with the ethical requirements of the RAA.</li> <li>• The RAA has established /written policy or procedures on internal control.</li> <li>• There is a system of annual internal audit of RAA HQ and regional office carried out by auditors appointed by the Audit Committee.</li> </ul> <p><b>Criteria c, k and l are not met</b></p> <ul style="list-style-type: none"> <li>• There was no evidence of review of ethical framework being carried out during the last five years.</li> <li>• The RAA has not formally assessed its vulnerability and resilience to integrity violations, through the use of tools such as IntoSAINT or other similar tools.</li> </ul>	<p style="text-align: center;"><b>2</b></p> <p><b>Criteria a, d g and at least three criteria are in place</b></p>

(ii) System of internal control	<p><b>Criteria b, e, f, g, h, and j, are met</b></p> <ul style="list-style-type: none"> <li>• The Financial Management Manual issued by the Ministry of Finance requires heads of agencies to ensure proper system of internal controls in respective agencies.</li> <li>• The National Internal Control Framework developed by the Ministry of Finance provide a managerial guide to internal control formulation and practice covering the aspects of internal control best practices in Financial Management, Property Management, Procurement, Human Resource Management, Information Technology and internal audit related internal controls.</li> <li>• There is a periodic internal audit of RAA HQ and regional offices.</li> <li>• The internal auditors are appointed by the Audit Committee and directly reports to Head of SAI or Audit Committee.</li> <li>• The Audit Committee reviews and follows up the implementation of internal auditors' recommendations</li> </ul> <p><b>Criteria a, c, d, and i are not met</b></p> <ul style="list-style-type: none"> <li>• The RAA has not established any written policy or procedures regarding how internal control shall be conducted in RAA except for some internal control procedures regarding financial management and procurement are described in the form of ToRs and list of job responsibilities of staff in Administration and Finance Division.</li> <li>• There is no clearly defined system for identifying, mitigating and monitoring major operational risks.</li> <li>• The RAA does not include a statement of internal control in RAA's annual audit report.</li> </ul>	<p><b>1</b> <b>At least 2 criteria are in place</b></p>
(iii) Quality Control System	<p><b>Criteria a, b, c, and e are met</b></p> <ul style="list-style-type: none"> <li>• The RAA has defined process and responsibility for members, team leaders, supervisor (AAGs), Department Heads (DAGs), Executive Committee and Auditor General as a quality control process of audits and reports. AG's standing instructions provides detailed guidance in ensuring quality of audits.</li> </ul> <p><b>Criterion d not met</b></p> <ul style="list-style-type: none"> <li>• There is no system for assessing overall risks to quality which may arise from performing the audit works.</li> </ul>	<p><b>3</b> <b>At least four criteria are in place</b></p>
(iv) Quality Assurance System	<p><b>Criteria c, f, g and h are met</b></p> <ul style="list-style-type: none"> <li>• The Research and Quality Assurance system is responsible for Quality Assurance functions.</li> <li>• The review was conducted for only financial audits.</li> <li>• The RQAD as an independent division, it is assigned with the QA functions and is currently manned by three experienced (senior) officials including the legal professional.</li> <li>• The RQAD has conducted QA of selected audits of financial audits spread over divisions and regional offices.</li> <li>• The report along with recommendations of reviewer was communicated to all divisions and teams.</li> <li>• The RAA had undergone assessment under SAI PMF in 2014-15.</li> </ul> <p><b>Criteria a, b, d and e are not met</b></p>	<p><b>1</b> <b>The RAA's QA review system covers a sample of completed audits and at least four criteria in place</b></p>



	<ul style="list-style-type: none"><li>• The Quality Assurance Review was conducted only for financial audits and not extended to range of activities of RAA.</li></ul>	
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#### 4.2.3 SAI 5: Outsourced audits - Score 2

##### Narrative

An SAI's legal framework may allow for it to contract external auditors. To enable SAIs with limited capacities to complete their audits in a timely manner, outsourcing some audit work may be an option for a SAIs to fulfil their mandate. However, the SAI still remains the responsible party.

Similar to other SAIs, the Auditor General has the mandate to outsource audits. However, the Auditor General retains the ultimate responsibility for quality control and reports are issued under the signatory of the Auditor General.

This indicator comprises of three dimensions:

- i) Process for Selection of Contracted Auditor
- ii) Quality Control of Outsourced Audits
- iii) Quality Assurance of Outsourced Audits

The RAA has developed a Policy on Outsourcing of audit works which prescribes the process of registration and engagement of accounting and auditing firms for the outsourced audits and ensures minimum level of competency and expertise. The firms are bounded by confidentiality requirements and professional code of ethics.

The RAA assumes full responsibility for the outputs delivered by the contracted firms and continuously monitors their works from engagement and planning to report. The reports are published only after approval of the RAA. However, there is no system of assessing risk to quality of outsourcing works and RAA has not carried out any such assessment during the period under review.

The Policy of Outsourcing requires RAA to conduct QA review of the audits undertaken by contracted firms, however, no such reviews had been carried out during the period under review.

##### Dimension i: Process for Selection of Contracted Auditor

The RAA has developed a Policy on Outsourcing of audit works which prescribes the process of registration and engagement of accounting and auditing firms for the outsourced audits. The policy requires the firms to be bound by the confidentiality requirements and professional code of ethics and not to disclose any information relating to the client during the course of audit that are deemed confidential.

The Policy also specifies eligibility criteria for selection to ensure that the firms selected for such works have required competency and qualifications. The RAA conducts due diligence before empanelment to assess the competence of firm in terms of its human resources and physical resources. The condition of a maximum period of three years of empanelment ensures that the firms are not engaged by the same audited entities for longer periods. For the assessment, the team reviewed one outsourced audit on Dagachhu Hydropower Plant which helped to see how the Policy on Outsourcing of audit work was applied in practice.



## Dimension ii: Quality Control of Outsourced Audits

The RAA assumes full responsibility for the outputs delivered by the contracted firms and continuously monitors their works from engagement and planning to reporting. The reports are published only after approval of the RAA. The individual firms have the responsibility to institute their own quality control and assurance system.

The outsourced audits must be conducted in line with the RAA's audit guidelines and manuals. The RAA oversees the engagement, reviews work plans and audit programmes and ensures that firms implement quality control procedures.

The RAA does not have system of assessing risk to quality of outsourcing works and not carried out any such assessment during the period under review. There are no specific requirements in the policy to hand over the documents to the RAA after the completion of audits. However, in practice, the contracted firms hand over the working files to respective Divisions.

There is a defined process of approving reports in the Policy.

## Dimension iii: Quality Assurance of Outsourced Audits

The Policy of Outsourcing requires RAA to conduct QA review of the audits undertaken by contracted firms, QA reviews have not been conducted during the period under review. There is no evidence of having conducted the monitoring of system of quality control during the period under review.

### Assessment Scores by Dimension

**Table 13: Assessment Scores by Dimensions**

Dimension	Score
(i) Process for Selection of Contracted Auditor	4
(ii) Quality Control of Outsourced Audits	2
(iii) Quality Assurance of Outsourced Audits	1
<b>Overall Score</b>	<b>2</b>

### Assessment findings and observations

**Table 14: Assessment findings and observations**

Dimension	Findings	Score
(i) Process for Selection of Contracted Auditor	<p><b>All criteria are met</b></p> <ul style="list-style-type: none"><li>• The RAA has developed a Policy on Outsourcing of audit works which prescribes the process of registration and engagement of accounting and auditing firms for the outsourced audits.</li><li>• The policy requires the firms to be bound by the confidentiality requirements and professional code of ethics.</li><li>• The firms are empanelled as per the eligibility criteria and RAA conducts due diligence during selection for registration to ensure its competency and capabilities</li></ul>	<p><b>4</b></p> <p><b>All criteria are in place</b></p>

(ii) Quality Control of Outsourced Audits	<p><b>Criteria a, b, and d are met</b></p> <ul style="list-style-type: none"> <li>• The RAA obtains statement of assurance of quality control signed by managing partners which are validated by RAA.</li> <li>• The individual firms have the responsibility to institute their own quality control and assurance system.</li> <li>• The outsourced audits must be conducted in line with the RAA’s audit guidelines and manuals.</li> </ul> <p><b>Criterion c is not met</b></p> <ul style="list-style-type: none"> <li>• The RAA does not have system of assessing risk to quality of outsourcing works and not carried out any such assessment during the period under review.</li> <li>• The audit working papers are handed over either in hard or soft copies to the RAA, though there is no specific requirements as per the policy or the agreements.</li> </ul>	<p style="text-align: center;"><b>2</b></p> <p><b>Criteria d and at least one other criteria in place</b></p>
(iii) Quality Assurance of Outsourced Audits	<p><b>Criterion a is met</b></p> <ul style="list-style-type: none"> <li>• The RAA is currently using the QA tools developed by IDI, however no QA reviews were carried out for outsourced audits.</li> </ul> <p><b>Criteria b, c, d, e, f, and g are not met</b></p> <ul style="list-style-type: none"> <li>• While the Policy of Outsourcing requires RAA to conduct QA review of the audits undertaken by contracted firms, QA reviews have not been conducted during the period under review.</li> <li>• No monitoring of system of quality control was carried out during the period.</li> </ul>	<p style="text-align: center;"><b>1</b></p> <p><b>At least one of the criterion in place</b></p>

#### 4.2.4 SAI 6: Leadership and Internal Communication - Score 3

According to ISSAI 20, an SAI should be operating on the foundations of transparency and accountability. ISSAI 12 equally underlines the principle of SAIs leading by example. In practice, it is the Head of the SAI and the leadership team who are responsible for setting the tone at the top, to promote integrity, but also to enable effective fulfilment of the mandate of the organization by developing an organizational culture promoting effectiveness, transparency and accountability. In order for the SAI to achieve its objectives, strong leadership and good communication with staff are necessary.

This indicator comprises of two dimensions:

i) Leadership

ii) Internal Communications

Leadership competencies and processes are well established and operating at a satisfactory level; in the RAA. Periodic meeting are held to make important decisions and are documented and communicated properly. Internal communication is well established and uses appropriate tools to promote effective internal communication.

##### Dimension i: Leadership

The meetings are held at various levels;

1. Advisory Committee Meeting - Meeting of Auditor General and Deputy Auditors General form the highest decision making level. The issue of strategic importance and sensitive issues concerning RAA and its employees and operations are discussed. The decisions are conveyed through instructions or executive orders signed by the Auditor General. The meeting is held as and when needed.



2. Human Resource and Governance Committee Meeting: Include Heads of Departments and Heads of Divisions. It discusses on day to day HR management and operational issues and make decisions on all activities of auditing and non-auditing activities. The Meeting is held every Wednesday and if needed whenever required to give immediate decisions.

3. Committee Level Meeting: Various committees formed for specific functions hold regular meeting either as per scheduled timing or as and when required by nature of their responsibilities. These committees are chaired either by Auditor General or delegated to one of the Deputy Auditors General.

The key decisions made in the meetings are documented in the form of minutes of meetings or the Records of Discussion (RoD). The decisions made in the Executive Committee Meetings are disseminated through Executive Orders signed by the Auditor General. Minutes of Meetings containing deliberations and decisions of Human Resource and Governance Committee Meeting are finalized and shared with all staff through official mails assigned to all employees. Decisions of specific committees are well documented and are communicated to staff based on relevance and requirement.

The core documents of RAA include Annual Audit Reports, Strategic Plans, Operational Plans, Audit Manuals and Guidance, Policy documents and host of other publications on specific topics. Most of these documents contain RAA's core values and are easily accessible on RAA's webpage and are public.

Delegations are basically done as per Job responsibilities of individual job positions which are developed and prescribed by the Royal Civil Service Commission. The job performances are reviewed as per the Individual responsibilities and performances are rated as per the performance of the assigned jobs. The performance ratings are used for career progressions and or for other incentives and opportunities for further advancement.

In setting a tone enabling accountability and strengthening the culture of internal control, evidently the Strategic Plan 2015-20 identifies one of the goals as "being model organization" in demonstrating better internal governance within RAA. The strategies range from subscribing to elements of ethics and code of conduct by all employees to being accountable for its own performance through regular performance reporting to Parliament and stakeholders. The top management reminds employees on manifesting integrity and ethical behaviour at all times in all kinds of meetings such as regular staff meetings, and annual conferences. The values of ethics and accountability are also communicated in informal meetings held by top management with the lower staff. The elements of ethical behaviour and accountability are modelled by the top management. For instance, compliances to individuals' asset declaration are ensured throughout and all employees are made to comply by assigning dedicated official to enforce the requirement. Accountability and ethical practices are also enforced through holding employees accountable for any non-compliance detected during internal audit.

One way of assessing tone at the top in demonstrating these initiatives is total absence of criticism on RAA's ethical culture in the social media unlike some agencies. The team has not come across any issues being pointed to indicate any shortcomings in this front. The top management demonstrate initiatives for building an ethical culture in the organization by propounding core values, ethical and professional values, encouraging ethical values and mechanism to report incidence of non-compliances anonymously through a suggestion box. The management had also demonstrated disapproval and

intolerance to any case of misconduct. There had been incidences of investigating allegations received from outside source on misconduct of staff to establish truth. The investigation was assigned to one of the Deputy Auditors General. Fortunately, allegation was proved wrong on both occasions.

For instance, having an open forum during conference to raise concerns or issues that are sensitive in nature through a written slip and discussing openly in the meeting provide platform to raise issues and concerns regarding internal controls within the RAA.

RAA's bid to demonstrate initiatives to establish "an internal culture recognizing that quality is essential in performing all of its work" is apparent in all documents meant to serve as guidance to performance of jobs. These include host of manual and guidelines, code of ethics and professional conduct, Quality Assurance Review Policy, Handbooks, AG's Standing Instructions etc, which delineates processes, as well as responsibility on individuals, divisions, and departments in ensuring quality of its work. The RAA's periodic monitoring and reporting ensures holding officials accountable for non-adherence. Recognition of best performance in terms of producing best audit reports and observations and selection of best employees in different categories and constant review of audit process by independent division reflects initiatives to establish internal culture of quality.

#### **Dimension ii: Internal Communication**

No written or established principles for internal communication. However, different forms or channel of communications are by default are fully functional and operational. The following are some of the channels for communication:

1. Official emails: These are allotted to every staff of RAA. This is used for dissemination of information regarding information related to RAA, jobs, decisions, directions and any other forms of communication related to individuals.
2. Electronic Platforms: Electronic media platforms such as whatsapp, wechat, Telegram etc, for one to one or group communication at various levels and groups
3. Phones: For direct contact of individuals through mobile phone or fixed line telephone
4. Video Conferencing for virtual meetings
5. Common Drive for whole employees, specific departments, divisions and groups to use information in a secured manner.

These channels are found to be used extensively in communicating various information (decisions, directions, monitoring report, information, discussions, etc). But there is no written principles for internal communications and monitoring of implementation.

On the basis of hierarchy of committees, the RAA has a two way approach of conducting committees' business.

1. At the highest decision making level, the Advisory Committee is concerned about providing strategic decisions. The discussions are initiated basically in responding to both external and internal issues. Internal issues emanate from employees concerns, ideas or initiatives to which decisions need to be taken. Adequate consultations are made in the process and the decisions are communicated to employees.

2. HRGC - Since these pertain to decisions regarding HR and internal governance, agendas are solicited from all employees for discussion in addition to regular administrative decisions. The participation of relevant employees is also solicited if required. The minutes are shared through official email to all employees.
3. Annual Audit Conference, Mid Term Reviews and Annual Plan Meetings: These meetings have larger attendance. The agenda items include all business of RAA. These meetings are annual feature and provide opportunity to propose agenda by all employees.
4. Other forms of consultations: Besides the above meetings, consultations and information sharing happen continuously at all levels, the Department and Divisions hold their own meetings and information sharing and consultation process for any pertinent topics that are needed to be disseminated, consulted and discussed.

All divisions of Head Office and Regional Offices are provided internet connections and all staff has official mails for communications. Adequate facilities such as computers, fax, scanner, are provided for Divisions to facilitate effective internal communication. Staff can be connected through intercom and fixed telephone. RAA's Newsletters are published half yearly for dissemination of information about affairs and events occurring in RAA. The Annual Report on HR Activities is also prepared annually and disseminates key information on recruitment, selection, promotion, leave, superannuation etc.

Meetings are conducted between executives, managers, teams and auditors to discuss issues concerning management and auditing through various channels. For instance, for auditing departments and divisions, the interactions with the employee or the teams are throughout the audit process: discussing audit plan and approval, execution, and reporting. Team prepares audit plans and submits to Division and then to Department Heads. The plans are reviewed and comments and suggestions are given along with specific briefings to the teams. Even these are reiterative resulting in numerous meetings and consultations between team, division and department. Same process follows during execution and reporting. The process for non-auditing department and divisions is also similar that there is a continuous interaction with staff and management in process of work.

All officials have official emails for communication of official matters and internet facilities are provided to employees. Other facilities include laptops and computers provided to employees and designated telephone (fixed) provided to each division. With these given facilities of communication system, the staff are facilitated in communicating and sharing information.

### Assessment Scores by Dimension

**Table 15: Assessment Scores by Dimensions**

Dimension	Score
i) Leadership	4
ii) Internal Communication	3
<b>Overall Score</b>	<b>3</b>

## Assessment findings and observations

**Table 16: Assessment findings and observations**

Dimension	Findings	Score
(i) Leadership	<p><b>All criteria are met</b></p> <ul style="list-style-type: none"> <li>• The RAA holds Annual Conference, Mid Term Review Meeting, Policy, Advisory Committee Meeting, Planning &amp; Consultative Meeting (PPCM), Human Resource &amp; Governance Committee (HRGC) Meetings, and specific committee meetings to discuss specific agendas based on the responsibilities.</li> <li>• The RAA actively promotes and reinforces ethical, professional and core values. The roles and responsibilities are delegated to various sub-committees.</li> <li>• The RAA has instituted a reward system to recognize the good performance.</li> <li>• There is a culture of delegating job to every individual through Annual Work Plan (AWP) on the basis of which the performance is evaluated at the end of the year.</li> </ul>	<p><b>4</b></p> <p><b>All criteria in place</b></p>
(ii) Internal Communication	<p><b>Criteria b, c, d, e, and f are met.</b></p> <ul style="list-style-type: none"> <li>• The RAA has developed Media Policy to provide guidance in dissemination of audit reports through mainstream media and social media.</li> <li>• There is a continuous communication of SAI mandates, vision, core values and strategy to staff through its annual plans and official documents.</li> <li>• The decisions/resolutions of all meetings are disseminated to all employees through official mails.</li> </ul> <p><b>Criterion a is not met</b></p> <ul style="list-style-type: none"> <li>• There is no written or established principles of communication developed</li> </ul>	<p><b>3</b></p> <p><b>At least five criteria are in place</b></p>

### 4.2.5 SAI-7: Overall Audit Planning. Score: 3

#### Narrative

The overall audit planning process defines the audits that the SAI plans to conduct in a given period of time. The overall plan should demonstrate how the SAI plans to fulfil its mandate and achieve its strategic objectives efficiently and effectively.

ISSAI 1<sup>73</sup> emphasizes that SAIs shall audit in accordance with a self-determined programme. SAI 7 seeks information on the processes leading to the production of an overall audit plan for RAA and, what should be in the annual plan. ISSAI 40<sup>74</sup> states that SAIs should consider their overall audit plan/control programme, and whether they have the resources to deliver the range of work to the desired level of quality. To achieve this, SAIs should have a system to prioritize their work in a way that takes into account the need to maintain quality.

These annual plans are additional to individual audit plans as they provide a comprehensive picture of the SAI's activities without the need to refer to the numerous sub-plans created by the various divisions/departments of a typical SAI.

<sup>73</sup> The Lima Declaration

<sup>74</sup> ISSAI 40 Quality Control for SAIs

This indicator has two-dimensions:

- (i) Overall Audit/Control Planning Process.
- (ii) Overall Audit/Control Plan Content.

The RAA has a comprehensive overall annual plan and annual audit schedule covering audit plans for individual audits and divisions featuring financial, performance and compliance audit. However, emerging risk, stakeholders' expectations and the constraints to the delivery of the program are not factored into the annual plan. The overall audit planning for the RAA, the overall score given for this indicator is 3.

#### **Dimension i: Overall Audit/Control Planning Process**

This dimension has seven criteria, related to the process for developing and approving an overall audit plan for the SAI. Criteria probe aspects such as responsibilities for planning, monitoring and implementing the plan; the extent to which the plan's preparation considers available financial and human resources, and crucially, the application of a risk-based methodology for the overall audit planning process and the consideration of risk.

The Auditor General's Standing Instructions states the procedures for development and approval of RAA's annual audit plan. Before embarking on preparing the Annual Plan, RAA had re-visited holistically on its audit universe i.e. the total agencies and their accounts. After determining the audit universe, RAA had embarked on categorization of agencies which gave basis for preparing the Annual Plan (detailed in section 4.2.1 dimension iii). Notable exercises were carried out by RAA during the review prior to the preparation of annual plan such as re-visiting the strategic intents through screening the stakeholders, prioritizing topical issues for audit, discussion on audit strategies, reformulation of targets, rationalizing manpower strength, deployment, and re-defining audit universe. The process for developing the annual plan identifies the RAA's audit responsibilities from its mandate.

Categorization of agencies in terms of their complexity and size and priority was initiated by RAA and is revised and published annually as a separate document which is used as guidance for preparation annual audit schedules. The categorization of agencies in terms of size and complexity was made on the basis of size of budget and expenditure, perceived complexity and nature of operations based on experiences shared by the Divisions<sup>75</sup>. In the parallel line, the priority assigned for agencies is based broadly on the requirement of legislations (Acts) and agreements in terms of audit requirements, perceived risks based on past experiences, and any other reasons that are deemed necessary to be considered for determining priority. Overall audit plan for RAA which would ensure proper account is taken of risk and materiality at the institutional level. More detailed planning is done at the individual audit level.

There are clearly defined responsibilities for planning the annual plan. In deciding the annual audit schedule for the division, the division chiefs allocate audits to different audit teams and each team decide on the timetables for the specific audits assigning man-days for each audit. The division chiefs coordinate the process, consolidate the audit schedule submitted by the teams and send the suggested annual audit schedule for his division to PPAARD for review and consolidations. The PPAARD submits the

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<sup>75</sup> Annual Plan 2017-18

annual audit plan that covers all the RAA's divisions and regions to the PPCM for endorsement and uploads in the official website.

The annual plan identifies which division or region is responsible for the implementation of each audit, and also the focal person for the respective audit is identified. The monitoring of Annual Plan rest with the AAG of respective Divisions. The status of every audit conducted is updated in APEMS and monitored by the PPAARD. The status of AAS is reported in the Mid-term review which is an annual exercise. The progress and overall implementation status of the annual audit plan is presented and revised in the midterm review meeting held in mid-year of the annual plan period.

Auditing all the agencies within a particular financial year is impractical owing to limited resources. While preparing the annual plan, RAA takes into account the number of auditors allocated to each Division. The categorization exercise was carried out as a foundation for prioritizing and rationalizing the audit plan to derive optimum impact with the available resources and budget.

The annual plan has content on engaging the stakeholders, however, there is no evidence of having factored in stakeholders' expectations and emerging risks, in the process.

#### **Dimension ii: Overall Audit/Control Plan Content**

This dimension has six criteria, which look into the content of the actual overall audit plan. Criteria include the need for the plan to clearly set out objectives and responsibilities, to include an implementation schedule for all audits, and to specify the allocated human and financial resources. The overall audit plan should contain an assessment of risks and delivery constraints.

RAA's Annual Plan 2017-18 articulates the name of the agencies to be audited and type of audit being planned (Financial, Performance and Compliance audit). The annual plan consists of audit schedules<sup>76</sup> for each division and regional offices. Separate lists of schedules sorted by teams and agencies are also included. The annual audit schedule includes the start, end and report issue date and the name of the focal person for each audit. In addition to the audit schedules the annual plan delineates audit thrust areas for the year. The thrust areas have been identified largely by taking into consideration the audit priorities based on emerging risk and issues in the management and utilization of public funds as experienced by RAA in the recent past.

The programme profile of the Annual Plan 2017-2018 is broadly derived from the Revised RAA's Operational Plan 2015-2020. It indicates a special focus on the core mandates of the RAA i.e. auditing and reporting and reinforces the importance of the secretariat services as a robust collaborator, professionally competent enough to support the core businesses of the RAA. The RAA reports on audits conducted and reports issued during the year in the Annual Audit Report demonstrate how RAA is discharging its mandate over a relevant timeframe in the form of annual audit schedule.

The annual audit schedule specifies the necessary human and financial resources to conduct the planned audits. Further, the Annual Plan 2017-18 has highlighted the budget outlay and the human resource recruitment plan for the year.

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<sup>76</sup> Annual Audit Schedule 2017-18

The annual plan does not contain an assessment of risks and constraints to the delivery of the audit plan.

### Assessment Scores by Dimension

**Table 17: Assessment Scores by Dimensions**

Dimension	Score
i) Overall Audit/Control Planning Process	3
ii) Overall Audit/Control Plan Content	3
<b>Overall Score</b>	<b>3</b>

### Assessment Findings and Observations

**Table 18: Assessment findings and observations**

Dimension	Findings	Score
(i) Overall Audit/Control Planning Process	<p><b>Criteria a, b, c, d, e and f are met.</b></p> <ul style="list-style-type: none"> <li>• The RAA documents the process followed for developing and approving the overall audit plan.</li> <li>• The process for developing the RAA's overall audit plan identifies the audit/control responsibilities from its mandate.</li> <li>• The audit planning process follows a risk-based methodology. There are clearly defined responsibilities for planning, implementing and monitoring the audit plan.</li> <li>• There is evidence that the SAI monitors the implementation of its audit plan/control programme.</li> <li>• The audit planning process takes into account the RAA's expected budget and resources for the period to which the plan relates.</li> </ul> <p><b>Criterion g is not met.</b></p> <ul style="list-style-type: none"> <li>• The RAA does not factor in stakeholders' expectations and emerging risks into audit plans.</li> </ul>	<p><b>3</b></p> <p><b>Criteria a, b, c and at least two criteria are in place</b></p>
(ii) Overall Audit Plan/Control Programme Content	<p><b>Criteria a, b, c, and d are met.</b></p> <ul style="list-style-type: none"> <li>• The audit plan have defined the objective of the audit/control at a high level, as well as who has the responsibility for each audit to be carried out.</li> <li>• The audit plan includes a schedule for the implementation of all audits. The annual plan of RAA takes into account about discharging its audit/control mandate over a relevant timeframe as scheduled in its plan.</li> <li>• The RAA's audit plan specifies the necessary human and financial resources to conduct the planned audits.</li> </ul> <p><b>Criterion e is not met.</b></p> <ul style="list-style-type: none"> <li>• The overall audit plan of RAA does not contain an assessment of risks and constraints to the delivery of the plan.</li> </ul>	<p><b>3</b></p> <p><b>Criteria a and b and at least two criteria in place</b></p>

### 4.3 DOMAIN C: AUDIT QUALITY AND REPORTING

The following table provides an overview of the dimension scores for each indicator.

**Domain C** assesses the quality as well as the outputs of the audit work which is the core business of RAA. It also includes an indicator that measures RAA’s audit coverage for the three disciplines of audits. The structure for RAA’s performance in each audit disciplines is measured through three indicators structured as foundations (SAI -9, SAI-12 and SAI 15), process (SAI-10, SAI-13 and SAI-16) and Results (SAI-11, SAI-14 and SAI-17).

The following table provides an overview of the dimension scores for each indicator. Section 4.3.1 to 4.3.10 provide further details.

**Table 19: Dimension scores**

Domain C: Audit Quality and Reporting		Dimensions				Overall score
Indicator	Name	i	ii	ii	iv	
SAI –8	Audit Coverage	2	3	0		2
SAI –9	Financial Audit Standard and Quality Management	4	4	3		4
SAI-10	Financial Audit Process	3	3	2		3
SAI -11	Financial Audit Results	2	4	3		3
SAI-12	Performance Audit Standard and Quality Management	4	4	2		3
SAI-13	Performance Audit Process	3	3	3		3
SAI-14	Performance Audit Results	3	4	2		3
SAI-15	Compliance Audit Standard and Quality Management	1	2	1		1
SAI-16	Compliance Audit Process	1	1	2		1
SAI-17	Compliance Audit Results	1	4	2		3
SAI-18	Jurisdictional Control Audit Standard and Quality Management	N/A	N/A	N/A		
SAI-19	Jurisdictional Control Audit Process	N/A	N/A	N/A		
SAI-20	Results of Jurisdictional Controls	N/A	N/A	N/A		

#### 4.3.1 SAI-8: Audit Coverage- Score 2

##### Narrative

This indicator measures audit coverage in each of the three audit disciplines namely financial audit, compliance audit and performance audit and provides on the extent to which the SAI is able to audit the entities within its mandate. The indicator has 3 dimensions:

- (i) Financial Audit Coverage
- (ii) Coverage, Selection and Objective of Performance Audit
- (iii) Coverage, Selection and Objective of Compliance Audit

The RAA maintains the record in the Annual Audit Plan under audit universe of its actual audit coverage for FA, CA and the PA Strategic plan for performance audits. The financial statement of the individual audit entities are not received automatically but asked for during the planning of these audits except for the annual financial statements of the government. The RAA do not report on non –submission of the financial statements. The

coverage for financial audits has been quite low due to the huge mandate of the RAA and its limited audit resources.

Increasing importance has been given to performance audits which focus on areas where the audit expects to add maximum value in terms of improved accountability, economy, efficiency and effectiveness. The topics were selected through a strategic planning process by identifying the risks and problems, prioritizing audit topics using criteria such as potential impact, financial materiality, risks to good management, complexity, significance, visibility, coverage, cross sectoral issues and auditability of the proposed audit topic. There is scope for improving by factoring the stakeholders expectations and emerging risk while selecting the topics.

The compliance audit coverage was round 13.86 % which are purely entity based and covers only government owned corporations and financial institution. The RAA gets a score of 0 as the audit universe for compliance audits does not include the central government agencies.

### **Dimension i: Financial Audit Coverage**

Financial audits are carried out by three divisions<sup>77</sup> and the four regional offices<sup>78</sup> in the RAA. However, RAA outsource financial audits of Government Owned Corporations and Financial institutions to the external auditing firms empanelled by RAA and the financial audits of NGOs, CSOs and ROs to the local audit firms empanelled by RAA. The RAA does not receive the financial statements automatically, although it is required under its mandate which is clearly stipulated in the Audit Act 2018. However, the financial statements are sent by the audited entities during the planning stage of an individual audit when RAA ask for it. The financial statements are received usually when an audit commences. The RAA does not report publicly on any non- submission of financial statements. The annual financial statements of the government are received by RAA within six months of the closure of the financial year as per the legal requirement.

The dimension is scored by taking the total number of financial audits as per the audit universe and comparing it with the number of financial audits conducted during the financial year 2017-2018.

The total number of financial audits in the audit universe was 1066 for the financial year 2017-2018.

According to the audit universe, 685 number of audits was conducted during 2017-2018. The financial audit coverage is calculated at 64.25%.

In addition, the RAA conduct the audit of Annual Financial Statements of the Government of Bhutan and report to the Parliament as mandated by the Audit Act.

### **Dimension ii: Coverage, Selection and Objective of Performance Audits**

The RAA had conducted 6 performance audits during the year 2017-2018<sup>79</sup>. There are two divisions conducting performance audits or thematic audits<sup>80</sup>. Performance audits are

<sup>77</sup> General Governance Division, Social, Communication & Information Division, Resource, Trade, Industry and Commerce Division

<sup>78</sup> Office of the Assistant Auditor General, Bumthang, Phuntsholing, SamdrupJongkhar and Tsirang

<sup>79</sup> Lists of PA conducted during 2017-2018 provided by PPAARD

<sup>80</sup> Performance & Systems Audit Division and Thematic Audit Division



given equal importance as financial and compliance audits as the topics for performance audits focus on areas where the audit expects to add maximum value in terms of improved accountability, economy, efficiency and effectiveness and to ensure appropriate coverage of programme operations within the limitations of available audit resources<sup>81</sup>.

The three sampled performance audits<sup>82</sup> indicated that these audits focussed on whether interventions, programmes and institutions are performing in accordance with the principles of economy, efficiency and effectiveness and provide recommendations for future improvements.

The topics of performance audits was selected through a strategic planning process where 27 potential audit topics<sup>83</sup> were identified by analysing the potential topic and conducting research to identify the risks and problem as per the performance audit guidelines. The topics that are identified are prioritized using audit topic prioritization matrix with criteria such as potential impact, financial materiality, risks to good management, complexity, significance, visibility, coverage, cross sectoral and auditability to be covered during the five year period. Under auditability the availability of human resources and the professional knowledge and skills of the audit teams is assessed to carry out the proposed audit topics economically, efficiently and effectively.

The strategic planning process did not factor in the stakeholder's expectations and emerging risk in the plans for the audit topics. During the last five years from 15 May 2015 to 2 November 2019 a total of 27 performance audits were conducted covering Education, National Economic Development, Revenue Collection, Health, Infrastructure, Social Security and Labour Market and others (private sector development and Bank).

### **Dimension iii: Coverage, Selection and Objective of Compliance Audits**

The audit plan 2017-2018 identifies entities which include only the compliance audits of government- owned corporation and financial institutions which are conducted by the Corporations and Financial Institution Division (CFID) in the RAA Headquarter and few numbers by the four regional audit offices. As such the audit universe for compliance audits of 238 audits in the FY 2017-2018 does not include the entities of the central government agencies although it is mandated by the Audit Act. The compliance audit coverage was round 13.86 % (33 CA conducted by 238 CA). These CAs are purely entity based. The entities to be audited for entity based compliance audit are based on the priority and categorization similar to financial audit. For theme based compliance audits there is no proper documentation of selection of audit topics.

During the past three years from 2017-2019, RAA conducted one Compliance theme based audit on Government Procurement after a decision made by the Auditor General.

RAA gets a score of 0 as the audit universe for compliance audits does not include the central government agencies.

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<sup>81</sup> Performance Audit Strategic Plan 2015-2020

<sup>82</sup> Core Banking Solutions in Bank of Bhutan, Revenue Collection and Management in Thromdes, Bhutan Chamber of Commerce and Industries

<sup>83</sup> PA Strategic Plan 2015-2020

## Assessment Scores by Dimension

**Table 20: Assessment Scores by Dimensions**

Dimension	Score
(i) Financial Audit Coverage	2
(ii) Coverage, Selection and Objective of Performance Audit	3
(iii) Coverage, Selection and Objective of Compliance Audit	0
<b>Overall score</b>	<b>2</b>

## Assessment Findings and observations

**Table 21: Assessment findings and observations**

Dimension	Findings	Score
(i) Financial Audit Coverage	The Financial Audit Coverage is 64.25%	2
(ii) Coverage, Selection and Objective of Performance Audit	<p><b>Criteria a, b, c, e, f, g, and h are met.</b></p> <ul style="list-style-type: none"> <li>The Performance Audit is given equal importance as Financial Audit as is conducted by two divisions in the RAA HQ.</li> <li>The RAA's performance audit reports over fairly a broad range of topics and the selection and prioritization of the topics is well documented in the PA Strategic Plan 2015-2020.</li> </ul> <p><b>Criterion d is not met.</b></p> <ul style="list-style-type: none"> <li>Except the expectations of the stakeholders and emerging risks are not factored during the selection of the topics.</li> </ul>	<p><b>3</b></p> <p><b>At least six criteria in place</b></p>
(iii) Coverage, Selection and Objective of Compliance Audit	<p><b>Criteria a and d are met.</b></p> <ul style="list-style-type: none"> <li>The audit plan 2017-18 identified 238 compliance audits of govt. owned corporations and financial institutions</li> <li>During the past three years audits included government procurement.</li> </ul> <p><b>Criteria b, and c are not met.</b></p> <ul style="list-style-type: none"> <li>The audit universe of Compliance audits includes only entities of government owned corporations and financial institution and does not include the central government agencies. Thus, the audit coverage for CA seems to be quite limited.</li> </ul>	<p><b>0</b></p> <p><b>During the year of review no central government entities were subject to CA</b></p>

### 4.3.2 SAI-9: Financial Audit Standards and Quality Management - Score 4

#### Narrative

This indicator assesses the RAA's approach to financial auditing in terms of its overall standards and guidance, team management and skills and quality control. The indicator has 3 dimensions:

- (i) Financial Audit Standards and Policies.
- (ii) Financial Audit Team Management and Skills.
- (iii) Quality Control in Financial Audit.

The Royal Audit Authority performs well under this indicator. The Financial Manual is in line with ISSAI 200 Fundamental Principles of Financial Audits. RAA has a strong system and ensures that the engagement team collectively have the appropriate competencies and capabilities. There is scope for improvement in the manual, as it

does not cover the aspect of involving technical experts to deal when difficult of contentious matter arises and documenting the differences of opinion within the SAI before a report is issued.

### **Dimension i: Financial Audit Standards and Policies**

The RAA adopted the ISSAIs on financial audits as the authoritative standards in 2017 and the Financial Audit (FA) Manual is closely aligned to the ISSAIs to govern their financial audit work. The Financial Audit Manual has been used as the basis for the financial audits, and sets out the policies and procedures for the financial audit works. The latest version of the manual is dated July 2019.

The Financial Audit Manual also provides additional guidance in terms of snapshots of each audit process to ensure easy and better understanding of the manual. The manual has the following chapters:

1. Introduction to Financial Audit and ISSAIs
2. Financial Auditing Process
3. Pre-engagement activities
4. Planning and audit
5. Conducting an audit
6. Completion and Review
7. Audit Reporting
8. Quality Assurance at the engagement level
9. Follow up of audit report

As reflected in the chapter, the financial audit manual adequately incorporates the ISSAI standards. Also, the manual is written in a clear and accessible manner providing working paper Templates for each stage of audit with guidance notes. The FA Manual guides the auditor how he/she should assess whether the preconditions for an audit of financial statements have been met as per ISSAI 200. One of the sections in the manual explains the process of assessing the financial reporting framework applied by the audited entity in preparing the financial statements and obtaining an agreement of the management that it acknowledges and understands its responsibility of preparing the financial statement.

The purpose of performing preliminary engagement activities is to assist an auditor ensure and have considered any events or circumstances that may adversely affect their capability to plan and perform the audit engagement as to reduce audit risk to an acceptably low level<sup>84</sup>. The guidance on applying the concept of materiality appropriately when planning and performing the audit is captured in chapter four of the Financial Audit (FA) Manual.

The FA Manual clearly elucidates about audit documentation that is sufficient to enable an experienced auditor, with no previous connection with the audit, to understand the nature, timing and extent of the audit procedures and the audit evidence obtained. The audit documentation should be prepared at all stages of the audit process in different

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<sup>84</sup> Financial Audit Manual



folders which includes pre-engagement activities, planning audit, conducting audit, completion and review and reporting.-----

To promote effective two-way communication between the auditors and those charged with governance, the FA Manual has a guide on determining appropriate persons within the entity's governance structure with whom to communicate (which could be performed at audit entry meeting-before audit commences) and determining the matters that need to be communicated (i.e. auditors responsibility, planned scope and timing of the audit, significant findings from the audit, and auditor independence).

There is a section in the manual which directs how an auditor should agree the terms of the audit engagement with management or those charged with governance, as appropriate. The Manual directs the auditor to develop a plan including the scope, timing and direction of the audit. Moreover, the Manual outlines that the auditor should properly plan the audit to ensure that it is conducted in an effective and efficient manner. Chapter four of the Manual explains understanding of the audited entity and its environment, including understanding the entity's internal control.

The chapter four under planning an audit explicitly highlights how the auditor should assess the risks of material misstatement at the financial statement level and at the assertion level for classes of transactions, account balances, and disclosures to provide a basis for performing further audit procedures. It also guide show the auditor should respond appropriately to address the assessed risks of material misstatement.

The Manual guides the auditor in how he/she should design and perform substantive procedures for each material class of transactions, account balance, and disclosure, irrespective of the assessed risks of material misstatement. Furthermore, it explains how the auditor should identify and assess the risks due to fraud and obtain sufficient appropriate audit evidence and respond appropriately. Additionally, the FA Manual defines how the auditor should identify the risks due to direct and material non-compliance with laws and regulations and obtain sufficient appropriate audit evidence to be able to draw conclusions on which to base the auditor's opinion.

There is a working paper template in the manual explaining how the auditor should accumulate misstatements identified during the audit and communicate with management and those charged with governance as appropriate on a timely basis all misstatements accumulated during the course of the audit. Chapter seven defines how the opinion should be expressed clearly through a written report and the basis for forming the audit opinion.

The FA Manual does not cover how an auditor engaged to audit group financial statements should obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process. This will affect in expressing an opinion on whether the whole of government financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. Further, the FA Manual did not consider the necessity for requirements to obtain sufficient and appropriate audit evidence in relation to engagement of external experts and assessing the quality of deliverables.

#### **Dimension ii: Financial Audit Team Management and skills**

The dimension assesses whether the SAI supports the implementation of its financial audit standards by policies in (i) the domain of the composition of the engagement team



and (ii) in providing the auditors of the engagement teams with materials that facilitate the implementation of the standards.

The RAA has recognised the importance of its performance on both the aspects. First, the RAA is managing the composition of the audit teams in such a way that engagement teams include auditors with sufficient qualifications, knowledge of the entity and experience with the audit standards<sup>85</sup>. The RAA has a competent cadre of Auditors. The Division Chief has a clear responsibility in planning audits, managing the teams and reviewing the working papers prepared by the team.

Since 2016, all the field auditors were exposed to ISSAI based audit training in all three streams of auditing. The RAA has adopted ISSAI as its authoritative standard and has recognised ISSAI implementation as one of the strategic goals under its Strategic Plan 2015-2020.

The engagement teams have knowledge of relevant industries [sectors] in which the audited organization operates as the team composition will ensure a balance between senior and junior auditors. Technical expertise, including expertise in relevant field of auditing are given due importance at the time of team composition. For instance, for an audit of IT related industry, the respective supervisor will exercise due diligence on the competencies of engagement team and include an auditor who has adequate knowledge in Information and Technology. Audit teams are aware and understand the importance of quality control at all stages of the financial audit process and there is sufficient evidence from our review of sampled audit files that quality control is applied.

The financial audit manual set out requirements for developing the audit plan and identifies and allocates audit procedures to be implemented. There is a section in the manual on how to evaluate the overall internal control environment of an entity and assessing the risk of material misstatements at both the financial statement level and the assertion level. In addition to the financial audit standards set by the Financial Audit Manual, the RAA has also adopted additional guidance to translate the financial audit standards into audit implementation. The additional guidance is composed of thirty three templates and appendices:

- 1) AWP<sup>86</sup> 3.1: Assessing an acceptability of an applicable Financial Reporting Framework
- 2) AWP 3.2: Audit Team Competency matrix
- 3) AWP 3.3: Auditor's declaration to comply with code of ethics in the conduct of audit
- 4) AWP 3.4: Declaration of NO Conflict of interest
- 5) AWP 3.5: Declaration of Conflict of interest
- 6) AWP 3.6: Assessment of ethical threats and safeguards
- 7) AWP 3.7: Sample Audit Engagement Letter
- 8) AWP 4.1: Understanding the Entity and its environment
- 9) AWP 4.1 A: Understanding the internal Audit Function, including reliance on its work

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<sup>85</sup>Interview with Assistant Auditor General, Office of the Assistant Auditor General, Phuentsholing on June 23, 2019

<sup>86</sup> AWP: Audit Working Paper

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- 10) AWP 4.1 B: Authorized representative seeking direct assistance of internal auditors
  - 11) AWP 4.1 C: Written agreement from entity's authorized representative allowing direct assistance of internal auditors
  - 12) AWP 4.2: Evaluation of control environment
  - 13) AWP 4.3: Process flow to identify Risks of material misstatement in the financial statement
  - 14) AWP 4.4: Determining Materiality in planning and performing audit
  - 15) AWP 4.5: Risk Assessment
  - 16) AWP 4.6: Risk response
  - 17) AWP 4.7: Overall fund reconciliation
  - 18) AWP 4.8: Audit entry meeting minutes
  - 19) AWP 5.1: Performing audit procedures for testing operating effectiveness of controls
  - 20) AWP 5.2: Performing substantive audit procedures
  - 21) AWP 5.3: Sample of use of Monetary Unit Sampling workbook
  - 22) AWP 5.4: External confirmation
  - 23) AWP 5.5: Document requisition, document return and joint physical report
  - 24) AWP 6.1: Preliminary Audit Observation
  - 25) AWP 6.2: Evaluation of the effect of uncorrected misstatements on the financial statements
  - 26) AWP 6.3: Analytical procedures carried out at completion and review stage
  - 27) AWP 6.4: Management representation letter
  - 28) AWP 6.5: Audit completion report
  - 29) AWP 6.6: Audit exit meeting minutes
  - 30) AWP 6.7: Audit working paper documentation
  - 31) Appendix 7.1: Auditors report on financial statement of a government entity prepared in accordance with a Fair Presentation Framework
  - 32) Appendix 7.2: Auditors report on financial statement of a government entity prepared in accordance with a Compliance Framework
  - 33) Other appendices

### **Dimension iii: Quality Control in Financial Audit**

The last dimension SAI-9 to assess the foundation of financial audit is concerned with the quality control procedures at the engagement level. These procedures should provide reasonable assurance that the audit complies with professional standards, applicable legal and regulatory requirements, and that the auditor's report is appropriate in the circumstances.

The Research and Quality Assurance Division (RQAD) looks after both the quality control and assurance of audits. For quality control, the RAA relies largely on the hierarchical review of the audit documents (audit plan, working papers, audit report)

by the team leader, Division chief, the Research and Quality Assurance Division (RQAD), Deputy Auditor General and the Auditor General. The procedures for quality control of audits are laid down in the FA Manual and Auditor General's Standing Instructions, 2010. All the audit reports are routed through RQAD and evidence from the sample audit files suggests that these are applied and implemented in reality. During the financial year 2017-2018, the RQAD also carried out quality assurance of seven individual financial audits. The selection of audit files for quality assurance included different divisions in the Headquarter and the regions.

However, the manual does not substantiate on engaging the technical expert in dealing when difficult or contentious matters arise and documenting such deliberations. There are no clear procedures given in the FA Manual how differences of opinion within the SAI are documented and resolved before a report is issued.

The Financial Manual sets out the requirements for a quality control system which meets the required criteria. The RAA has recognised the importance of engagement of quality control reviews and procedures are in place for authorizing reports to be issued.

### Assessment Scores by Dimension

**Table 22: Assessment Scores by Dimensions**

Dimension	Score
(i) Financial Audit Standards and Policies	4
(ii) Financial Audit team management and skills	4
(iii) Quality control in Financial Audit	3
<b>Overall score</b>	<b>4</b>

### Assessment Findings and observations

**Table 23: Assessment findings and observations**

Dimension	Findings	Score
(i) Financial Audit Standards and Policies	<p><b>Criteria a, b, c, d, e, f, g, h, i, j, k, l, m, n, o, p, q, s, t, u, v (I,II,III) are met.</b></p> <p><b>Criteria r and v (IV) not met</b></p> <ul style="list-style-type: none"> <li>The RAA has adopted Financial Audit Manual which is consistent with ISSAI 200, the Fundamental principles of Financial Audits.</li> <li>The FA Manual lack provisions on how to obtain sufficient appropriate evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the whole of government financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework</li> <li>The FA Manual does not provide explicitly or implicitly consider the necessity for requirements to obtain sufficient and appropriate audit evidence in relation to using external experts</li> </ul>	<p><b>4</b></p> <p><b>Criteria b, c, p, q and at least sixteen criteria are in place.</b></p>
(ii) Financial Audit team management and skills	<p><b>All of the criteria are in place.</b></p> <ul style="list-style-type: none"> <li>RAA has established a system to ensure that the engagement team collectively possess the required competencies and capabilities.</li> <li>RAA provides support to its auditor teams in the form of audit manuals and other guidance material, continuous training and professional development, access to experts and information from external sources.</li> </ul>	<p><b>4</b></p> <p><b>All of the criteria are in place.</b></p>

(iii) Quality control in Financial Audit	<p><b>Criteria a, d, and e are met.</b></p> <ul style="list-style-type: none"> <li>• The RAA has established quality control on financial audit and all work carried out is subject to independent review.</li> <li>• The RAA has recognized the importance of engagement of quality control reviews for their work. Procedures are in place for authorizing reports to be issued.</li> </ul> <p><b>Criteria b, and c are not met.</b></p> <ul style="list-style-type: none"> <li>• There are no clear procedures to document the engagement of technical experts to deal when difficult or contentious matters arise.</li> <li>• Any differences of opinion within RAA are not clearly documented and resolved before a report is issued.</li> </ul>	<p style="text-align: center;"><b>3</b></p> <p><b>At least 3 criteria are in place</b></p>
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#### 4.3.3 SAI-10: Financial Audit Process - Score 3

This indicator examines how financial audits are carried out in practice. The assessment of this indicator is based on a review of a sample of seven financial audits for the year 2017-2018, namely:

1. Audit of the Dzongkhag Administration, Haa
2. Department of Geologies and Mines
3. Save the Children's Fund
4. Royal Court of Justice, Wangduephorang
5. Audit of the Dzongkhag Administration, Mongar
6. Audit of the Dzongkhag Administration, Trashigang
7. Yoeseltse Middle Secondary School, Samtse

The review covered a study of the complete audit working files and interviews with the respective audit teams who had carried out the audit and with respective Assistant Auditors General.

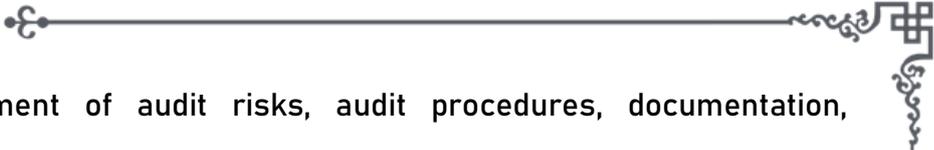
It consists of three dimensions:

- (i) Planning Financial audits.
- (ii) Implementing Financial audits.
- (iii) Evaluating Audit Evidence, Concluding and Reporting in Financial Audits.

The financial audit process displays many positive elements, such as clearly followed planning procedures, collection and evaluation of evidence, and a good quality control system. The financial audit process can benefit from more consistency, both with respect to implementation and evaluation of audit evidence, concluding and reporting in financial audits. There is a notable degree of variation in the studied sample files such as an explanation as to why all planned audit procedures unperformed were not retained on the audit file and failing to evaluate the uncorrected misstatements for materiality, individually or at an aggregate level.

#### Dimension i: Planning Financial Audits

The assessment has been done on the basis of seven financial audit sample files and interviews with the audit teams. The review of the sample audit files indicate that the audit plans contain sufficient information needed to understand the audited entities,



identification and assessment of audit risks, audit procedures, documentation, completion and reporting.

For environments that do not have authorized or recognized standard setting organizations or financial reporting frameworks prescribed by law or regulation, the auditor has carried out the assessment of determining whether the financial reporting framework is acceptable.

The audit team have sufficiently determined materiality for the financial statements as a whole, particular classes of transactions, account balances or disclosures and have set the performance materiality. Appropriate contact persons within the audited entity's governance structure were identified through the intimation and audit engagement letter and there was evidence that the teams had communicated the planned scope and timing of the audit to the audited entity.

The team had developed an overall audit strategy that included the scope, timing and direction of the audit. The audit engagement team have obtained an understanding of the audited entity and its environment, the overall internal control environment and the understanding of internal control relevant to financial reporting.

All the seven sample files revealed that team have assessed the risks of material misstatement at the financial statement level, risks of material misstatement of the financial statements due to fraud, and the risks of material misstatement of the financial statements due to material non-compliance with laws and regulations. The audit team have sufficiently observed and complied with the ethical requirements such as integrity, independence, objectivity, competence, professional behaviour, confidentiality and transparency.

As far as compliance with FA standards in the financial audit planning process is concerned, there is a standard practice across all seven sample audit files fulfilling all the required criteria under dimension (i).. However, no independent assessment (e.g. quality assurance review, peer or independent review, iCAT subject to independent quality assurance conducted within the past three years) of the RAA's financial audit practice has confirmed that the SAI complies with all the level 4 ISSAI requirements relevant to this dimension.

#### **Dimension ii: Implementing Financial Audits**

Implementation of financial audit standards/manual was evaluated on the basis of the selected sample files. The audit team have designed the audit procedures as a response to the assessed risk through substantive procedures and test of controls. The minimum planned sample sizes were applied in practice in response to materiality and risk assessment. The audit team has obtained sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud and responded appropriately to fraud or suspected fraud identified during the audit. Sufficient appropriate audit evidence regarding compliance with the laws and regulations that are generally recognized to have a direct and material effect on the determination of material amounts and disclosures in the financial statements were obtained.

The audit team have obtained sufficient and appropriate audit evidence in relation to the use of external confirmations, analytical procedures, using the work of internal auditor and engaging external experts. Auditors engaged to audit whole of government financial statements have obtained sufficient appropriate audit evidence regarding the financial information of all components and the consolidation process to express an opinion. The

engagement team have applied the audit procedures to obtain sufficient appropriate audit evidence to draw conclusions on auditor's opinion.

Implementation of financial audits, as evaluated on the basis of the selected audit sample reveals compliance to Financial Audit Manual except few shortcomings observed for some criteria. As all planned audit procedures were not performed and explanation as to why it's not performed were not retained on the audit file and has not been approved by those responsible for the audit. Of the seven audit files evaluated, four files did not meet this criterion and all other criteria under the dimensions were met.

### Dimension iii: Evaluating Audit Evidence, Concluding and Reporting in Financial Audits

Despite many strong elements of the financial audit process with respect to the finalisation process of audit reports, there is still some room for improvement. The assessment has been done on the basis of seven financial audit sample files and interviews with the audit team and the assessment has been compiled. The table indicates for each criterion of the SAI-PMF methodology whether the audit file demonstrates that the criterion is met (√) or not met (X). Observation of compliance with FA standards in evaluation of audit evidence, concluding and reporting in the financial audit across seven sample audit files are illustrated below;

**Table 24: Compliance with FA standards**

SAI PMF Criteria	Sample Audit File							Overall
	1	2	3	4	5	6	7	
a) "The auditor should prepare audit documentation that is sufficient to enable an experienced auditor, with no prior knowledge of the audit, to understand the nature, timing and extent of the audit procedures performed, (...) the results (...) and the audit evidence obtained (...)."	√	√	√	√	√	√	√	Met
b) The SAI's documentation procedures have been followed regarding: "the timely preparation of audit documentation; the form, content and extent of documentation; (...) the assembly of the final audit file."	√	√	√	√	√	√	√	Met
c) "The auditor should identify the appropriate contact person(s) within the audited entity's governance structure and communicate with them regarding (...) any significant findings" and "all misstatements recorded during the course of the audit."	√	√	√	√	√	√	√	Met
d) "The SAI's audit findings are subject to the procedures of comments and recommendations [or observations] to discussions and responses from the audited entity."	√	√	√	√	√	√	√	Met
e) "Uncorrected misstatements should be evaluated for materiality, individually or in aggregate (...)."	√	√	√	√	X	√	√	Not met
f) "The auditor should form 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."								
I. "(...) An unmodified opinion if it is concluded that the financial statements are prepared, in all material respects, in accordance with the	√	√	√	√			√	Met



applicable financial framework.” (Including the use of Emphasis of Matter Paragraphs)									
Otherwise a modified opinion which can be in three forms:									
II. “(...) A qualified opinion if: (1) (...) the auditor concludes that misstatements [are] material, but not pervasive to the financial statements; or (2) the auditor was unable to obtain sufficient appropriate audit evidence on which to base an opinion, but (...) the possible effects (...) could be material but not pervasive.”					√	√			Met
III. “(...) An adverse opinion if (...) the auditor concludes that misstatements (...) are both material and pervasive (...)”									Met
IV. “(...) Disclaim an opinion if, having been unable to obtain sufficient appropriate audit evidence on which to base the opinion, the auditor concludes that the effects (...) could be both material and pervasive.”									Met
g) “The auditor’s report should be in a written form and contain the following elements:”									
I. “A title...”	√	√	√	√	√	√	√	√	Met
II. An addressee as required by the circumstances of the engagement.	√	√	√	√	√	√	√	√	Met
III. An introductory paragraph that (1) identifies whose financial statements have been audited (...);	√	√	√	√	√	√	√	√	Met
IV. A section with the heading ‘Management’s responsibility for the financial statements’(...);	√	√	√	√	√	√	√	√	Met
V. A section with the heading ‘Auditor’s Responsibility’, stating that the responsibility of the auditor is to express an opinion based on the audit of the financial statements (...);	√	√	√	√	√	√	√	√	Met
VI. A section with the heading ‘Opinion’(...);	√	√	√	√	√	√	√	√	Met
VII. The auditor’s signature.	√	√	√	√	√	√	√	√	Met
VIII. The date on which the auditor obtained sufficient appropriate evidence on which to base the auditor’s opinion on the financial statements (...);	√	√	√	√	√	√	√	√	Met
IX. The location in the jurisdiction where the auditor practices.”	√	√	√	√	√	√	√	√	Met
h) “Reports should be easy to understand, free from vagueness and ambiguity and complete. They should be objective and fair, only including information which is supported by sufficient and appropriate audit evidence and ensuring that findings are put into perspective and context”.	√	√	√	√	√	√	√	√	Met
i) Any audit observations and recommendations are written clearly and concisely, and are directed to those responsible for ensuring they are implemented.	√	√	√	√	√	√	√	√	Met
j) <i>Where relevant</i> : “If the (...) conditions [for the acceptance of the financial reporting framework] are not met, the auditor should evaluate the effect of the misleading nature of the financial statements on the auditor’s report and the	√	√	√	√	√	√	√	√	Met



opinion, and consider the need to inform the legislature about the matter.”								
k) <i>Where relevant</i> : “The auditor’s report on special-purpose financial statements, the report should: describe the purpose for which the financial statements are prepared” and “the auditor should include an Emphasis of Matter paragraph alerting users to the fact that the financial statements have been prepared in accordance with a special-purpose framework (...)”.	√	√	√	√	√	√	√	Met

Audit documentation, for the most part, appears complete and includes communication with the auditee, information on the assessment process, draft reports, audit working papers and extensive supporting evidence. In most studied audit files, this documentation was well-referenced and sequenced. All formal requirements on documentation were met.

In all reviewed financial audits, communication to the audited entity was addressed to the head of the institution or organisation through written form of communication over audit observation. Auditee’s responses in the form of audit reply to the draft findings were documented in all cases, and there was a clear procedure on noting and clearing responses on the content of the final audit report<sup>87</sup>.

The uncorrected misstatements were evaluated for materiality, individually or in aggregate to determine what effect they may have on the opinion to be given in the auditor’s report. All the sample audit files met the criteria under the dimension, however, in one of the audit files, the overall evaluation of uncorrected misstatements and basis of forming an audit opinion was not expressed or concluded.

The assessment team did not encounter any instances or conditions where the financial reporting framework were deemed unacceptable. For that matter, the criteria were not applicable for assessment.

The audit reports followed the same structure, which covered all requirements and topics of ISSAI-200. There were clearly expressed audit opinions, five were unmodified and two qualified. The reports are written in a clear and objective way, and observations and findings are presented in a factual manner.

### Assessment Scores by Dimension

**Table 25: Assessment Scores by Dimensions**

Dimension	Score
(i) Planning Financial audits	3
(ii) Implementing Financial audits	3
(iii) Evaluating Audit Evidence, Concluding and Reporting in Financial Audit	2
<b>Overall score</b>	<b>3</b>

### Assessment Findings and observations

**Table 26: Assessment findings and observations**

Dimension	Findings	Score
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<sup>87</sup> Interview with audit team on 10.07.2019

(i) Planning Financial audits	<p><b>All of the criteria are met.</b></p> <ul style="list-style-type: none"> <li>• However, no independent assessment (e.g. quality assurance review, peer or independent review, iCAT subject to independent quality assurance, conducted within the past three years) of the RAA's financial audit practice has confirmed that the SAI complies with all the level 4 ISSAI requirements relevant to this dimension.</li> </ul>	<p><b>3</b></p> <p><b>All the Criteria are in place</b></p>
(ii) Implementing Financial audits	<p><b>Criteria a, b, c, d, e, f are met</b></p> <ul style="list-style-type: none"> <li>• The auditor have designed the audit procedures to respond to the assessed risks through substantive procedures and tests of controls.</li> <li>• Audit procedures were performed to obtain sufficient appropriate audit evidence to draw conclusions to base the audit opinion.</li> </ul> <p><b>Criterion g is not met</b></p> <ul style="list-style-type: none"> <li>• An explanation as to why all planned audit procedures not performed were not retained on the audit file and this has been approved by those responsible for the audit.</li> </ul>	<p><b>3</b></p> <p><b>Criteria a), f) and at least three of the other criteria are in place.</b></p>
(iii) Evaluating Audit Evidence, Concluding and Reporting in Financial Audits	<p><b>Criteria a, b, c, d, f, g, h, I, j, k are met</b></p> <ul style="list-style-type: none"> <li>• The audit opinion is formed 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.</li> </ul> <p><b>Criterion e is not met</b></p> <ul style="list-style-type: none"> <li>• In one of the sample files, uncorrected misstatements was not evaluated for materiality, individually or in aggregate to form an audit opinion.</li> </ul>	<p><b>2</b></p> <p><b>Criteria f) and at least four of the other above criteria are in place</b></p>

#### 4.3.4 SAI-11: Financial Audit Results - Score 3

SAI-11 assesses the timely submission and publication of the results of RAA's financial audit work and how such results are followed up. The indicator has 3 dimensions:

- (i) Timely submission of Financial Audit results.
- (ii) Timely publication of Financial Audit results.
- (iii) Follow-up on the Implementation of Financial Audit Observations and Recommendations.

There is no legal requirement for entities other than the Annual financial Statement of the Royal Government of Bhutan to be submitted to RAA. 40.71% of the financial audit reports examined were issued within the agreed timeframe which we consider the plan report issue date and the actual report issue date in the audit schedules. The annual audit report of RAA is published well within the legal timeframe. RAA has a well-established internal follow-up system and has developed guidelines on follow-up of audit report. RAA's follow-up procedures allows the agencies to provide information on corrective action taken and why corrective actions were not taken through Action Taken Report (ATR).

#### Dimension i: Timely Submission of Financial Audit Results

There is no legal or agreed timeframe as to when RAA shall report to the appropriate authority for individual entity, except for the audit of Annual Financial Statements (AFS),

where the Auditor General shall express an audit opinion within three months of receipt of the Annual Financial Statements of the Government.<sup>88</sup>

Since there is no legal requirement for entities other than the Annual Financial Statement of the Royal Government of Bhutan to be submitted to RAA not later than six months from the end of the financial year, the agreed timeframe as per the Annual Audit Schedule 2017-2018 was used as basis for scoring on the timeliness of submission of financial audit result. The assessment team reviewed the report issue date agreed by the audit team as per AAS 2017-18 and actual report issue date as per APEMS were used for comparison.

Out of 624 financial audit reports, 254 audit reports were issued within the agreed timeframe as per AAS 2017-2018. This corresponds to 40.71% of the financial audit reports were issued within the agreed timeframe, which gives a score of 2.

### **Dimension ii: Timely Publication of Financial Audit Results**

The Auditor General shall submit the Annual Audit Report to the Druk Gyalpo, the Prime Minister and the Parliament during the fourth quarter of the financial year on the audit carried out for the financial year ended<sup>89</sup>. The Annual Audit Report should be published between 1<sup>st</sup> April to 30<sup>th</sup> June. The Annual Audit Report 2018 was tabled to the parliament on 21.6.2019 and published in RAA website<sup>90</sup>.

The Royal Audit Authority has published the Annual Audit Report through appropriate means within the legal timeframe for publication.

### **Dimension iii: Follow-up on the Implementation of Financial Audit Observations and Recommendations**

Royal Audit Authority has a Follow-up and Clearance Division (FUCD) responsible for following up on unresolved audit observations and reporting on the status. The RAA applies various measures in making sure that the audited entities properly address their observations and recommendations. The Royal Audit Authority has developed a Guideline on Follow-up of Audit Report. The Guidelines provides guidance for conducting the follow-up of audit reports and recommendations in a systematic way. The guideline primarily outlines the processes and methodologies for the follow-up of audit reports and recommendations including the Management Appraisal Report (MAR) as necessary<sup>91</sup>.

The concerned audited agencies and other concerned authority is responsible to take timely follow up actions on audit reports issued<sup>92</sup>. RAA's follow-up procedures allow the audited entity to provide information on corrective action taken and why corrective actions were not taken through Action Taken Report (ATR). ATR pertaining to financial audits contains the details on actions taken by the audited entity against the audit observations. The Management or those charged with governance submits ATR within three months after the issuance of the report. If the ATR is not received within three months after issuing the audit report, a reminder is served to the management or those charged with governance in keeping with the provision of the Audit Act of Bhutan 2018.

<sup>88</sup> Public Finance Act of Bhutan 2007

<sup>89</sup> Audit Act of Bhutan 2018

<sup>90</sup> [www.bhutanaudit.gov.bt](http://www.bhutanaudit.gov.bt)

<sup>91</sup> Guidelines on Follow-up of Audit Report

<sup>92</sup> Audit Act of Bhutan 2018

In the event of not receiving ATR even after two weeks from the ATR reminder, the reviewer will apprise Follow-up Committee who shall exercise as per the Audit Act of Bhutan 2018.

On receipt of ATR, the FUCD and Follow-up Sections conducts review and evaluation of response submitted. Wherever possible, evidence of action taken is obtained and reviewed to assess the adequacy and effectiveness of actions taken. When the evidence of the corrective actions undertaken is not satisfactory, the reviewer will seek further clarification with the appropriate officials from the audited entity.

As a first step, the engagement team meets the audited entity in an audit exit meeting to discuss the draft findings and the entity's response. Following the meeting, the draft report is submitted to the entity including unresolved issues. The agency has to fix accountability against employee responsible for the lapses including the supervisory accountability and against contractor/consultants where deemed necessary and submits signed accountability statement to RAA. In addition to the Audit report, the unresolved issues are recorded in Audit Information Management System (AIMS) with individual Audit Identification Number (AIN) along with accountability.

The Public Accounts Committee (PAC) plays an active role in the review and follow-up of the audit reports tabled in the Parliament. Hence, there are two levels of follow-up of audit findings and recommendations, i.e., one at the SAI level and another at the PAC level. The RAA tables review report of Annual Audit Report to the Parliament biannually (status as on 31<sup>st</sup> March and status as on 30<sup>th</sup> September<sup>93</sup>). The review report submitted by RAA is reviewed by the Public Accounts Committee. The RAA follows the recommendation made by the PAC. As per the review report of AAR 2017 as at 30.9.2018, the RAA has resolved irregularities of Nu. 66.244 million (1.51%)<sup>94</sup> of the total irregularities reported in AAR 2017. RAA receives directives from the Parliament to carry out reviews of all past pending audit reports. The implementation of Parliamentary recommendations and directives based on the AAR is systematically monitored by the Planning Policy and Annual Audit Report Division (PPAARD) in consultation with AAG, FUCD and supervised by Deputy Auditor General, Department of Follow-Up, Regions and Human Resources Management (DFR&HRM). The status of AAR recommendations is presented to Follow-up Committee biannually for further guidance and direction.

The Follow-up Division identifies the extent to which audited entities have implemented changes in response to audit observations and recommendations and determines the impact which can be attributed to the audits. Based on Action Taken Report received, desk review is carried out by FUCD and Follow-up Sections in Regional offices. Specific field review is carried out by auditors if required for confirmation and validation; one auditor from the audit team who carried out the particular audit is included in the follow-up audit to render it effective and impactful<sup>95</sup>.

Follow-up audit is also undertaken based on the significance of audit report or results of desk review. The follow-up audit is conducted as and when the analysis of audit reports for common and persistent audit issues are necessitated.

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<sup>93</sup> Rules of Procedure of the Public Accounts Committee 2015

<sup>94</sup> Review Report AAR 2017

<sup>95</sup> Interview with AAG, FUCD on 4<sup>th</sup> July 2019

The RAA does not have an established practice for evaluating materiality in order to determine when a follow-up requires new additional investigations/audits. Field review or audit is carried out when there are following elements;

- a) Issues and recommendations that are likely to have national significance;
- b) Existence of fraudulent practices is comparatively high and pervasive;
- c) Risks of material misstatement in financial statement are high; and
- d) Issues raised are cross-sectoral, and/or likely to have a huge impact on the performance of the audited entity<sup>96</sup>.

The RAA publishes the follow-up reports on its official website and information is communicated to the general public.

### Assessment Scores by Dimension

**Table 27: Assessment Scores by Dimensions**

Dimension	Score
(i) Timely Submission of Financial Audit Results	2
(ii) Timely Publication of Financial Audit Results	4
(iii) SAI Follow-up on Implementation of Financial Audit Observations and Recommendations	3
<b>Overall score</b>	<b>3</b>

### Assessment Findings and observations

**Table 28: Assessment findings and observations**

Dimension	Findings	Score
(i) Timely Submission of Financial Audit Results	<ul style="list-style-type: none"> <li>• 40.71% of the financial audit reports examined were issued within the agreed timeframe.</li> </ul>	2
(ii) Timely Publication of Financial Audit Results	<ul style="list-style-type: none"> <li>• The annual audit report of RAA is published well within the legal timeframe.</li> </ul>	4
(iii) SAI Follow-up on Implementation of Financial Audit Observations and Recommendations	<p><b>Criteria a, b, d, e and f are met</b></p> <ul style="list-style-type: none"> <li>• RAA has a follow-up and Clearance Division (FUCD) which ensures that the audited entities properly address their observations and recommendations.</li> <li>• Follow-up considers whether the issues raised previously in their reports have been adequately addressed by the audited agency.</li> <li>• The follow-up mechanism of RAA allows audited agency to endow information on the corrective course of action taken through ATR.</li> <li>• RAA submits Review Report of Annual Audit Report to parliament biannually.</li> <li>• The RAA publishes the follow-up reports on its website.</li> </ul> <p><b>Criterion c is not met</b></p> <ul style="list-style-type: none"> <li>• RAA does not apply materiality to decide on the need for follow-up/investigation audit.</li> </ul>	<p><b>3</b></p> <p><b>Five of the criteria above are in place.</b></p>

<sup>96</sup>Guidelines on Follow-up of Audit Report.

#### 4.3.5 SAI-12: Performance Audit Standards and Quality Management- Score 3

##### Narrative

This indicator examines the general principles of performance auditing in terms of overall standard and guidance for this type of auditing, as well as how it measures the audit team management and skills and quality control are implemented at the audit engagement level. (The quality of these functions at the organization level is assessed in SAI-4).

The indicator consists of three dimensions:

- (i) Performance Audit Standards and Policies
- (ii) Performance Audit Team Management and Skills
- (iii) Quality Control in Performance Audits

The RAA performs well under this indicator as the performance audit guidelines are consistent and closely aligned with the ISSAI 300 and ISSAI 3000. The audit teams possess prior experiences in performance audits and have the requisite knowledge, skill and competence to carry out audits. The continuous professional development policy also ensures that the auditors are trained on a regular basis.

##### Dimension i: Performance Audits Standards and Policies

The RAA's Performance Audit Guidelines 2019 covers the main aspects of ISSAI 300. The guidelines refer explicitly to ISSAI 300 and ISSAI 3000 and cover the general principles, selecting audit topics, planning, execution, reporting, follow-up and audit documentation.

The RAA adopted ISSAIs as the authoritative standards and accordingly the Performance Audit Guidelines of 2011 was revised and launched in 2019 taking into consideration of ISSAI 300 and ISSAI 3000. The auditors were trained extensively on the ISSAIs as part of the ISSAI implementation programme of RAA and IDI. The AG's Standing Instructions available on the RAA webpage ensures that the guidelines and standards are followed religiously. The PAG also provides relevant audit tools for each chapter. The manual has the following Chapters:

1. Introduction to performance auditing
2. Selection of performance audit topics
3. Planning individual performance audit
4. Conducting performance audit
5. Reporting
6. Follow-up
7. Documentation and maintaining audit working papers

The PAG adequately makes references to applicable ISSAI standards in each chapter. Also, the manual is written in a clear and lucid manner. The PA guidelines clearly define the need to identify the auditor, responsible party, intended users, subject matter and criteria for each performance audit. It also emphasizes setting clear audit objectives that relate to the principles of economy, efficiency and effectiveness. In order to determine the nature of the examination, the guidelines stresses on the need to choose an audit approach namely system- oriented, result-oriented and problem-oriented



approaches. The guidelines also state the need to manage risk, anticipating possible or know risks, developing audit approaches to address the risks, documenting how these risks will be handled and also considering whether the audit teams have the competence to conduct the PA and have adequate access to accurate, reliable and relevant information.

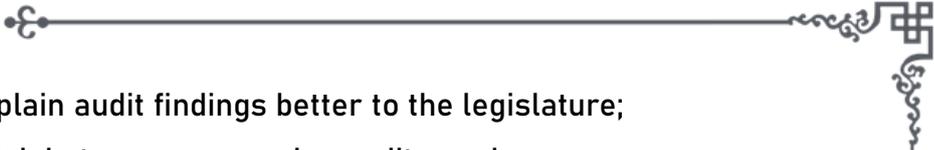
The PAG outlines the need to maintain effective, proper and continuous communication with the audited entities and relevant stakeholders. It also outlines the need for the audit teams to have the necessary competence as the quality of PA is directly related to the requisite knowledge of the subject, experience, technical skills and the auditing proficiency. The competencies of the auditors are assessed by using audit tool 3.2 in the PA. In case the PA needs the help of a specialist and technical expert for a particular audit, the guideline clearly spells out the procedures to do so.

The need to exercise professional; judgment and professional scepticism throughout the audit is emphasized in Chapter 1, section 1.27. Also the need to consider materiality at all stages of the audit process is given in section 1.30 and 1.31. Chapter 3 of the PAG outline the objective of planning an audit and the prerequisites. The audit plan is a key document that sets the road map for the individual performance audit of any entity or activity which focuses directly on issues and areas relating to the subject matter in detail. The audit plan is based on a sound understanding of the subject matter. The following steps are covered in planning the audit:

1. Understanding the subject matter
2. Conduct Stakeholder Analysis
3. Identify the key areas or lines of enquiry
4. Carry out risk assessment
5. Defining audit objective and scope
6. Defining audit approach
7. Designing Audit Program
8. Job Distribution
9. Presentation and Approval of Audit Plan

The need to document the audit is outlined in Chapter 7 to enable auditors having no previous connections to understand the audit findings, conclusion and recommendation. The purpose of the audit documentation is to:

- Serve as evidence of the auditor's compliance with applicable standards;
- Assist in planning, conducting and reporting the audit;
- Confirm and support the auditor's conclusion and recommendations;
- Serve as a source of information for preparing reports or answering any enquiries from the audited entity or from any other party;
- Facilitate effective management;
- Assist in the supervision and review of the audit work;
- Record evidence resulting from audit work performed to support the audit work;
- Must be adequate and defensible basis for the conclusions and recommendations;

- 
- It enables auditors to explain audit findings better to the legislature;
  - It provides an effective link between successive audits; and
  - Any changes to the draft audit report, or reasons for making changes, are documented.

In addition to the PA guidelines, the RAA has developed more specific guidelines such as Environmental Auditing Guidelines.

#### **Dimension ii: Performance Audit Team Management and Skills**

The sample audit reviewed indicates that most of the team leaders and members possess prior experience with Performance Audits and many of them have participated in training outside the country as well as in-house training. During the planning of audits, the competence and qualification of auditors comprising of subject matter, experiences, technical skills and the auditing proficiency are assessed by using competency matrix, which is an audit tool to assess professional qualifications as well as experiences of auditing similar entities and subjects in the past. All the three sample audit files indicates that the competency and the skills of the audit team are assessed. The matrix concludes that whether the professional qualification and experience of the auditors for the particular performance audits is appropriate and that the engagement team collectively has the appropriate capabilities, competencies and time to perform the audit. In case of audits where teams do not possess the necessary knowledge and skills, RAA can engage experts especially when the subject is generally complex and technical.

The teams have sound knowledge of auditing, research design, social science methods and investigation or evaluation techniques as their educational background gives some indications. The two divisions namely Performance & Systems Audit Division and Thematic Audit Division have 19 auditors having academic degrees, five having a master's degree and the remaining have a bachelor's degree<sup>97</sup> with twelve of them with Post Graduate Certificate in Financial Management. Most of them have degrees in Finance, Information Technology, and the rest have in Economics, Environmental Management. The Divisions have auditors with relevant academic degrees in social science methods. Among them, there are auditors who have studied research design, social science methods and evaluation techniques as part of the master's degree programme which has to a great extent helped in analyzing audit evidence.

The audit teams have good communication, writing and analytical skills as the audit reports have complied with the guidelines and standards of writing a good audit report. The teams have also used the reporting templates for performance audits and these reports have already been tabled and discussed by the Parliament generating much debate and impact. The PA reports are written in a comprehensive, convincing, timely, reader friendly and balanced manner. The PAG clearly outlines how to develop recommendations and the recommendation development process that adds value and address the root causes. There are clear reporting lines and allocation of responsibilities within the team, as evidenced by the audit plans of the sampled audits.

The RAA has Continuous Professional Development Policy (CPDP) to ensure that there is a regular capacity development courses to enhance the professional capacity of auditors. During the FY 2017-2018, auditing from a gender perspective and ISSAIs on

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<sup>97</sup> RAA HR Information maintained by HRIRD

Performance audits were conducted for the auditors from PSAD and TAD. However, the RAA has not yet defined the competencies required by performance auditors and, consequently is not able to provide the specific trainings needed to support the development of the performance auditor's knowledge, skills and abilities. With the competency based framework of auditors in the three disciplines of audits in the process of development, is expected to determine the required competencies and facilitate human resource development interventions to enhance their knowledge, skills and abilities to carry out effective performance audits.

### Dimension iii: Quality Control in Performance Audit

The Performance Audit Guidelines and the AG' s Standing Instructions specify how quality control should be carried out at different stages of the performance audit. The quality control is carried out as a line function and the RAA relies largely on the hierarchical review of the audit documents (audit plan, working papers, audit report) by, respectively, the Team Leader, Division Chief (AAG), Deputy Auditor General and the Auditor General. The Assistant Auditor General (AAGs) of Performance & Systems Audit Division and Thematic Audit Division reviews the audit plan and audit reports. The comments on the three sample files indicated that the AAG reviewed the draft audit plan and audit report. The comments on the draft audit report by the Deputy Auditor General, Department of Performance and Commercial Audits was also documented in the files. The final approval is confirmed after Auditor General signs the transmittal letter of the report to be sent to the responsible agency. (all three sample PA reports contained the final report signed by the Auditor General).

However, the AG's Standing Instructions and the Performance Audit Guidelines do not spell out how to deal with difficult or contentious matters, if they arise. Moreover, these documents do not indicate anything about how to address and resolve any differences of opinions within the SAI before a report is issued. The sample files also do not clearly show any documentation in case such issues have arisen or any actions taken to resolve it.

### Assessment Scores by Dimension

**Table 29: Assessment Scores by Dimensions**

Dimension	Score
(i) Performance Audit Standards and policies	4
(ii) Performance Audit Team Management and Skills	4
(iii) Quality Control in Performance Audits	2
<b>Overall score</b>	<b>3</b>

### Assessment Findings and observations

**Table 30: Assessment findings and observations**

Dimension	Findings	Score
(i) Performance Audit Standards and Policies	<p><b>Criteria a, b ,c, d, e, f, g, h, j, k, l, m, n, o, p, q, r, s, t, and u are met</b></p> <p><b>Criteria i is not met</b></p> <ul style="list-style-type: none"> <li>• The RAA has adopted the Performance Audit Guidelines which is consistent with ISSAI 300, the Fundamental principles of Performance Audits.</li> <li>• The standards do not include the need for auditors to apply procedures to safeguard quality, ensuring that the applicable requirements are met</li> </ul>	<p><b>4</b></p> <p><b>Criteria b,d,m,s and fifteen criteria are in place</b></p>

(ii) Performance Audit Team Management and Skills	<p><b>All Criteria are met</b></p> <ul style="list-style-type: none"> <li>• The audit teams have the necessary knowledge and skills to carry out performance audits.</li> <li>• Also external expertise is hired where necessary.</li> </ul>	<p><b>4</b></p> <p><b>All criteria are in place</b></p>
(iii) Quality Control in Performance Audits	<p><b>Criteria a, b, e, and f are met.</b></p> <ul style="list-style-type: none"> <li>• The quality control is carried out as a line function and the RAA relies largely on the hierarchical review of the audit documents (audit plan, working papers, audit report) by, respectively, the Team Leader, Division Chief (AAG) Deputy Auditor General and the Auditor General.</li> </ul> <p><b>Criteria c) and d) not met</b></p> <ul style="list-style-type: none"> <li>• In practice, there are no documents indicating how difficult or contentious matters are resolved within the SAI before a report is issued.</li> </ul>	<p><b>2</b></p> <p><b>At least three criteria are in place</b></p>

#### 4.3.6 SAI -13: Performance Audit Process -Score-3

##### Narrative

This indicator examines the Performance audit process and examines the planning, implementation and reporting process. The assessment is primarily based on the information from the review of the three sample performance audit files namely:

1. Performance Audit of Bhutan Chamber of Commerce and Industry (BCCI)
2. Performance Audit of Revenue Collection and Management in Thromdes
3. IT Audit Report on Core Banking Solution of Bank of Bhutan

The review covered a study of the complete audit working files and interviews with the respective audit teams who had done the audit and with the Assistant Auditors General.

The indicator consists of three dimensions:

- (i) Planning Performance Audits
- (ii) Implementation of Performance Audits
- (iii) Reporting on Performance Audits

In general, the audit plans of the sampled audits provide a good basis for conducting the audit and the teams set a clearly-defined audit objective that relates to the principles of economy, efficiency and effectiveness. When planning the audit, the auditors have designed appropriate audit procedures to be used for gathering sufficient and relevant audit evidences.

The auditors have obtained sufficient appropriate audit evidence to establish findings, reach conclusions in response to the audit objectives and questions and issued recommendations. Effective and proper communication was maintained with the audited entities and relevant stakeholders throughout the audit process. There is no adequate documentation on how auditors have actively managed audit risk.

The RAA uses standard format for the structure and presentation of its performance audit reports. The audit reports are comprehensive, convincing, reader friendly and balanced.

## Dimension i: Planning Performance Audits

Review of the three sampled audit files<sup>98</sup> indicate that the audit plans contain sufficient information needed to understand the audited entities identification and assessment of audit risks, audit procedures, sources of evidence. In one sample audit (PA of Bhutan Chamber of Commerce and Industry) a pre-study was carried out as the audit was carried out based on the instruction of the Auditor General which was as per the PA Guidelines under Topic Selection Process where it stipulates the need to conduct a pre-study. The other two sample audits were selected under the general issues of topic selection process which do not require conducting a pre-study. The PA strategic plan 2018-2020 outline the two potential performance audit topics through a process as given in the Performance Audit Guidelines to focus on areas where the audit expects to add maximum value in terms of improved accountability, economy, efficiency and effectiveness and to ensure appropriate coverage of programme operations within the limitations of available audit resources<sup>99</sup>. The rationale for the selection of the topics was based on materiality, public interest, auditability, possible impact, risk to SAI, Improvement, timeliness and high political sensitivity.

The audit team have sufficiently considered materiality at all stages of the audit process. In case of PA of revenue collection and management, financial materiality was considered due to huge collection of revenue and the risk associated with revenue mismanagement and no accountability of misuse of huge revenues. Also qualitative aspects were considered for PA on Core Banking Solution in the Bank of Bhutan as it was a new system. The audit objectives were clearly defined relating to the principles of economy, efficiency and effectiveness and broken down into audit questions and sub questions evidenced from the audit design matrix of the three sample audit files. The audit plans also clearly explain the type of audit approaches adopted for each audits. Suitable audit criteria were derived from laws, rules & regulation and best practices relating to the audit questions and were also discussed with the entity during the audit entry meeting through a presentation. However, there were few instances where some audit criteria did not correspond to the audit questions.

The teams have designed audit procedures in detail (refer audit design matrix) to be used for gathering audit evidence and considered risk of fraud throughout the process. In the three sample audits, all the audit plans were approved by the Deputy Auditor General, Department of Performance and Commercial Audits. The audit criteria of the audits were discussed and agreed with the management during the audit entry meetings conducted with the audited entities before the start of the audits. The Audit plan of the sample PA audit on Revenue Collection and Management in Thromde considers the estimated cost for the audit (including travels, pay & allowances) infrastructure, laptop, stationeries, number of people and vehicle along with tentative schedule to ensure that high quality audit is carried out in an economical, efficient, effective and timely manner. The audit files indicated that the competency matrix evaluated the areas whether external expertise is required or not. The Declaration of conflicts of interest and compliance to code of ethics ensures that at the audit engagement level, the auditors

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<sup>98</sup> PA of BCCI, PA of Core Banking Solution, Bank of Bhutan and PA of Revenue Collection and Management in Thromdes

<sup>99</sup> Strategic Plan 2018-2020- Topic Selection Matrix

complying the ethical requirements of the RAA's Oath of Good Conduct, Ethics and Secrecy and the AG's Standing Instructions.

There has been no independent assessment such as Quality Assurance reviews or a peer or independent review conducted within the past three years. Except as part of the ISSAI implementation programme in 2016, Quality Assurance Reviews were conducted for two pilot Performance Audit Reports.

#### **Dimension ii: Implementing Performance Audits**

The audit teams have sufficiently and appropriately obtained and evaluated the audit evidences in response to the audit objectives, questions and issue recommendations as can be clearly seen and comprehended in the audit design matrix prepared by all the teams of the samples three performance audits. For example in the PA of Revenue Collection and Management the audit finding, 'Revenue leakage as result of inadequate administration: Encroachment of government land in Phuentsholing and Thimphu Thromde. The audit team have sufficiently obtained and analysed the audit evidences in Table 3 Total revenues forgone on account of lease rent not collected for one year amounting to Nu. 12.97 million. The details of the table are attached in annexure I and II in the audit report. The audit evidences response to the audit objective, 'to assess the risk management, governance and controls over the revenue management processes', and the audit response was, 'Are the identified sources of revenue correct and complete?

In all the three sampled audits, different information are obtained from different sources such as the government agencies comprising of both financial as well as non-financial data. Examples of methods and data used include document review, observations, physical verifications, testimonies, survey data and quantitative secondary data. The auditors seemed to have exercised professional judgment in reaching a conclusion as indicated by the evaluations of evidence, audit findings and conclusions addressing the audit objectives and questions.

All three sample audits indicated that the audit evidence are placed in context, considering the pros and cons and different perspectives before the audit findings are finalized. Both positive and negative findings are reported with sufficient evidence with sufficient arguments under each finding. For example in the PA Report of Revenue Collection and Management, Chapter 3 Part I contains initiative and positive developments by Thromdes to improve revenue collection and management processes and Part II contains shortcomings and deficiencies in the revenue collection and management which require further improvement. Also, proper conclusions are drawn to be incorporated in the audit reports. The draft reports also undergo a series of quality controls process by the Assistant Auditors General, Department Head and the Auditor General

The audit teams of the sample audits have also used analytical procedures for the data that were obtained through document reviews, physical observations, survey data and quantitative secondary data. For example, in PA of Revenue Collection and Management, the audit team have used IDEA: Data extraction and analysis software for land inventory system and also IDEA was used for the audit of Core banking solution in Bank of Bhutan in analysing different loans and deposits. The sample audits indicates that the audit teams have considered materiality throughout the audit process as it can be seen clearly at the topic selection stage, risk identification and assessment, design matrix, evaluating evidence, drafting findings and recommendations.

The audit teams have maintained effective and proper communication with the relevant audited entities throughout the audit process. The audited entities are notified through an intimation letter detailing subject matter, objective of the audits in accordance with the mandate derived from the Constitution and Audit Act along with the team composition. During the audit entry meeting, the audit team makes a presentation on the audit objectives, scope, audit criteria, team composition and schedule of audit. The sample audit also indicate that responses are sought from the audited entities on the draft audit report by sending it to the audited entities for actual confirmation and comments and written responses on the audit findings within a given time frame and accordingly incorporated in the report. The audit teams also prepared submission notes for press release to media and made a presentation to the Public Accounts Committee of Parliament. The audit event diaries maintained by the teams also indicate that there is contact between the audit teams and the audited entities and there is evidence that RAA receives the information from the audited entities as per the document requisition.

The audit plans are documented properly with sources in much detail and is approved by the Department Head. The audit files are maintained in both hard and soft copies as current file and permanent file. The documentation consists of important information on the detailed audit design matrix outlining the audit procedures in detail, data collection methods, analysis of data, references to audit evidences and sources, findings, conclusions and the final report. But all the reports could benefit with proper cross referencing, and common naming of folders for all the teams which can actually benefit any reviewers or audit teams for future reference.

There is no document which clearly implies that auditors have actively managed audit risk, which is the risk of obtaining incorrect or incomplete conclusions, providing unbalanced information or failing to add value for users and mitigation measures.

### **Dimension iii. Reporting on Performance Audits**

The PA on Bhutan Chamber of Commerce and Industries (BCCI) reports on the economy, efficiency and effectiveness in the use of the resources of the BCCI and also on the implementation of projects for private sector development and its impact. It also covers policies issues seeing the sufficiency of the legal framework of the office and its establishment. The PA of Core Banking in the Bank of Bhutan covers mainly on the efficiency of the new banking system known as Core Banking. It also covers user access management policies, security awareness, adequacies of controls and policies on related party transactions. The PA on the Revenue Collection and Management in the Thromdes reports on the economy and efficiency in the collection and management of revenue from the four municipalities. Besides, it also reported policy issues on outsourcing, revenue forecasting, revenue enhancement strategy, revenue manual, clear line of reporting and performance tracking.

In a nutshell, the sampled audit reports are comprehensive and contain sufficient information to address the audit objectives and the questions in detail to provide an understanding of the subject matters, audit findings and conclusions. The audit methodology is presented clearly in detail the audit reports, however there is no discussion of the limitations of the data. The sampled audit reports are also logically structured and provide a clear relationship between audit objective, audit criteria, audit findings, recommendations and conclusions. All the sample audit reports follow same structure as below: (example from the PA of Revenue Collection Management in Thromdes)



## Executive Summary

### Chapter 1: About the Audit

#### 1.1 Mandate

#### 1. Standards

#### 1.3 Audit Objectives

#### 1.4 Audit Scope

#### 1.5 Limitations

#### 1.6 Audit Methodology

### Chapter 2 Introduction

### Chapter 3: Findings

#### Part I: Initiatives and Positive Developments

#### Part II: Shortcomings and deficiencies

### Chapter 4: Recommendations

### Chapter 5: Conclusions

### Annexure

The audit reports are clear, concise and written in unambiguous language and one report although quite technical in nature is easy to read. The reports extensively use tables, graphs, pictures and in one report case studies have been included making the reports more reader friendly.

The audit reports are clear, concise and written in unambiguous language and one report although quite technical in nature is easy to read. In all the sample performance audit reports, the audit teams have used use tables, graphs, pictures to present the audit evidence clearly to support the audit findings. The details of the tables and graphs were given as annexure at the end of the audit reports. The PA on Revenue Collection and Management in Thromdes have used case studies to support their audit findings to get a clear understanding of the audit issue making the report more reader friendly.

The audit reports are balanced in content as well as in tone. All the reports clearly highlights the achievements/positive achievements of the audited entities or the particular programme along with the lapses/deficiencies observed by the teams which indicates that the evidences are presented in an unbiased manner. There is no evidence to show that materiality was considered in the reporting phase except the PA on Revenue Collection and Management in Thromdes where both qualitative and quantitative aspects were considered during the drafting of the audit findings and only material/significant findings were reported.

For all the three sampled audit reports audit criteria and their sources are listed clearly in the audit design matrix in the appendix, but not in the audit report. However, the disclaimer notes mentions that, "*the audit was based on the criteria determined in the audit plan and program prepared by the RAA and the findings are based on the information and documents made available by the audited agencies*". Each audit findings have clearly stated audit criteria that are relevant and sufficient to the audit findings. The reports include conclusions in response to the audit objectives and questions and

explain how the overall performance is hampered and making it easier for readers to put the findings in perspective.

The sample audit reports give recommendations that are clear, constructive and linked to the findings. One recommendation addressing more than one audit finding can be clearly seen from the audit reports and links to the audit objectives. Furthermore, it is likely that the recommendations will lead to some positive impact and changes if it is implemented by the concerned agencies.

The two sample reports make reference to the ISSAI 3000 on Performance Auditing and the RAA's Performance Auditing Guidelines in the Executive Summary and in Chapter 1: About Audit under Audit Standard. Except one audit report did not make reference in the audit report but made reference to the ISSAIs and RAA's Performance Audit Guidelines in the disclaimer note.

The RAA sends the draft report to the audited entities for comments to ensure that facts and figures are correct in the audit findings, conclusion and acceptability of recommendations. One month timeframe is given to respond to the draft audit report and the responses are received in writing.

The two sample audit reports document the changes made to the draft report in the final report and it incorporates the summary of the responses of the audited agencies in the report which clearly indicates its acceptance by correcting any factual errors or any disagreement to the responses. The full responses sent by the audited entities are annexed to the final report. However, in one audit report the summary of the responses are not written the report and was difficult to see that changes being made to the final report were in agreement or disagreement to the responses by the audited entities.

### Assessment Scores by Dimension

**Table 31: Assessment Scores by Dimensions**

Dimension	Score
(i) Planning Performance Audits	3
(ii) Implementing Performance Audits	3
(iii) Reporting on Performance Audits	3
<b>Overall score</b>	<b>3</b>

### Assessment Findings and observations

**Table 32: Assessment findings and observations**

Dimension	Findings	Score
(i) Planning Performance Audits	<p><b>Criteria a, b, c, d, e, f, h, i, j, k, l, and m are met</b></p> <ul style="list-style-type: none"> <li>• In general, the audit plans of the sampled audits provide a good basis for conducting the audit.</li> <li>• The auditors considered materiality at all stages of the audit process</li> <li>• Auditors set a clearly-defined audit objective that relates to the principles of economy, efficiency and effectiveness</li> <li>• The auditors chose a result-, problem- or system- oriented approach, or a combination thereof, to facilitate the soundness of audit design.</li> <li>• The criteria were discussed with the audited entities when planning the audit, the auditor designed the audit procedures to be used for gathering sufficient appropriate audit evidence.</li> </ul> <p><b>Criterion g not met</b></p>	<p><b>3</b></p> <p><b>At least 10 criteria are in place</b></p>

	In one of the audit samples few criteria did not correspond to the audit questions	
(ii) Implementing Performance Audits	<p><b>Criteria a, b, c, d, e, f, g, i, j, and k are met</b></p> <ul style="list-style-type: none"> <li>• The auditors have obtained sufficient appropriate audit evidence to establish findings, reach conclusions in response to the audit objectives and questions and [when appropriate] issued recommendations</li> <li>• The auditors have evaluated the evidence to obtain audit findings.</li> <li>• Based on the findings, the auditors have exercised professional judgement to reach conclusion</li> <li>• Materiality was considered at all stages of the audit process</li> <li>• Effective and proper communication was maintained with the audited entities and relevant stakeholders throughout the audit process</li> </ul> <p><b>Criterion g is not met</b></p> <ul style="list-style-type: none"> <li>• There was no sufficient evidence to see how auditors have actively managed audit risk, which is the risk of obtaining incorrect or incomplete conclusions, providing unbalanced information or failing to add value for users.</li> </ul>	<p><b>3</b></p> <p><b>At least eight criteria are in place</b></p>
(iii) Reporting on Performance Audits	<p><b>Criteria a, b, c, d, e, g, h, i, and k are met</b></p> <ul style="list-style-type: none"> <li>• In performance audit reports their findings on the economy and efficiency (of the use of resources) and the effectiveness with which objectives are met.</li> <li>• The audit reports are comprehensive and convincing, reader friendly and balanced.</li> <li>• The reports include conclusions in response to the audit objective and questions.</li> </ul> <p><b>Criteria f, j and l are not met</b></p> <ul style="list-style-type: none"> <li>• The reports do not include information about the audit criteria and their sources.</li> <li>• In one sample audit report it did not declare which standards they applied when conducting audits.</li> </ul>	<p><b>3</b></p> <p><b>At least nine criteria are in place</b></p>

#### 4.3.7 SAI -14: Performance Audit Results- Score 3

This indicator examines the performance audit outputs- the timely submission and publication of performance audit reports and the follow-up on audit results.

The review covered a study of all the performance audit reports issued during 2017-2018 and interviews with the respective audit teams who had carried out the audit and with the Assistant Auditors General.

The indicator consists of three dimensions:

- i) Timely Submission of Performance Audit Report
- ii) Timely Publication of Performance Audit Report
- iii) SAI-Follow-up Implementation of Performance Audit Observations and Recommendations

The performance audit reports were all submitted to the audited entities and relevant stakeholders and published on the day of tabling the reports to the parliament.

There is effective follow-up mechanisms see whether follow up previous audit findings and recommendations were implemented. The follow-up procedures allow the audited



entities to provide information on corrective measures taken and why corrective measures are not taken. The follow-up reports should include an analysis of different audits, possibly highlighting common trends, themes across a number of reporting areas and the impact from these corrective actions in the future.

#### **Dimension i: Timely Submission of Performance Audit Report**

There is no legal stipulated timeframe for when performance audit results shall be reported for individual audited agency. The agreed timeframe as per the Annual Audit Schedule 2017-2018 was used as basis for scoring on the timeliness of submission of performance audit result. RAA submitted all six performance audit reports during the FY 2017-2018 to the audited entities with a copy to the Prime Minister, His Majesty's Secretariat, Speaker of the National Assembly, The Chairperson of the National Council, the Chairperson of the Public Accounts Committee and the Opposition Leader within 30 days from the plan report issue date which is the agreed time frame in the Annual Audit Schedule 2017-2018. The performance audit reports are submitted throughout the year when they are completed.

#### **Dimension ii: Timely Publication of Performance Audit Reports**

Out of the six PA reports issued during 2017-2018, three PA reports were tabled on 5 December 2019 (winter session) and three PA reports were tabled on 28 January 2019 (winter session) and were published in the RAA webpage and conducted press conference/release on the same day of tabling to the Parliament. The Performance audit reports were reported in the national newspaper Kuensel in atleast 12 issues from January 2017 December 2019

#### **Dimension iii: SAI-Follow-up Implementation of Performance Audit Observations and Recommendations**

The Follow-up and Clearance Division (FUCD) carry out follow up of audit findings and recommendations wherever appropriate for all the PA reports issued on a regular basis. The follow-up is not restricted to the implementation of the recommendations but also focuses on whether the audited entities have adequately addressed the problem and remedied the underlying situation.

The audited entity need to submit the Management Action Plan within 90 days from the issue of the reports. The MAP gives time frame for the implementation of the findings & recommendation and fix accountability on the audit recommendations. The FUCD accordingly assess the reasonableness of time frame for the implementation of the recommendations and segregate accordingly to the time frame given by the audited entities and follow-up on a regular basis. The follow-up procedures allow the audited entities to provide information on corrective measures taken and why corrective measures are not taken. However, there is no practice to see whether the audited entity has adequately addressed the problems and remedied the underlying situation after a reasonable period of time.

The review report of the follow-up is submitted to the Parliament during the month of March and September every year. The follow-up report is submitted individually to the audited entities and as a consolidated report to the Parliament. However, such reports do not include an analysis of different audits, possibly highlighting common trends and themes across a number of reporting areas.

The follow-up reports as stated earlier include the conclusion of the corrective measures being taken or not but does not include the impact from these corrective actions. RAA has not yet established a practice for evaluating materiality and the importance of the identified problems in order to determine if a follow-up requires a new additional audit.

### Assessment Scores by Dimension

**Table 33: Assessment Scores by Dimensions**

Dimension	Score
(i) Timely Submission of Performance Audit Report	3
(ii) Timely Publication of Performance Audit Reports	4
(iii) SAI-Follow-up Implementation of Performance Audit Observations & Recommendations	2
<b>Overall score</b>	<b>3</b>

### Assessment Findings and observations

**Table 34: Assessment findings and observations**

Indicator score:		
Dimension	Findings	Score
(i) Timely Submission of Performance Audit Report	<ul style="list-style-type: none"> <li>The RAA submitted 100% the PA reports during the FY 2017-2018 to the legislature within 30 days as per the plan report issue date and actual issue date, which is the agreed time frame and Submits to the audited entity, His Majesty, Prime Minister, Speaker, Chairperson of the National Council, Opposition Leader, Chair and members of the Public Accounts Committee on the day the report is issued</li> </ul>	<b>3</b>
(ii) Timely Publication of Performance Audit Reports	<ul style="list-style-type: none"> <li>The RAA publishes all its performance audit reports on the same day the reports are tabled to the Parliament</li> </ul>	<b>4</b> <b>All criteria are in place</b>
(iii) SAI-Follow-up Implementation of Performance Audit Observations and Recommendations	<p><b>Criteria a, d, e, and are met.</b></p> <ul style="list-style-type: none"> <li>The Follow-up and Clearance Division (FUCD) follow up previous audit findings and recommendations wherever appropriate for all the reports issued on a regular basis.</li> <li>The follow-up procedures allow the audited entities to provide information on corrective measures taken and why corrective measures are not taken.</li> </ul> <p><b>Criteria b, c, f and g are not met</b></p> <ul style="list-style-type: none"> <li>Reports do not include an analysis of different audits, possibly highlighting common trends and themes across a number of reporting areas.</li> <li>The follow-up reports include the conclusion of the corrective measures being taken but not the impact from these corrective actions.</li> <li>RAA has not established a practice for evaluating materiality and the importance of the identified problems in order to determine if a follow-up requires a new additional audit.</li> </ul>	<b>2</b> <b>Three of the criteria are in place</b>

#### 4.3.8 SAI 15: Compliance audit standards and quality management- Score 1

##### Narrative

This indicator is specific to the fundamental principles of compliance auditing. SAI-15 looks at the foundations for compliance audit practice, including audit standards and



guidance material, and an SAI's processes to ensure the quality of compliance audits. The SAI's overall systems for ensuring quality of the audit work are assessed in the indicators on quality control in SAI-4 and staff recruitment and training in relevant audit disciplines in SAI-22 and SAI-23.

The indicator consists of three dimensions:

- i) Compliance Audit Standards and policies
- ii) Compliance Audit Team Management and Skills
- iii) Quality Control in Compliance Audits

The RAA has adopted ISSAI as its authoritative standards in 2017<sup>100</sup>. While RAA has adopted ISSAI 4000 for compliance audits, the RAA is still in the process of finalizing its Compliance Audit Guidelines. Updated versions of the draft were issued to auditors to use it as guidance in conducting compliance audits. The assessment was done on the basis of draft Compliance Audit Guidelines and the existing system of conducting compliance audits with specific reference to two audit samples chosen for review. The RAA conducts either entity-based or theme based compliance audits.

There is a system to assess the competency of auditors to conduct compliance audits. The templates to assess team competency is validated by the supervisor.

The RAA has strong quality control procedures for conducting compliance audits. The audit plans containing risk assessment, understanding the entity, assessment of internal controls and assessment of ethical threats are approved by the supervisor. The reports go through a thorough review by the supervisor and department head. However, improvements can be made as there is no quality assurance reviews were conducted for CA and how to document difference in opinion and resolutions arrived at before the report is finalized.

#### **Dimension i: Compliance Audit Standards and Policies**

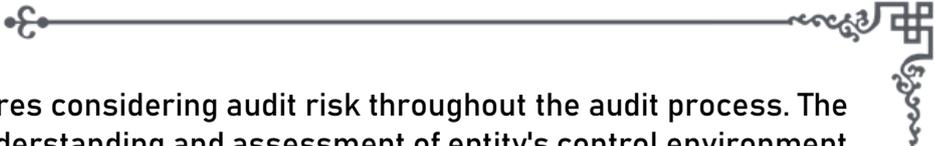
ISSAI 4000 provides strong foundation for conducting compliance audits. The Compliance Audit Guidelines<sup>101</sup> has not been finalized. The draft Guidelines is developed broadly in line with the ISSAI 4000 with some templates for audit documentations designed to suit RAA's context. The assessment of compliance audits foundations were done on the basis of the draft Compliance Audit Guidelines as well as on the basis of existing systems in the practice of conducting compliance audits with specific reference to two sample compliance audits taken for review.

The RAA has put in place its "draft Compliance Audit Guidelines" to be used as guidance for undertaking compliance audits. The draft guideline requires the auditors to identify applicable authorities, subject matter, and level of assurance to be provided. On assurance and engagement, the guidelines prescribes "direct reporting and reasonable assurance" to be given by auditors. At the practice level, the subject matter is discussed in a separate para in the audit plans of the sample audits. The applicable authorities are identified under para on audit criteria. It lists out applicable Acts, Rules, Guidelines and other relevant notifications and circulars governing the subject matter.

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<sup>100</sup>Executive Order issued by Head of SAI

<sup>101</sup> Draft Compliance Audit Guidelines



The draft CA guideline requires considering audit risk throughout the audit process. The audit team document the understanding and assessment of entity's control environment and internal control and list the risk in the Risk Register which forms as a part of audit plan. This register is updated continuously during execution. The review of sample audit files showed that the teams have documented communications such as intimation letter, letter of engagement, document requisitions, presentations made during audit entry and exit meeting, sharing of preliminary observations and responses with management and also communication between the manager in submitting the plans, reviews and comments, finalization of reports etc. The teams have documented the identification of subject matter in the plan document. The audit procedures designed as a part of audit plan contain exhaustive list of criteria against each audit risk identified and assessed. The Guidelines requires the auditors to determine scope which is included in the Audit plan as a separate paragraph. It identifies areas, extent and time period covered for a given subject matter. The understanding of the entity or a subject matter is documented as a part of Audit Plan along with process charts as Annexures.

The working file contains list of evidences which were collected by performing audit procedures and are used for concluding on the audit objectives. The audit evidences are assessed and reviewed by the managers in finalizing its opinion/ audit report. The teams have performed the audit procedures developed against each risk. The evidences are assessed against its sufficiency and appropriateness and are used to form audit conclusions. These are done at the level of team level and then at Division level which is documented in the Audit Finding Matrix.

The team submits the preliminary audit conclusions along with evidences to the manager, who reviews and improves based on the evidences. If the evidences are found not complete and appropriate, it is discussed with the team. If there are additional evidences need to be collected, the team is directed to do so. Accordingly, preliminary conclusions are made. These are shared formally with the management for their responses. Exit meetings are held between audit team after obtaining management responses and further discussions take place during the meeting. The audit manager (division chief) along with team attends the meeting and the management is usually attended by top management of agency along with relevant officials. The proceedings and decisions are minuted. The final report is issued based on the decisions of the exit meeting. The reports are issued usually as per the Annual Audit Schedule.

However, the materiality aspect is a mere theoretical description of qualitative and quantitative materiality rather than setting specific materiality and using throughout audit process. The audit teams have maintained documents both in the form of hard and soft copies. However, the documentation is not complete in terms of assessment of control environment and internal control and evaluation of evidences to arrive at conclusion. The teams have documented the assessment of control environment and internal controls as a part of Audit Plan. But the assessment is not complete as there is no conclusion drawn on adequacy of internal control. The audit teams have documented the risk assessment and the audit procedures are designed based on the risk assessed. The assessment of control environment and internal control are not complete, and the risk assessment was not adequate.

The consideration of Risks of Fraud is included in the draft Guidelines. The review showed that assessment of fraud risk was not done sufficiently.

The audit plan documents basically contain both the elements of audit strategy and audit plan which are prepared by the teams and reviewed and approved by audit managers.

These are prepared in accordance with the formats prescribed as templates and annexures. However, in view of inadequate assessment of controls and risk, this requirement is not adequate.

The draft Guidelines requires the auditors to determine materiality through professional judgment and to be determined by value, nature and context to be determined. Determination of materiality is included in the audit plan as a separate paragraph. However, there is no clarity of materiality (both qualitative and quantitative) determined in the Audit Plan. As such, the extent to which professional judgment was exercised cannot be ascertained. The documentation with respect to sample audits were found incomplete in many respects from understanding the entity and its environment, internal control and risk assessment.

The audit procedures developed to collect the audit evidence are based on the assessed risk and materiality. The team have also determined sample size in response to materiality, risk assessments and assurance level. But it is difficult to relate the extent to which considerations of materiality and assurance levels were considered in evaluating the evidences through the working files maintained by the audit teams of both the sample files.

All criteria were assessed as met considering that ISSAI 4000 are being used as guidance for compliance audits.

#### **Dimension ii: Compliance Audit Team Management and Skills**

The review of sample audit files showed that the competency of auditors are assessed and validated by the supervisor. A template to assess the competency in the form of Competency Matrix is prescribed. The specific competencies were assessed in terms of knowledge of audit approach and process, past experience, knowledge of entity, basic knowledge of financial statements and IT skills. The auditors for sample audit had necessary skills, competence and skills to conduct the audits. The auditors also sign the document indicating understanding of roles and responsibilities but there are no specific roles and responsibilities divided amongst individuals.

The Audit Plans contain identified authorities governing the audited agencies. Audit plan is prepared containing the elements of subject matter, level of assurance, type of engagement, authorities and criteria, audit objectives, scope, materiality and detailed audit procedures. The templates for key elements of understanding the entity and assessment of internal control and risks are prescribed. As a standard practice, the process flows are drawn to understand the business processes and control activities. The risks are identified after assessment of internal controls. One of the elements under understanding the entity is understanding about legal framework which includes identifying authorities governing the audited agencies. This document is validated by the supervisor. Criteria are identified during development of audit procedures for specific risks. The criteria are also referred in the Audit Finding Matrix against which specific conclusions are drawn based by comparing actual conditions with identified criteria. However, though these templates were documented, there were no proper evaluation of internal controls as no conclusive conclusions were drawn from the assessment so as to identify risk and develop appropriate audit procedures which is assessed in SAI 16.

The Competency Matrix shows the required and available competency and gaps. It shows whether there is a need for engaging external experts if there are any gaps. In the sample audits, though the competency matrix indicated requirement of engaging

external experts, the RAA has not engaged any external experts. Further, there is no process to evaluate necessary competence, capability and objectivity of external experts.

The review of sample audits showed that there were gaps in conducting assessment of control environment, internal control and risk assessment. There were no clear linkages as to the conclusions from assessment of internal controls and overall risk identification and assessment. These have direct effect on developing audit procedures and extent of collecting and evaluating audit evidences.

**Dimension iii: Quality Control in Compliance Audits**

AG’s Standing Instructions specifies quality control process in following levels<sup>102</sup>:

1. Team Leader
2. Division Chief/ Assistant Auditor General
3. Department Heads
4. Research & Quality Assurance Division
5. RAA’s Executive Committee
6. Auditor General

The process of supervision and monitoring by different levels are specified in the AG’s Standing Instructions<sup>103</sup>. This entails roles and responsibilities of different levels for supervision and monitoring throughout the audit process. Audit Plans are approved by the supervisor (Division Chief or AAGs) and some of the templates forming part of audit documentation are signed and validated by the supervisor.

It cannot be traced from the documents that there had been continuous and regular monitoring by supervisors. One of the elements under specific competency is to indicate requirement to engage experts. It cannot be ascertained that experts were used in the sample audits. Issues included in the final report are based on reviews by supervisors and department heads. But it is difficult to trace through audit files in absence of clear documentation. No requirement stipulated for engagement of quality control reviews.

There is no requirement stipulated for engagement of quality assurance reviews. The RQAD as an independent Division is responsible for QA review but has not conducted QA review of Compliance Audit during the period.

**Assessment Scores by Dimension**

**Table 35: Assessment Scores by Dimensions**

Dimension	Score
(i) Compliance Audit Standards and Policies	1
(ii) Compliance Audit Team Management and Skills	2
(iii) Quality Control in Compliance Audits	1
<b>Overall score</b>	<b>1</b>

<sup>102</sup> Chapter 6.1 of AG’s Standing Instructions

<sup>103</sup> Chapter 3.3 of AG’s Standing Instructions

## Assessment Findings and observations

**Table 36: Assessment findings and observations**

Dimension	Findings	Score
(i) Compliance Audit Standards and Policies	<p><b>Criteria a, b, e, f, g, h, m, n and o are met</b></p> <ul style="list-style-type: none"> <li>• The elements of CA like applicable authority, subject matter, intended users and level of assurance are identified by the auditors in the audit plan.</li> <li>• There were effective communications throughout the audit process and documented properly.</li> <li>• The audit plans identify criteria and scope of audit and auditors understand entity in the light of governing authorities.</li> <li>• The auditors collect and evaluate audit evidences to form audit conclusions.</li> <li>• Auditors prepare written reports based on the principles of completeness, objectivity, timeliness and a contradictory process.</li> </ul> <p><b>Criteria c, d, I, j, k, l, p, q and r are not met</b></p> <ul style="list-style-type: none"> <li>• Determination of materiality is not clear and appear a mere theoretical description of qualitative and quantitative materiality rather than setting specific materiality and using throughout audit process</li> <li>• The documentation is not complete in terms of assessment of control environment and internal control and evaluation of evidences to arrive at conclusion.</li> </ul>	<p style="text-align: center;"><b>1</b></p> <p><b>Criterion (b) and least three of the other criteria above are in place.</b></p>
(ii) Compliance Audit Team Management and Skills	<p><b>Criteria a, b, c, d,e,h, I, j, k, m, n, p, q, and r are met.</b></p> <ul style="list-style-type: none"> <li>• The RAA has a system to assess the competency of auditors to conduct compliance audits. The templates to assess team competency is validated by the supervisor.</li> <li>• The auditors prepare Audit Plans containing the elements of subject matter, authorities and criteria, scope, risk assessment and detailed audit procedures.</li> </ul> <p><b>Criteria f, g, l and o are not met</b></p> <ul style="list-style-type: none"> <li>• There is no adequate documentation of audit strategy in both the sample audits.</li> </ul>	<p style="text-align: center;"><b>2</b></p> <p><b>Criteria a, e and at least six criteria are in place</b></p>
(iii) Quality Control in Compliance Audits	<p><b>Criterion f is met.</b></p> <ul style="list-style-type: none"> <li>• Roles and responsibilities for review and approval of reports are in place. The draft reports are reviewed by the division chief and also independently reviewed by RQAD. Then it is signed by the Auditor General or authorized official.</li> </ul> <p><b>Criteria a, b, c, d, and e are not met</b></p> <ul style="list-style-type: none"> <li>• The process followed in subjecting the work to continuous reviews and documenting the process was not adequately documented, and also that QA review was not conducted for Compliance Audit.</li> <li>• One of the elements under specific competency is to indicate requirement to engage experts. It cannot be ascertained that experts were used in the sample audits.</li> <li>• No requirement stipulated for engagement of quality control reviews.</li> </ul>	<p style="text-align: center;"><b>1</b></p> <p><b>At least one of the criteria is in place</b></p>

#### 4.3.9 SAI 16: Compliance audit process - Score 1

SAI 16 seeks information on how compliance audits are done in practice at the planning, implementation and reporting stages of audit cycle. This indicator has three dimensions:

- i) Planning Compliance Audits
- ii) Implementing Compliance Audits
- iii) Evaluating Audit Evidence, Concluding and Reporting of Compliance Audits

The review of samples showed that there are standardized processes for conducting compliance audits. The Audit Plans specify subject matters, authorities, consideration of materiality, level of assurance to be provided, scope and areas to be covered. The plan is further supported by standardized templates which the auditors use for documenting understanding of entity, assessment of internal controls and risks and detailed audit procedures designed to address the identified risks. However, there are also scopes for improving as far as completing the templates are concerned.

The execution stage is generally concerned about performing audit procedures against the identified risks and collecting and evaluating evidence. The issues of non-compliances included in the report are supported by relevant evidence. These evidences are stated to be verified by supervisor at the time of review of reports<sup>104</sup>. However, verification of evidence by the supervisor cannot be traced through audit documentation. The documentation of risk assessment and internal control are not clear as there is no sufficient details of linkages.

##### Dimension i: Planning Compliance Audits

The Audit Plan includes elements of audit strategies including the identified subject matter, authorities, level of assurances to be provided, scope and materiality. The plan is supported by completed templates prescribed for understanding the entity, assessment of internal controls and risks, ethical requirements and competency of auditors. The detailed audit procedures are designed for specific risks identified. The templates for assessing compliance to code of ethics were signed by all auditors and validated by supervisor and documented. It covers the aspects of integrity, independence, conflict of interest, confidentiality, professional competency and due care which the auditors need to comply with.

The templates for assessment of ethical threats containing the elements of self-interest, self-review, advocacy, familiarity and intimidation threats have been duly completed. The supervisor validates that necessary safeguards are put in place to address these threats.

The plan is approved by the supervisor including the templates for assessments and detailed audit procedures.

The auditors have maintained regular and effective communication throughout the audit process. These are evident from the intimation letter, engagement letter, and submission of preliminary audit observations to management, and obtaining written responses from management. Besides, there had been regular meetings such as entry meeting to communicate audit plans and exit meeting to discuss audit findings before

<sup>104</sup> Interview with Team Leaders



the report is finalized. The audit findings are based on comparison of observed conditions with applicable criteria and evaluated against evidence obtained.

The templates for assessment of internal controls and risk assessment were not done comprehensively to provide clear conclusion on adequacies and possible risks. There is no systematic approach of linking risks and control assessments. It appeared that auditors use perceived risk based on the understanding of business process and past experiences of individual auditors. This shortcoming also applies to assessment of fraud risk. There were no specific considerations of risks related to fraud in both the sample files.

#### **Dimension ii: Implementing Compliance Audits**

The auditors perform audit procedures developed in the audit plan. The nature, timing and extent of compliance audit procedures is as per the detailed audit procedures approved by the supervisor. This document contains audit objectives, audit risks and criteria and sources of criteria. It also specifies evidence gathering techniques and audit procedures determining the nature, timing and extent of procedures to be performed.

On issue of handling fraud, there were no instances of fraud being detected in the two sample audits. AG's Standing Instructions specifies that for audit observations with prima facie evidence of existence of fraud, corruption and embezzlement, the audit team shall recommend for appropriate action as per the laws of the land<sup>105</sup>.

The audit files contain evidences to support findings included in the audit reports. These findings were based on non-compliances to the applicable authorities governing the audited agencies. The conclusions were drawn based on the evidences collected and appropriate recommendations were provided in the form of RAA's further comments and recommendations.

The findings in the audit finding matrix confirmed that the all planned audit procedures were performed and evidences were obtained for each audit observations. While there were extensive documentations maintained for both the sample audits, the filing was haphazardly maintained and could be made more logical in terms of sequence to as to provide better understanding of overall audit process.

#### **Dimension iii: Evaluating Audit Evidence, Concluding and Reporting of Compliance Audits**

The Audit Plan includes aspects of audit strategy including identification of subject matter, criteria along with sources and scope of audit. The documentation of risk assessment and internal control are not clear as there is no sufficient detail of linkages. The risks were identified.

The documents are maintained both in hard and soft copies properly secured under the custody of CFID. The information are maintained in prescribed templates in the guidelines.

The Audit Finding Matrix shows that conclusions are based on the evidence for each finding.

There were continuous communications throughout audit process. Record of intimation, audit engagement, minutes of exit meeting, communication of draft observations,

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<sup>105</sup> Clause 3.4.13 of AG's Standing Instructions.

responses obtained from audited agencies etc., show that communication was effective and continuous

Audit observations were shared with management and responses were obtained from the management. The Exit Meeting discussed all observations. The reports were issued only after discussing and responding to the draft audit observations by the management.

Evidences were verified by the manager, conclusions reviewed in light of evidences and management's views were reflected and considered in the audit observations

### Assessment Scores by Dimension

**Table 37: Assessment Scores by Dimensions**

Dimension	Score
(i) Planning Compliance Audits	1
(ii) Implementing Compliance Audits	1
(iii) Implementing Compliance Audits	2
<b>Overall score</b>	<b>1</b>

### Assessment Findings and observations

**Table 38: Assessment findings and observations**

Dimension	Findings	Score
(i) Planning Compliance Audits	<p><b>Criteria d, e, f, and k are met.</b></p> <ul style="list-style-type: none"> <li>It contains elements of audit strategies such as identification of subject matter, level of assurances, authorities governing subject matter, scope and determination of materiality.</li> <li>The sample files showed that there is an effective and continuous communication throughout the audit process and the audit criteria is agreed with the responsible party through presentation in the entry meeting.</li> </ul> <p><b>Criteria a, b, c, g, h, i and j are not met.</b></p> <ul style="list-style-type: none"> <li>The auditors' understanding of control environment and assessment of internal controls were not documented properly.</li> <li>There were no clear documentation on auditors' consideration of audit risk throughout the audit process and hence, not able to understand the extent to which audit procedures were developed based on audit risk.</li> <li>Fraud risk were not considered in the sample audits</li> <li>There were gaps documenting audit strategy and audit planning in respect of completing the templates of understanding the entity, assessment of internal control and risk assessments.</li> </ul>	<p><b>1</b></p> <p><b>Criteria at least two are in place</b></p>
(ii) Implementing Compliance Audits	<p><b>Criterion d is met.</b></p> <ul style="list-style-type: none"> <li>The evidences are collected and assessed of sufficiency and appropriateness and audit conclusions drawn as shown in the Audit Finding Matrix in both the sample audits.</li> </ul> <p><b>Criteria a, b, c and e are are not met</b></p> <ul style="list-style-type: none"> <li>In view of the inadequacy in assessment of control environment and internal controls, the risk assessment is found to be incomplete.</li> <li>There were no cases of fraud that have been dealt with during audit in both the audits.</li> <li>No experts were found used in both the audits</li> <li>There were no explanation retained on the audit file for not performing audit procedures</li> </ul>	<p><b>1</b></p> <p><b>At least one criteria in place</b></p>

(iii) Evaluating Audit Evidence, Concluding and Reporting of Compliance Audits	<p><b>Criteria d, e, f, g, h and I are met.</b></p> <ul style="list-style-type: none"> <li>• The preliminary audit findings are shared with audited agencies and response are obtained and it is discussed during exit meeting.</li> <li>• The reports were based on principles of completeness, objectivity, timeliness and contradictory.</li> <li>• The information is maintained in prescribed templates in the guidelines.</li> <li>• The conclusions were drawn based on the evidences and cause-effect analysis of audit observations.</li> <li>• Evidences were verified by the manager, conclusions reviewed in light of evidences and management's views were reflected and considered in the audit observations.</li> <li>• There is a continuous communication with the audited agencies in terms of communicating audit results and soliciting views of the management.</li> <li>• The report is structured well in compliance to the ISSAIs. It is easy to understand and contain only those information which is supported by sufficient and appropriate audit evidence.</li> </ul> <p><b>Criteria a, b and c are not met</b></p> <ul style="list-style-type: none"> <li>• The documentation of risk assessment and internal control are not clear as there is no sufficient detail of linkages.</li> <li>• The consideration of materiality in not clear as it is not determined specifically.</li> </ul> <p><b>J is not applicable.</b></p> <ul style="list-style-type: none"> <li>• The draft CA guideline prescribes direct reporting reasonable assurance.</li> </ul>	<p><b>2</b></p> <p><b>Criteria e and at least four criteria are in place</b></p>
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#### 4.3.10 SAI 17: Compliance audit results – Score 3

SAI 17 assesses how efficiently the SAI ensure submission and publication of reports. It seeks information on how compliance audits are done in practice at the planning, implementation and reporting stages of the audit cycle. This indicator has three dimensions:

- i) Timely submission of Compliance Audit Results
- ii) Timely publication of Compliance Audit Results
- iii) SAI follow up on implementation of Compliance Audit Observations and Recommendations.

There is no legal stipulated timeframe for when compliance audit results shall be reported by RAA. The reports are issued usually as per the schedule drawn in the Annual Audit Plan which is similar to the practice of issuing financial audit reports. Similar to the financial audit reports, the compliance audit reports issued during the year are compiled and included in the Annual Audit Report which is submitted to the Parliament. 20% of the compliance audit reports examined were issued within the agreed timeframe or within the maximum timeframe of 51 days allotted through executive order. The annual audit report of RAA is published well within the legal timeframe. RAA has a well-established internal follow-up system and has developed guidelines on follow-up of audit report. RAA's follow-up procedures allow the agencies to provide information on corrective action taken and why corrective actions were not taken through Action Taken Report (ATR). However, RAA does not report publicly on individual compliance audit reports and the concept of materiality is not considered for deciding on the need for follow-up audit.

### Dimension i: Timely Submission of Compliance Audit Results

There is no legal stipulated timeframe for when compliance audit results shall be reported for individual audited agency. The agreed timeframe as per the Annual Audit Schedule 2017-2018 was used as basis for scoring on the timeliness of submission of compliance audit result. The maximum number of days within which the reports are to be issued is 51 days after the completion of the field audit.<sup>106</sup>The assessment team reviewed the report issue date agreed by the audit team as per AAS 2017-18 and actual report issue date as per APEMS for comparison on the timeliness of compliance audit results.

Of the 30 compliance audits conducted in 2017-18, 6 reports were issued within 51 days (maximum days) after the completion of audit. This corresponds to 20 % of the compliance audit reports being issued within the agreed timeframe, which gives a score of 2.

### Dimension ii: Timely Publication of Compliance Audit Results

The Auditor General shall submit the Annual Audit Report to the Druk Gyalpo, the Prime Minister and the Parliament during the fourth quarter of the financial year on the audit carried out for the financial year ended<sup>107</sup>. The Annual Audit Report should be published between 1<sup>st</sup> April to 30<sup>th</sup> June. The Annual Audit Report 2018 was tabled to the parliament on 21.6.2019 and published in the official website of RAA<sup>108</sup>.

The Royal Audit Authority has published the Annual Audit Report through appropriate means within the legal timeframe for publication.

### Dimension iii: Follow-up on the Implementation of Compliance Audit Observations and Recommendations

Royal Audit Authority has a follow-up and Clearance Division (FUCD) responsible for following up on unresolved audit observations and ascertaining the progress of settlement. The RAA applies various steps in making sure that the audited entities properly address their observations and recommendations. The Royal Audit Authority has developed a Guideline on Follow-up of Audit Report. The Guidelines provides guidance for conducting the follow-up of audit reports and recommendations in a systematic way. The guideline primarily outlines the processes and methodologies for the follow-up of audit reports and recommendations including the Management Appraisal Report (MAR) as necessary<sup>109</sup>. The Follow up Division ensures that the audit recommendations and observations are addressed as well as to ensure that parliamentary directives on audit observations are addressed by the audited agencies.

The Management or those charged with governance submits Action Taken Report (ATR) within three months after the issuance of the report. If the ATR is not received within three months after issuing the audit report, a reminder is served to the management or those charged with governance in keeping with the provision of the Audit Act of Bhutan 2018. In the event of not receiving ATR even after two weeks from the ATR reminder, the reviewer will apprise Follow-up Committee who shall exercise as per the Audit Act of

<sup>106</sup> Executive order on timeline for issue of audit reports

<sup>107</sup> Audit Act of Bhutan 2018

<sup>108</sup> [www.bhutanaudit.gov.bt](http://www.bhutanaudit.gov.bt)

<sup>109</sup> Guidelines on Follow-up of Audit Report

Bhutan 2018. On receipt of ATR, the FUCD and Follow-up Sections conducts review and evaluation of response submitted. Wherever possible, evidence of action taken is obtained and reviewed to assess the adequacy and effectiveness of actions taken. When the evidence of the corrective actions undertaken are not satisfactory, the reviewer will seek further clarification with the appropriate officials from the audited entity.

The concerned audited agencies and other concerned authority is responsible to take timely follow up actions on audit reports issued<sup>110</sup>. RAA's follow-up procedures allow the audited entity to provide information on corrective action taken and why corrective actions were not taken through Action Taken Report (ATR).

The Public Accounts Committee (PAC) plays an active role for the review and follow-up of the audit reports tabled in the Parliament. There are two levels of follow-up of audit findings and recommendations, i.e., one at the SAI level and another at the PAC level. The RAA tables review report of Annual Audit Report to the Parliament biannually (Position as on 31<sup>st</sup> March and 30<sup>th</sup> September<sup>111</sup>). The review report submitted by RAA is reviewed by the Public Accounts Committee. The RAA follows the recommendation made by the PAC. The implementation of Parliamentary recommendations and directives based on the AAR is systematically monitored by the Planning Policy and Annual Audit Report Division (PPAARD) in consultation with AAG, FUCD. The status of AAR recommendations is presented to Follow-up Committee biannually for further guidance and direction.

The RAA does not report publicly on individual reports, the compliance audit reports are reported as a part of Annual Audit Report. The RAA does not have a system of evaluating materiality in order to determine when a follow-up requires new additional investigations.

### Assessment Scores by Dimension

**Table 39: Assessment Scores by Dimensions**

Dimension	Score
(i) Timely Submission of Compliance Audit Results	1
(ii) Timely Publication of Compliance Audit Results	4
(iii) SAI Follow-up on Implementation of Compliance Audit Observations and Recommendations	2
<b>Overall score</b>	<b>3</b>

### Assessment Findings and observations

**Table 40: Assessment findings and observations**

Dimension	Findings	Score
(i) Timely Submission of Compliance Audit Results	<ul style="list-style-type: none"> <li>20 % of the compliance audit reports examined were issued within the agreed timeframe within maximum days of 51 as per Executive Order.</li> </ul>	1
(ii) Timely Publication of Compliance Audit Results	<ul style="list-style-type: none"> <li>The annual audit report of RAA is published well within the legal timeframe.</li> </ul>	4

<sup>110</sup> Audit Act of Bhutan 2018

<sup>111</sup> Rules of Procedure of the Public Accounts Committee 2015

(iii) SAI Follow-up on Implementation of Compliance Audit Observations and Recommendations	<p><b>Criteria a, b, c and d are met</b></p> <ul style="list-style-type: none"> <li>• RAA has a follow-up and Clearance Division (FUCD) which ensures that the audited entities properly address their observations and recommendations.</li> <li>• Follow-up considers whether the issues raised previously in their reports have been adequately addressed by the audited agency.</li> <li>• The follow-up mechanism of RAA allows audited agency to endow information on corrective course of action taken through ATR.</li> <li>• RAA submits Review Report of Annual Audit Report to parliament biannually and follows the directives of the parliament.</li> </ul> <p><b>Criteria e and f are not met</b></p> <ul style="list-style-type: none"> <li>• RAA does not report publicly on individual reports, the compliance audit reports are reported as a part of AAR.</li> <li>• RAA does not apply materiality to decide on the need for follow-up investigation.</li> </ul>	<p>2</p> <p>At least three of criteria are in place.</p>
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#### 4.4 DOMAIN D: FINANCIAL MANAGEMENT, ASSETS AND SUPPORT SERVICES

An SAI should manage its operations economically, efficiently, effectively and in accordance with laws and regulations (ISSAI 20:6). This means the RAA should have an appropriate organisational management and support structure that will give effect to good governance processes and support sound internal control and management practices (ISSAI 12, principle 9). This equally applies to the SAI's support services, including management of its finances and material assets.

**Domain D** consists of one indicator that covers the main dimensions and criteria that need to be in place. The following table provides an overview of the dimension and indicator score. Section 4.4.1 provides the details.

**Table 41: Overview of the dimension and indicator score**

<b>Domain D: Financial Management, Assets and Support Services</b>		<b>Dimensions</b>			<b>Overall score</b>
<b>Indicator</b>	<b>Name</b>	i	ii	iii	
SAI - 21	Financial Management, Assets and Support Services	3	4	4	<b>4</b>

##### 4.4.1 SAI-21: Financial Management, Assets and Support Services- Score 4

###### Narrative

The domain measures whether the management of financial resources by the RAA follows a system characterized by internal control, transparency and documentation of costs and demonstration of own accountability. The RAA also needs to demonstrate effective planning and use of its assets, including physical infrastructure such as offices and training centre, assets such as vehicles, archiving facilities and office equipment, as well as IT hardware and software, which enable employees to communicate, access information and document their work.

The indicator on Financial Management, Assets and Support Services is divided into two dimensions:

- i) Financial Management;
- ii) Planning and Effective Use of Assets and Infrastructure;

### iii) Administrative Support Services.

RAA, through the Administration and Finance Section, has good internal practices regarding financial management and exercises. RAA's financial statement is made public and subject to audit by an independent external audit and report to the parliament through annual audit report.

The RAA has developed a long-term strategy for its physical infrastructure needs, and a shorter-term plan for its IT needs, based on current and anticipated future staffing levels. Archiving facilities and practices are adequate. However, there is scope for improvement as there is no functioning staff cost recording system that monitors allocation of staff resources and associated costs.

#### **Dimension i: Financial Management**

In relation to financial management, assets and support services, the RAA operates within a strong, well-defined structure. Consequently, the Department's budget and accounts is operated in accordance with the Financial Rules and Regulation (FRR) 2016, issued by the Ministry of Finance (MoF). All key documents that relate to the RAA's financial and internal control processes are made available to all the staff. On review of Profile of Administration and Finance Personnel, RAA has assigned the task to handle accounts and budget systems to the appropriate experienced and, specialised staff.

Within this structure, RAA has clearly assigned responsibility for all aspects of its financial management. The RAA operates a system of delegated authority to commit, incur and approve expenditure. The RAA follows and complies with the budgeting timetable, processes and procedures laid down in the Budget Manual 2016 specified by the Department of National Budget (DNB), Ministry of Finance. The RAA prepares its financial statements in line with the requirements, timetable and stipulations of the Ministry of Finance.<sup>112</sup> The Budget Cycle consists of budget preparation phase, approval, execution, accountability, and interim revisions. The RAA submits quarterly financial progress report to the Ministry of Finance.

The RAA have a functioning Management Information System, which includes financial and performance information. The financial information is recorded in the Public Expenditure Management System (PEMS), an accounting tool developed by the Ministry of Finance and mandated to be used by all the government agencies. The performance aspect is documented in Audit Resource Management System (ARMS). ARMS captures performance information such as strategic plan, audit scheduling, audit planning, detailed audit programme, audit execution, field audit monitoring, reporting, follow-up, quality assurance, audit team performance evaluation and data bank of audited agencies.

However, RAA does not have a staff cost recording system that allows oversight over the allocation of staff time and resources in relation to assigned tasks.

Comparing the RAA actual annual expenditure with the total approved budget for the year, the RAA had under spent 38.01 % in 2016-17. These variances were due to the granting of Public Work (PW) Advances which is not reflected in the expenditure

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<sup>112</sup> Interview with Deputy Chief Finance Officer on 3 August 2019.

statement<sup>113</sup>. In the other two financial years, the deviation of actual expenditure over approved budget was within the range of 10%.

**Table 42: Deviation of actual expenditure over approved budget**

<b>Particular</b>	<b>2016-2017</b>	<b>2017-2018</b>	<b>2018-2019</b>
Total approved budget (in Million)	413.029	339.841	245.910
Total expenditure (In Million)	256.024	325.094	230.783
Variance	38.01%	4.34%	6.15%

The RAA annually prepares its financial statement following a relevant and appropriate financial reporting framework. The report on the accounts and operation of the Authority for the previous fiscal year and the external auditor's report on the financial propriety audit of the Authority's own accounts of the past financial year have to be included in the Annual Audit Report<sup>114</sup>. The financial statements are subject to audit by external independent auditor by the empanelled chartered firm appointed by the parliament. The RAA's audited financial statements are published in the Annual Audit Report and made public on the RAA website once the AAR is tabled to the Parliament. There was no audit qualification or adverse comment on the financial statements of the RAA during the period covered by the SAI-PMF.

#### **Dimension ii: Planning and Effective Use of Assets and Infrastructure**

The RAA has a designated Information and Communication Technology (ICT) Division headed by the Sr. ICT Officer who works directly under Auditor General's Secretariat Services. To discharge its functions, the Division is supported by five experienced IT professionals.

The RAA has a long-term plan for its physical infrastructure needs. The long-term plan for instituting physical infrastructure in RAA has been covered in the Strategic Plan 2015-2020. For instance, the construction of the Professional Development Centre (PDC) at Tsirang was one of the long-term physical infrastructure needs identified in the strategic plan 2015-2020. Currently, the PDC is fully operational and all the in-house trainings for auditors are conducted at the Centre. While the Department also has a basic shorter-term plan for its IT needs covering, for example, the laptops to every auditor, developing ICT Policy and implementation of ARMS.

Infrastructure needs were reviewed in 2015 and has been incorporated in the Strategic Plan 2015-2020. In anticipation of growth of new agencies and increasing staff levels, the RAA has acquired a plot of land in two of its regional offices in Phuentsholing and Bumthang with the intention of establishing a new structure. Three regional offices have set up a base office in a rented space considering the location and the proximity of audit clients. Given the growth of new audit clients, the management has reviewed the staff needs by particular Divisions and recruitment is done accordingly.

The RAA has reviewed the adequacy of IT infrastructure including computers, laptops, software and IT network within the past three years and proposals for improvement have been addressed. More broadly, the ICT Division has submitted a proposal in 2018 to dispose of obsolete IT equipment, replacement of server and renewal of multi user antivirus programmes, inadequacies relating to assets and infrastructures were

<sup>113</sup> Review of Schedule of PW advance revealed Nu.2.137 million as PW Advance during the FY 2016-17.

<sup>114</sup> Section 113 of the Audit Act of Bhutan, 2018.

reported in RAA's Annual Audit Report<sup>115</sup>. The Annual Audit Report 2018 states as follows: "The government has allotted land to the RAA, but construction of regional offices is yet to materialize due to lack of funds."

The RAA has an archiving facility on site. It is currently implementing a scheme to manage its records electronically. Each Division and Regional office has a secured locker room for archiving of audit working files. All auditors have access to common drive which is used for the purpose of sharing information and storage. The Auditor General's Standing Instructions necessitates the Division Chief to monitor proper archiving of reports, working papers and audit evidence to ensure safe custody for future reference<sup>116</sup>. The archiving is also done in Audit Resource Management System (ARMS). It stores files such as audit schedule, plan, execution, reporting, follow-up, team performance and attendance. The unresolved audit observations requiring follow-ups are archived in the Audit Information Management System (AIMS) which contains information from audits dating several years back since the system was established in the year 2000 and the backup is done in the RAA server.

### Dimension iii: Administrative Support Services

Within the RAA, IT support is provided by ICT Division comprising of five staff. It is staffed and headed by suitably qualified IT personnel with extensive practical experience of managing IT systems as evidenced by the SAI-PMF's team wide ranging interview and discussions with the staff that comprise this Division<sup>117</sup>.

Responsibility for file management and archiving is clearly assigned and rests with a specific official within RAA. Archiving is done in the form of a common drive in the respective Division. The archiving of documents relating to audit plans, audit executions and reports are done in ARMS by the audit teams and AIMS by the follow-up staffs who have the appropriate skills set and resources to do the job. The RAA has an archiving facility on site and backup which is done weekly<sup>118</sup>.

The management of all major asset categories is clearly assigned. Overall responsibility for administrative support lies with the Administration and Finance Division (AFD). This covers issues such as vehicle, consumable articles and building maintenance. Staffs working in administrative support functions have the appropriate skills required to perform their duties. The Administrative Assistant takes the lead role in recording and maintaining the details and location of assets and inventories<sup>119</sup>. The Non-expendable property are registered with the Department of National Property (DNP) and the identification code are allotted by the DNP were indelibly written on the item for its easy identification<sup>120</sup>.

All administrative support functions have been reviewed within the past 5 years and proposals for improvement were addressed. On interview with DAG, RAA have reviewed the administrative support function in the last 5 years and following improvements were addressed;

<sup>115</sup> Annual Audit Report 2018, page 274

<sup>116</sup> Auditor General's Standing Instructions, 2010, page 66

<sup>117</sup> Interview with Sr. ICT Officer on 21 July 2019

<sup>118</sup> ICT Policy 2017, Page 15

<sup>119</sup> Financial and Accounting Manual, 2016

<sup>120</sup> Property Management Manual, 2016

- 1) Within the last 5 years, RAA have surrendered 8 vehicles which were more than 15 years old. In return, MoF has allotted two brand new vehicles and four second hand vehicles as replacement.
- 2) An additional 7 acres of land were acquired for the Professional Development Centre, Tsirang in 2015.
- 3) Acquired land to construct two regional offices in Phuentsholing and Bumthang
- 4) Completed construction of a meeting hall and separate toilet for both genders in Regional office, Samdrup Jongkhar.
- 5) Laptops have been provided to new recruits.

An additional office building at Head Quarter has been constructed to create more working space.

### Assessment Scores by Dimension

**Table 43: Assessment Scores by Dimensions**

Dimension	Score
(i) Financial Management	3
(ii) Planning and Effective Use of Assets and Infrastructure	4
(iii) Administrative Support Services	4
<b>Overall Score</b>	<b>4</b>

### Assessment Findings and observations

**Table 44: Assessment findings and observations**

Dimension	Findings	Score
(i) Financial Management	<p><b>Criteria a, b, c, d, e, f, h, i, j and k are met.</b></p> <ul style="list-style-type: none"> <li>• The responsibility for financial management within Administration and Finance Division (AFD). The AFD head holds Master's degree in professional accounting with over 21 years of experience. He is supported by Deputy Chief Finance Officer holding 26 years of professional experience.</li> <li>• The delegation of authority to incur and approve expenditure is governed by FMM 2016. The Financial Manual in the form of Financial Rules and Regulation (FRR), 2016 consist of four manuals which are made available to all the employees of RAA.</li> <li>• The Budget preparation and financial management are governed by FRR 2016. The budgeting is done as per the schedule provided in the Budget Manual, 2016.</li> <li>• The Financial information is captured in Public Expenditure Management System (PEMS), an accounting tool developed by the Ministry of Finance. The performance information is documented in Audit Resource Management System (ARMS).</li> <li>• Over the past three years, the actual expenditure over budgeted expenditure did not deviate more than 10% except for 2016-17.</li> <li>• The RAA annually prepares a financial statement following FRR 2016. The financial statement of RAA is subject to review by external independent auditor annually and reported in the Annual Audit Report as required under the Audit Act of Bhutan 2018.</li> <li>• There was no audit qualification or adverse comment on the financial statements of the RAA.</li> </ul>	<p><b>3</b></p> <p><b>At least eight criteria are in place</b></p>

	<p><b>Criterion g is not met.</b></p> <ul style="list-style-type: none"> <li>• There is no functioning staff cost recording system that monitors allocation of staff resources and associated costs.</li> </ul>	
(ii) Planning and effective use of Assets and Infrastructure	<p><b>All of the criteria are in place</b></p> <ul style="list-style-type: none"> <li>• The RAA has developed a long-term strategy or plan for its physical infrastructure needs, and a shorter-term plan for its IT needs, in the light of current and anticipated future staffing levels. The long-term strategy for physical infrastructure needs is covered in the Strategic Plan 2015-2020. Short term IT needs are also identified.</li> <li>• Infrastructural needs were reviewed in 2015 and have been incorporated in the Strategic Plan 2015-2020. In anticipation of growth of new agencies and increasing staff levels, RAA have acquired a plot of land in two of its regional offices.</li> <li>• Within the past three years, RAA has reviewed the adequacy of its IT infrastructure including computers, laptops, software and IT network. The proposal submitted in 2018 to dispose of obsolete IT equipment, replacement of server and renewal of multi user antivirus were addressed.</li> <li>• Inadequacies relating to assets and infrastructures were reported in RAA's Annual Audit Report. The RAA has an archiving facility on site. Each Division and Regional office has a secured locker room for archiving of audit working files. Archiving is done in common drive and ARMS.</li> </ul>	<p><b>4</b> <b>All Criteria are in place</b></p>
(iii) Administrative Support Services	<p><b>All the criteria are in place</b></p> <ul style="list-style-type: none"> <li>• Within the RAA, IT support is provided by ICT Division comprising of five staff. The division is headed by suitably qualified IT personnel with extensive practical experience of managing IT systems.</li> <li>• Responsibility for file management and archiving is clearly assigned and rests with specific official within RAA. Archiving is done in the form of common drive by the respective Division. The other form of archiving are done in ARMS and AIMS by staff who have the appropriate skills set and resources to do the job.</li> <li>• The management of all major asset categories is clearly assigned to AFD. Staffs working in administrative support functions have the appropriate skills required to perform their duties. The Administrative Assistant takes the lead role in recording and maintaining the details and location of assets as per PMM 2016 and FAM 2016.</li> <li>• All administrative support functions have been reviewed within the past 5 years and proposals for improvement were addressed. The surrendered and replacement of vehicles with more than 15 years, acquisition of additional land for PDC and regional offices. The construction of additional office building at headquarter, and providing laptops to new recruits.</li> </ul>	<p><b>4</b> <b>All Criteria are in place</b></p>

## 4.5 DOMAIN E: HUMAN RESOURCES AND TRAINING

A core part of managing a modern Supreme Audit Institution (SAI) is ensuring that the organisation is able to attract, retain and motivate the right number of staff, with the right skills and experiences<sup>121</sup>. Most SAIs have personnel officers responsible for such tasks as managing leave, organising training and dealing with staff welfare issues. However, as SAIs become more independent, the range of staffing tasks increase and become more strategic. In many cases, SAIs have to develop the capability to draw up job descriptions, recruitment of staff, agree staff terms and conditions, and develop a more strategic approach to identifying and meeting evolving staffing needs.

Domain E comprises two indicators. The following table provides an overview of the dimension scores for each indicator. Section 4.5.1 and 4.5.2 provide the details.

**Table 45: Overview of the dimension and indicator score**

Domain E: Human Resources and Training		Dimensions				Indicator score
Indicator	Name	I	ii	iii	iv	
SAI - 22	Human Resource Management	3	0	3	3	2
SAI - 23	Professional Development and Training	2	1	1	1	1

### 4.5.1 SAI-22: Human Resource Management - Score 2

#### Narrative

This indicator builds on the requirements of ISSAI 40 which stipulates that the SAI's human resource policies and procedures should include, amongst other things: recruitment, professional development, performance evaluation and promotion. It assesses four dimensions:

- (i) Human Resources Function
- (ii) Human Resources Strategy
- (iii) Human Resources Recruitment
- (iv) Remuneration, Promotion and Staff Welfare

RAA has assigned the responsibility of the Human Resource Management functions to Human Resource and International Relations Division (HRIRD) which is looked after by personnel who have the appropriate skills, experience and resources to perform the job.

The Human Resource Strategy has been drafted and reviewed by experts in RAA and further disseminated to all employees for feedback. However, the draft Human Resource Strategy has not been endorsed. The Competency Framework for auditors has been developed but not yet been endorsed. The RAA could through the human resource strategy ensure the staff needed to deliver the strategic plan. The competency framework will help in understating the competencies and behaviours by staffs and the level of performance expected to achieve its organizational goals.

The Royal Civil Service Commission as a central agency for civil service has control over recruitment and any organizational level recruitment needs to be routed through them. Thus, RAA lacks absolute autonomy for recruitment.

<sup>121</sup>Human Resource Management A Guide for Supreme Audit Institutions, 2012

Remuneration and promotion follows the established criteria set out as per the position description for each job identification drawn by the RCSC.

Staff welfare schemes are in place and functional, namely, the Civil Service Welfare Scheme (CSWS) and the Audit Staff Welfare Scheme (ASWS).

#### **Dimension i: Human Resources Function**

The Royal Audit Authority has a strong Human Resource function and the division is headed by an Assistant Auditor General (AAG) who works directly under the Department of Follow-up, Regions and Human Resource Management (DFR & HRM). The Human Management and Development is aligned with the Bhutan Civil Service Rules and Regulations (BCSR), 2018 and Civil Service Act, 2010 promulgated by the Royal Civil Service Commission (RCSC).

To discharge these functions, the Division has staffed its HR functions with experienced HR professionals. The Division is headed by the Assistant Auditor General and reports to the Deputy Auditor General, DFR & HRM who holds a Master's Degree in Business Advance in Professional Accounting and has twenty three years' of professional experience. The AAG has a Master's in Information System and Technology and sixteen years' of professional experience. They, in turn, are supported by a Human Resource Officer and the Division is currently managed by seven staff. These employees have the collective competencies, skills, qualification, experience and resources required to carry out the work.

The HR Strategy and the Competency Framework of RAA is in the draft stage. Many SAIs have developed a more detailed human resources strategy to show what the SAI plans to do to ensure that it has the staff needed to deliver the Strategic Plan and Operational Plan and it has the key policies and procedures in place. In order to facilitate the achievement of RAA's Strategic Plan, the Human Resources Strategy should set a series of goals to be achieved during the strategic planning period. The need to develop an HR Strategy was reported in the previous SAI-PMF Assessment as well. The RCSC has developed a "Competency-Based Framework for some Major Occupational Groups (MOG)" such as civil engineers, immigration officer, principals etc. but not for RAA. In this regard, the HRIRD have come up with a draft Competency Framework for an auditor which has not been endorsed. The draft Competency Based Frameworks has been developed comprising two levels of competency: core competencies (cross-sectoral to all auditors) and functional competencies (specific) that are specific to three types of audit: Financial Audit, Compliance Audit and Performance Audit.

The HRIRD handles a wide range of different functions within the organization. The Division is responsible for providing guidance and consultation to the management in matters relating to HR functions such as Human Resource Management and Human Resource Development. The functions include recruitment, promotion, transfer, separation, performance management, training and development. Besides, the HRIRD is the pioneer of the international relations enhancement through various exchange visits, seminars, meetings, workshops and conferences. The RAA has also put in place strong governance arrangements to oversee the operation and implementation of its HR policies and processes. Specifically, it has established a Human Resource and Governance Committee (HRGC) and Advisory Committee (AC), the highest governing and decision making body within the field of HR..

In 2017, the Royal Civil Service Commission (RCSC) launched the Managing for Excellence (MAX) online system. All civil servants under the Professional &



Management and Support category are required to plan, review, and evaluate the performance targets online, except for personnel in the operational category which is done manually. The performance appraisal of the employees of RAA is done in line with the requirements mandated by the RCSC in the form of Individual Work Plan (IWP) which is planned, reviewed and evaluated within the stipulated schedules with enhanced accountability to both the supervisor and supervisee. In an effort to improve the techniques for measuring performance of auditors and to enhance the overall auditing system, the RAA has also developed its own measurement framework called Audit Performance Evaluation Management System' (APEMS) which was launched in 2014. APEMS is a tool that attempts to embrace holistic approach in managing and assessing audit teams and individual performances. It is aimed to streamline the work processes and promote professionalism in the delivery of services by adhering to professional standards or practices in the work we do. The framework of APEMS encompasses all phases of auditing process and is designed to mirror professional progressions of each individual tasked with the auditing work.

The employee of RAA is one of the most important assets as they have significant influential power to the success of the SAI. The Human Resource and International Relations Division organise regular in-house training programs and also send staff for trainings outside the country. The new recruits who have just joined RAA is provided opportunities to attend an in-depth orientation programme and training. The HRIRD also works in conjunction with Division Heads and individuals to determine the training needs of employees. The Human Resource and International Relations Division is the custodian of HR information management. The HR information are maintained in three various forms: HR MS Excel Master File, Audit Resource Management System (ARMS), Civil Service Information System (CSIS) and the personal files of the employees of RAA.

#### **Dimension ii: Human Resource Strategy**

The Human Resource (HR) Strategy of Royal Audit Authority is still in draft stage. The HR strategy takes a strategic approach in terms of identifying the aims, objectives and operational priorities of RAA's function.

The draft HR Strategy covers selection and recruitment, HR development, HR management and retention. Since the HR Strategy is still in draft form and not yet being implemented, the assessment of criteria under the dimension is deemed inappropriate and scored as not met.

#### **Dimension iii: Human Resources Recruitment**

Since RAA does not enjoy absolute independence over the human resource, the recruitment is done in line with the provisions of the BCSR 2018. However, in recent times, the RCSC has agreed to waive off the single window recruitment system and granted a certain level of autonomy to RAA for recruitment of regular and consolidated contract employees. The RAA has written policies and procedures in place for recruitment with minimum requirements that employees are expected to meet as part of the recruitment and selection process.

The recruitments are made public through the announcements in the webpage as well as through newspapers and national television. All the recruitments during the year under review followed open competition. All the information for recruitments was available to all candidates applying for various positions. This process encompasses providing job descriptions and the type of experience and skills required for the job. The



first SAI PMF Assessment of 2014 indicated the need for diversity in human resources in RAA and the recent recruitment represented candidates from multiple backgrounds like financial, civil and electrical engineers, urban planners, media studies, environmental science, language and literature, and sustainable development studies.

The recruitment and selection procedures also specifies that all recruitment and selection interviews are undertaken by a panel of at least five officials and that the recommendations of the interview/selection panel is subject to the approval from competent authority. Two members of the current SAI-PMF assessment team were involved as a panellist for the recent recruitment of staff at RAA. The recruitment plans are based on a needs analysis of the SAI and is according to the HR Master Plan of the Government and Annual Recruitment Plan of RAA. Every recruitment be it regular or contract, has to be consulted and approved by the RCSC. However, recruitment for P1 and above positions is conducted through an open competition and interviews conducted jointly by representatives of RAA and RCSC.

Where appropriate, the RAA makes use of external expertise to supplement and support its function. In particular, the RAA does not have procedures in place to ensure the quality of deliverables. Without having written procedures in place, the work on an expert/consultant cannot be measured to determine the value for money.

#### **Dimension iv: Remuneration, Promotion and Staff Welfare**

The RAA's individual performance appraisal is as per the requirements laid out by the Royal Civil Service Commission's Managing for Excellence (MAX) online system. The RAA cascades its annual performance targets into Individual Work Plan (IWP). There is a practice of planning, reviewing and evaluating the IWP annually. The assessment of each assignment focuses on outputs and results compared with agreed performance objectives and performance targets. The most recent performance appraisal assessed the employees of RAA's performance against the job description or performance agreement made the previous year.

The Royal Audit Authority has no authority and responsibility in relation to remuneration and awarding of bonuses as this lies outside SAI's control. The pay and allowance is approved by the Government as per the positions approved by the Royal Civil Service Commission and the Pay Commission.

The promotions awarded by the RAA follow the process and procedures set out in the BCSR 2018 of the Royal Civil Service Commission. A promotion entails a higher degree of responsibilities, requiring greater knowledge, skills and ability. All the promotions are based on the performance of employees as per IWP and potential of the candidate to be promoted and the number of years in service for regular promotions. The regular promotions are given twice a year during the month of January and July in line with the established procedures as per the Bhutan Civil Service Rules & Regulations 2018. Fast track or meritorious promotions are granted to civil servants whose performance are outstanding during the last three years with significant achievements made during the tenure which contributed to the organization in realising its mission and vision.

The Welfare policy is functional at two levels. One at civil service level known as Civil Service Welfare Scheme (CSWS) managed by RCSC and at the organizational level known as Audit Staff Welfare Scheme (ASWS) managed by RAA. CSWS is the avowed policy of the Civil Service to "pay adequate remuneration, allowances and benefits to

the civil servants<sup>122</sup>." This is primarily aimed at resolving the logistical difficulties arising out of the death of a member, dependent and a superannuated member. Both the welfare schemes are defined by its by-laws. The intentions of the welfare schemes are to encourage and support staff morale during the times of destitution.

The SAI-PMF assessment team identified specific examples of action taken by the management in response to issues raised by the employees of RAA. A typical example where the employees have had an opportunity to express their views on the work environment to management within the last year comes from the employee retention and satisfaction survey conducted in 2017-2018. The survey covered aspects such as premises and technical working conditions, training opportunities, feedback on supervisor, team leader and team members. Accordingly, the management had framed the draft Human Resource Strategy and policies addressing the views and feedbacks of the staff.

### Assessment Scores by Dimension

**Table 46: Assessment Scores by Dimensions**

Dimension	Score
(i) Human Resource Function	3
(ii) Human Resource Strategy	0
(iii) Human Resource Recruitment	3
(iv) Remuneration, Promotion and Staff Welfare	3
<b>Overall score</b>	<b>2</b>

### Assessment Findings and observations

**Table 47: Assessment findings and observations**

Dimension	Findings	Score
(i) Human Resource Function	<p><b>Criteria a, d, e, f, g are met</b></p> <ul style="list-style-type: none"> <li>• RAA has assigned the responsibility of the human resource management function to HRIRD Department, who have the appropriate skills, experience and resources to do the job.</li> <li>• HRIRD has developed competency framework and HR Strategy which are in draft stage and has not been endorsed.</li> <li>• The HRIRD plays a crucial role in providing direction, guidance and consultation on human resource matters.</li> <li>• RAA has an appropriate performance evaluation and appraisal system in place. Professional development opportunities are scheduled after conducting the analysis of feedback received from individuals through training needs assessment.</li> </ul> <p><b>Criteria b, c not met.</b></p> <ul style="list-style-type: none"> <li>• The human resource strategy is still in draft form</li> <li>• Competency-Based Framework for some Major Occupational Group (MOG) such as civil engineer, immigration, principals etc. is being developed by the RCSC but not for RAA. RAA has embarked on drafting of competency framework for auditors which is still in draft form.</li> </ul>	<p><b>3</b></p> <p><b>At least five criteria are in place</b></p>
(ii) Human Resources Strategy	<p><b>None of the criteria are in place</b></p> <ul style="list-style-type: none"> <li>• The HR strategy document of RAA has not been endorsed or approved for implementation.</li> </ul>	<p><b>0</b></p>

<sup>122</sup><https://www.rcsc.gov.bt/en/csww/> retrieved on 2.6.2019

	<ul style="list-style-type: none"> <li>The HR strategy is in draft form and without having implemented, the assessment of criteria is inappropriate, thus it is scored as not met.</li> </ul>	<b>None of the criteria are in place</b>
(iii) Human Resources Recruitment	<p><b>Criteria a, b, c, d, e, and f are met.</b></p> <ul style="list-style-type: none"> <li>RAA has written procedures in place for recruitment at an organizational level.</li> <li>Procedures for recruitments are made public and recent recruitment identified and recruited people from multiple backgrounds.</li> <li>The recruitment plans are based on need analysis of the SAI.</li> </ul> <p><b>Criterion g is not met.</b></p> <ul style="list-style-type: none"> <li>There is no written procedure in place to ensure the quality of the deliverables for engagement of expert service.</li> </ul>	<b>3</b> <b>At least five criteria are in place</b>
(iv) Remuneration, Promotion and Staff Welfare	<p><b>Criteria a, b, d, e, f, g and h are met.</b></p> <ul style="list-style-type: none"> <li>RAA has established routines to ensure individual performance appraisals take place at least once a year as per the job description. The promotions procedure takes into account an assessment of performance and potential to perform at a higher level.</li> <li>Promotions of RAA staff follows established procedures laid down in BCSR 2012/2018.</li> <li>RAA has functioning staff welfare policy in the form of CSWS and ASWS. T</li> <li>The employees of RAA have had an opportunity to express their views on the work environment to management and the management has acted upon issues arising from views expressed.</li> </ul> <p><b>Criterion c is not met</b></p> <ul style="list-style-type: none"> <li>SAI Bhutan does not have full financial and HR independence and authority to award bonuses to the employees. Remunerations are set out as per the position title described by RCSC and civil servants and pay is fixed as per the recommendation of the Pay Commission.</li> </ul>	<b>3</b> <b>At least six of the criteria are in place (considering those NA)</b>

#### 4.5.2 SAI-23: Professional Development and Training - Score 1

##### Narrative

This indicator assesses how the SAI as an organisation is able to promote and ensure professional development to improve and maintain the competency of its staff. It is linked to ISSAI 12. This states that SAIs should promote continuing professional development that contributes to individual, team and organisational excellence. It assesses four dimensions:

- (i) Plans and Processes for Professional Development and Training
- (ii) Financial Audit Professional Development and Training
- (iii) Performance Audit Professional Development and Training
- (iv) Compliance Audit Professional Development and Training

The Royal Audit Authority recognizes the central importance of professional development training. The key objective for its training programme for professional development is derived from the Continuous Professional Development Policy (CPDP), 2008 wherein every employee are required to undertake training to earn a minimum of 40 CPD points in a given financial year.



The RAA conducts Training Needs Assessment annually. Learning needs analysis is not conducted and identified. A learning needs analysis identifies all the approaches at SAI's disposal and transfers knowledge in a way that affects the performance of the SAI. There is scope for improvement where learning strategy could be linked with the objectives stated in the Strategic and Operational Plan of RAA. The CPD points earned by the employees of RAA is not maintained and credited annually.

Desirable improvement can be expected in developing appropriate tailored competency requirements for different staff grades in financial, performance and compliance auditing. There is scope for exploring tie-up with relevant professional bodies.

#### **Dimension i: Plans and Processes for Professional Development Training**

The Royal Audit Authority provides a range of professional development training to its employees. Training encompasses orientation to new staff, internal training on the RAA's policies and procedures, personal skills training and management training.

Many SAIs are investing substantial resources and time on training. Depending on the circumstances, training can be an effective method for learning. However, there are several situations where learning methods other than training can be more effective in encouraging learning. In fact, in certain situations training may not be the recommended solution for learning. Having recognised this, many SAIs have started implementing more comprehensive learning strategies to ensure greater impact.

The professional development and trainings are aligned as per the training needs analysis conducted by RAA. However, it does not have the learning strategy in place to address the training needs of the staff members. A learning strategy is a planned and systematic course of action designed to develop the people of the organisation in line with the overall organisational development<sup>123</sup>.

The Royal Audit authority does not operate a process of professional development plans for individual professional staff members based on the annual appraisal. The RAA has a basic system for getting feedback and evaluation from participating staff about individual courses. It does not, however, have a more sophisticated process or system in place to assess and, where possible, measure the overall impact and benefits of its professional and management training programme.

RAA has well established procedures for selecting staff to participate in trainings and obtain qualifications. The nomination of candidates for training is done through HRGC meetings comprising of members from top management, Division heads and HR Division. The minutes of every HRGC meetings are circulated to all the employees of RAA through official email for transparency. The selection of candidates is based on considerations of the competence, experience, relevancy, meritocracy and qualification required for the training.

RAA has identified the audit 'professions' or 'cadres' that it wishes to develop in order to discharge its mandate. A system for professional development of non-auditor/control staff is developed, with clearly assigned responsibilities. Appropriately tailored competency requirements and a plan for professional development for non-auditor staff is developed based on identified needs, and implemented accordingly.

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<sup>123</sup> Learning for impact, a practice guide for SAIs, 2009

HRIRD maintains the training details of the individual employee in the HR MS Excel Master file, however there is no mechanisms in place to monitor and evaluate the results of professional development and training of staff.

#### **Dimension ii: Financial Audit Professional Development and Training**

The RAA's professional training programme for the financial, audit is general and not specific to address the needs of financial auditors. The HRIRD is responsible for the professional development and training of its employees in Financial Audits.

The draft Competency Based Framework has specified the competencies that it expects the auditors to possess while taking up Financial Audits. As matters currently stand, the Competency Framework is in draft form and it is currently in the process of completion & finalization with the financial support from the Royal Civil Service Commission. The financial audit trainings are conducted at the Professional Development Centre (PDC) in Tsirang. RAA has a pool of in-house facilitators who are trained in and out of the country who facilitate Financial Audit Trainings at the Centre on a regular basis in line with the annual training calendar which is based on the training needs assessment conducted by HRIRD. As per the RAA Operational Plan 2015-2020 under the project implementation matrix, RAA had set a target to provide Financial Audit Training to 80% of the auditors during the year 2017-18. However, the achievement of the target has not been reviewed annually to monitor the result and outcome of the operational plan.

The plan for professional development and training in financial auditing is set out in the training calendar. This encompasses training on the standards and procedures that RAA uses, learning on the job, and continuing professional development. The RAA has no tie-up with professional bodies.

#### **Dimension iii: Performance Audit Professional Development and Training**

The RAA's professional training programme for performance audit is general and not specific to address the needs of the performance auditors. For example, there is no training for research methodologies and sampling methods. The HRIRD is responsible for the Performance Audit Professional Development and Training. As per the Annual HR Report 2017-2018, the RAA has provided following performance audit trainings:

Quality Assurance Review Workshop in Georgia funded by IDI

1. Performance audit training in Malaysia funded by ASOSAI
2. ISSAI based performance audit in RAA

The draft Competency Based Framework have specified the competencies that it expects the auditors to possess while taking up Performance Audits. As matters currently stand, the Competency Framework is in draft form and it is currently in the process of completion & finalization with the financial support from the Royal Civil Service Commission. The performance audit trainings are conducted at the Professional Development Centre (PDC) in Tsirang. RAA has a pool of in-house facilitators who are trained in and out of the country who facilitate Performance Audit Trainings at the Centre on a regular basis in line with the annual training calendar which is based on the training needs assessment conducted by HRIRD. As per the RAA Operational Plan 2015-2020 under the project implementation matrix, RAA had set a target to provide Performance Audit Training to 20% of the auditors during the year 2017-18. However, the

achievement of the target has not been reviewed annually to monitor the result and outcome of the operational plan.

The plan for professional development and training in performance auditing is set out in the training calendar. This encompasses training on the standards and procedures that RAA uses, learning on the job, and continuing professional development. The RAA has no tie-up with professional bodies.

#### Dimension iv: Compliance Audit Professional Development and Training

The RAA's professional training programme for compliance audit is general and not specific to meet the needs of the compliance auditors. The HRIRD is responsible for the Compliance Audit Professional Development and raining. ISSAI based Compliance audit training and quality assurance review trainings were provided during the financial year 2017-18.

The draft Competency Based Framework has specified the competencies that it expects the auditors to possess while taking up Compliance Audits. As matters currently stand, the Competency Framework is in draft form and it is currently in the process of completion & finalization with the financial support from the Royal Civil Service Commission The compliance audit trainings are conducted at the Professional Development Centre (PDC) in Tsirang. RAA has a pool of in-house facilitators who are trained in and out of the country who facilitate Compliance Audit Trainings at the Centre on a regular basis in line with the annual training calendar which is based on the training needs assessment conducted by HRIRD. As per the RAA Operational Plan 2015-2020 under the project implementation matrix, RAA had set a target to provide Compliance Audit Training to 80% of the auditors during the year 2017-18. However, the achievement of the target has not been reviewed annually to monitor the result and outcome of the operational plan.

The plan for professional development and training in compliance auditing is set out in the training calendar. This encompasses training on the standards and procedures that RAA uses, learning on the job, and continuing professional development. The RAA has no tie-up with professional bodies.

#### Assessment Scores by Dimension

**Table 48: Assessment Scores by Dimensions**

Dimension	Score
(i) Plans and Processes for Professional Development and Training	2
(ii) Financial Audit Professional Development and Training	1
(iii) Performance Audit Professional Development and Training	1
(iv) Compliance Audit Professional Development and Training	1
<b>Overall score</b>	<b>1</b>

#### Assessment Findings and observations

**Table 49: Assessment findings and observations**

Dimension	Findings	Score
(i) Plans and Processes for Professional Development and Training	<p><b>Criteria a, c, e, and f are met.</b></p> <ul style="list-style-type: none"> <li>• RAA has developed and implemented a plan for professional development and training containing introduction and familiarization of new staff, training on the SAI's policies, personal skills training and management development.</li> </ul>	<p><b>2</b></p> <p><b>At least three criteria in place</b></p>

	<ul style="list-style-type: none"> <li>• The RAA has established procedures for selecting staff to participate in training and the selection is based on considerations of the competence needed.</li> <li>• RAA has identified the audit ‘professions’ or ‘cadres’ that it wishes to develop in order to discharge its mandate.</li> </ul> <p><b>Criteria b, d and g are not met.</b></p> <ul style="list-style-type: none"> <li>• The RAA has not developed the learning strategy for professional development and training aligning with the HR Strategy based on the learning needs analysis.</li> <li>• All the employees do not have a development plan based on an annual appraisal, and the implementation of the plan is not monitored.</li> <li>• The CPDP points earned by the employees after attending trainings were not credited and monitored.</li> </ul>	
(ii) Financial Audit Professional Development and Training	<p><b>Criterion a is met.</b></p> <ul style="list-style-type: none"> <li>• The responsibility for professional development in financial audit is assigned to a person with sufficient and appropriate experience and authority in RAA.</li> </ul> <p><b>Criteria b, c and d are not met.</b></p> <ul style="list-style-type: none"> <li>• The RAA has not developed and implemented appropriately tailored competency requirements for different staff grades in financial auditing.</li> <li>• RAA has no tie-up with relevant professional bodies.</li> <li>• As per the project implementation matrix, RAA has set a target to provide 80% of trainings for financial auditors during the year 2017-18.</li> <li>• The implementation of operational plan is not monitored periodically and the outcomes were not recorded.</li> </ul>	<p><b>1</b> <b>At least one criteria in place</b></p>
(iii) Performance Audit Professional Development and Training	<p><b>Criterion a is met.</b></p> <ul style="list-style-type: none"> <li>• The responsibility for professional development in performance audit is assigned to a person with sufficient and appropriate experience and authority in RAA.</li> </ul> <p><b>Criteria b, c and d are not met.</b></p> <ul style="list-style-type: none"> <li>• The RAA has not developed and implemented appropriately tailored competency requirements for different staff grades in performance auditing.</li> <li>• RAA has no tie-up with relevant professional bodies.</li> <li>• As per the project implementation matrix, RAA has set a target to provide 20% of trainings for performance auditors during the year 2017-18. The implementation of operational plan is not monitored periodically and the outcomes were not recorded.</li> </ul>	<p><b>1</b></p>
(iv) Compliance Audit Professional Development and Training	<p><b>Criterion a is met.</b></p> <ul style="list-style-type: none"> <li>• The responsibility for professional development in compliance audit is assigned to a person with sufficient and appropriate experience and authority in RAA.</li> </ul> <p><b>Criteria b, c and d are not met.</b></p> <ul style="list-style-type: none"> <li>• The RAA has not developed and implemented appropriately tailored competency requirements for different staff grades in compliance auditing.</li> <li>• RAA has no tie-up with relevant professional bodies.</li> <li>• As per the project implementation matrix, RAA has set a target to provide 20% of trainings for compliance auditors during the year 2017-18. The implementation of operational plan is not monitored periodically and the outcomes were not recorded.</li> </ul>	<p><b>1</b> <b>At least one criteria in place</b></p>

## 4.6 DOMAIN F: COMMUNICATION AND STAKEHOLDER MANAGEMENT

ISSAI 12 identifies one of the SAI's main objectives as demonstrating its relevance to stakeholders and SAI should communicate with stakeholders to ensure understanding of the SAI's audit work and results. The following table provides an overview of the dimension and indicator scores. Section 4.6.1 and 4.6.2 provides further details

**Table 50: Overview of the dimension and indicator score**

Domain F: Communication and Stakeholder Management		Dimensions				Indicator score
Indicator	Name	i	ii	iii	iv	
SAI-24	Communication with the Legislature, Executive and Judiciary	3	4	3	4	3
SAI-25	Communication with the Media, Citizens and Civil Society Organizations	4	1	-	-	2

### 4.6.1 SAI-24: Communication with the Legislature, Executive and Judiciary- Score 3

#### Narrative

This indicator measures assesses communication practices the SAI has established with institutional stakeholders (Legislature, Executive, and Judiciary) The SAI should take the initiative to communicate its mandate and activities in a way that does not compromise its independence.

Good practices can facilitate communication while helping to minimise the risks. Effective communication will allow these stakeholders to see SAI reports are relevant to their work, and allow SAI to be more responsive to emerging risks and changing context. The basis of scoring of SAI-24 is RAA's Communication Strategy, RAA's Strategic Plan 2015-2020, interviews and policy documents. The indicator comprises of four dimensions:

- i) Communication Strategy
- ii) Good Practices Regarding Communication with the Legislature
- iii) Good Practices Regarding Communication with the Executive
- iv) Good Practices Regarding Communication with the Judiciary, and/or Prosecuting and Investigating Agencies

The RAA has developed the Stakeholders Engagement Strategy 2018-2023 as a written communication strategy and identifies key stakeholders and identifies key messages the RAA wants to communicate. The RAA has not yet assessed whether stakeholders believe RAA is communicating effectively. The RAA submits Annual Audit Report and Performance Audit Reports to Parliament and has developed procedures for tabling Auditor General's Report to the parliament. However, there is no formal system to seek feedback from the Legislature about the quality and relevance of its audit reports but solicits suggestions for improvements during presentation of AARs and Performance Audit Reports.

RAA has a good system in place to ensure that it is not involved in the management of the organization/ audited agencies they audit. Generic information on what to expect from the audit is being shared the audit entry meetings and head of the audited entities attend the audit exit meeting to discuss audit findings, causes and recommendations.

The RAA has formal relationships with the Anti-Corruption Commission (ACC) and issues related to suspected fraud and corruption arising from audit work are shared with ACC for further investigation. There is also no legal requirement for engaging with Judiciary.

#### **Dimension i: Communication Strategy**

The RAA has developed the Stakeholder Engagement Strategy 2018-2023 as a written communication strategy. It is based on the comprehensive stakeholder mapping exercises carried out in 2016 and with technical support from IDI. The expectations were also discerned from Stakeholders' Satisfaction and Perception Survey Report 2016, Employee Satisfaction Survey Report 2017 and Audit Advocacy and Awareness Programme Report 2017.

The strategy identifies the key stakeholders of RAA to communicate in order to achieve its organizational goal. Against each key stakeholder, the key message RAA want to communicate is identified as given in Annexure IV-Assessment of Stakeholders expectations- what to expect from the stakeholders of the Communication Strategy. The strategy clearly identifies the tools and approaches for external communication as given in Annexure VI Diagnosis of the SAI communication process.

The strategy is aligned to the RAA's Strategic Plan 2015-2020 under Strategic Goal 3, which stipulates that, 'RAA enjoys strong partnerships and cooperation with key stakeholders -Fostering collaboration'.

The communication plan in the Strategy identifies strategies and Key Performance Indicators for ensuring implementation of its actions. However, the progress report against the achievement of the objectives and actions of this strategy is yet to be monitored and documented. The RAA has not yet assessed whether stakeholders believe RAA is communicating effectively.

#### **Dimension ii: Good Practices Regarding Communication with the Legislature**

The RAA submits an Annual Audit Report and Performance Audit Reports to the Parliament. The unresolved findings pertaining to the reports issued during the year form part of AAR 2017 and reports common findings, trends, causes, recommendations and are submitted to His Majesty the King, Prime Minister and Parliament. Along with the submission, the RAA also make presentations to PAC and other members of the Parliament. The excerpts of draft AAR 2017 were sent to all the agencies for factual confirmation and other actions and they were given one month to respond before finalization. The performance audit reports also contain findings and recommendations based on reviews carried out on selected topics and themes.

RAA has developed procedures for tabling Auditor General's Report by RAA to the parliament. The Annual Audit Reports are tabled during the summer session of the Parliament and is discussed during the winter session of the Parliament. The Performance audit reports are tabled during the summer session of the Parliament and are discussed during the winter session of the Parliament. During the sessions, the Review of the Annual Audit Report, Performance Audit reports and the Review of the unresolved issues of the past Annual Audit Reports is presented to the Parliament by the Chairman of the Public Accounts Committee (PAC) and issues are deliberated. In the past, parliament directives were issued based on the deliberations of the AARs and the Performance Audit Reports to implement recommendations of the RAA by the audited entities.

Public hearings are also held by PAC with the audited agencies for unresolved issues in the Annual Audit reports involving RAA as observer to discuss unresolved audit issues and better understand the audit reports and conclusions. The PAC also reviews the follow-up review reports of AARS and holds public hearings and wherever appropriate provide timely access to information.

There is a continuous communication of RAA's mandates during awareness and sensitization programme with all the Government Agencies both at the central and local Government, Corporations & Financial Institutions, Armed forces, Religious institutes, Colleges, and schools besides the presentation of AAR and Performance Audit Reports to the Parliament. The audit awareness and sensitization programme is conducted every year and the programme consists of presentation on the roles & responsibilities of RAA including Historical Evolution of RAA, Audit Mandates, Jurisdiction & Cycle, Audit Oversight Model, Accountability of the RAA, Significant Issues noted in the agencies, Strategic Plan and International Standards of Supreme Audit Institutions (ISSAIs).

Where appropriate, the RAA provide opinions on the amendment of the Financial Rules and Regulations 2016 and Procurement Rules and Regulations 2019 but has not involved in other laws and regulations. No formal system to seek feedback from the Legislature about the quality and relevance of its audit reports but solicits suggestions for improvements during presentation of AARs and Performance Audit Reports.

#### **Dimension iii: Good Practices Regarding Communication with the Executive**

RAA has a good system in place to ensure that it is not involved in the management of the organization/ audited agencies they audit. The declaration of ethical threats and conflict of no interest assessed during planning of individual audits are being monitored continuously by the supervisor.

Generic information on what to expect from the audit is being shared by making presentations on audit plans during the audit entry meetings and information on subject matter, objectives, scope and other elements of the plan are communicated with the audited agencies.

Usually head of the audited entities attend the audit exit meeting to discuss audit findings, causes and recommendations. After the reports are issued, regular meetings are held with responsible officials of audited agencies.

RAA does not have a system of seeking feedback on a regular basis about the quality of audit report and process. Stakeholders Satisfaction and Perception Survey 2016 was conducted which included survey of sample audited agencies on their perception and satisfaction on RAA's work. However, it was only a one time exercise.

#### **Dimension iv: Good Practices Regarding Communication with the Judiciary, and/or Prosecuting and Investigating Agencies**

The RAA has formal relationships with the Anti-Corruption Commission (ACC) and has signed MoU prescribing procedures for engagement. The issues related to suspected fraud and corruptions arising from audit work are shared with ACC for further investigation. The Office of the Attorney General (OAG) prosecutes the cases based on the findings of the ACC. There is also no legal requirement for engaging with Judiciary.

Bilateral meetings are held bi-annually with ACC to discuss on the issues shared between RAA and ACC besides carrying out awareness raising activities with the Judiciary and ACC on the RAA's role, mandate and work.

The statuses of such cases are discussed during the coordination meeting and ACC also shares issues with RAA to review during normal audits and the follow-up status reviewed during such meeting.

The court verdicts on cases arising from audit work are communicated to RAA by the respective audited agencies and are resolved or actions initiated as per the verdict of the court.

### Assessment Scores by Dimension

**Table 51: Assessment Scores by Dimension**

Dimensions	Score
(i) Communication Strategy	3
(ii) Good Practices regarding Communication with the Legislature	3
(iii) Good Practices Regarding Communication with the Executive	3
(iv) Good Practices Regarding Communication with the Judiciary, and/or Prosecuting and Investigating Agencies	4
<b>Overall Score</b>	<b>3</b>

### Assessment Findings and observations

**Table 52: Assessment findings and observations**

Indicator Score		
Dimension	Findings	Score
(i) Communication Strategy	<p><b>Criteria a, b, c, d, and e are met.</b></p> <ul style="list-style-type: none"> <li>The RAA identifies the key message to be communicated in the Stakeholder communication Strategy</li> <li>The stakeholder communication strategy also identifies appropriate tools and approaches for external communication</li> <li>It is aligned with the strategic plan 2015-2020</li> </ul> <p><b>Criteria f and g are not met</b></p> <ul style="list-style-type: none"> <li>Currently the communication plan has not been monitored</li> <li>It has not assess whether the stakeholders believe RAA is communicating effectively</li> </ul>	<p><b>3</b></p> <p><b>Criteria c and at least four other criteria are in place</b></p>
(ii) Good Practices Regarding Communication with the Legislature	<p><b>Criteria a, b, c, d, e, f and g are met</b></p> <ul style="list-style-type: none"> <li>There is established policies and procedures in place regarding communication with the Parliament</li> <li>RAA has developed good relations with the Public Accounts Committee (PAC)</li> <li>The parliament has timely access to the information of work of RAA</li> </ul> <p><b>Criterion h not met</b></p> <ul style="list-style-type: none"> <li>Does not formally but solicits suggestions for improvements legislature about the quality and relevance of its audit reports.</li> </ul>	<p><b>3</b></p> <p><b>Criterion c) and at least five of the other criteria above are in place.</b></p>
(iii) Good Practices Regarding Communication with the Executive	<p><b>Criteria a, b, and c are met.</b></p> <ul style="list-style-type: none"> <li>The RAA do not involve in the management of the organization they audit</li> <li>The auditee entities are provided generic information on what is expected during the audit in audit entry meetings</li> </ul> <p><b>Criterion d not met</b></p> <ul style="list-style-type: none"> <li>RAA does not have a system of seeking feedback on a regular basis about the quality of audit report and process.</li> </ul>	<p><b>3</b></p> <p><b>At least three criteria are in place</b></p>



	A onetime stakeholder satisfaction and perception survey was carried out in 2016.	
(iv) Good Practices Regarding Communication with the Judiciary, and/or Prosecuting and Investigating Agencies	<b>All criteria met except criterion e is not applicable</b> <ul style="list-style-type: none"> <li>• There are established policies and procedures in place regarding communication with ACC.</li> </ul>	<b>4</b> <b>All the criteria are in place</b>

#### 4.6.2 SAI-25: Communication with Media, Citizens & Civil Society Organizations- Score 2

##### Narrative

This indicator assesses the practices of a SAI in reaching out to society and informing the public about its role, work and results, as well as enhancing accountability in the public sector. The indicator has 2 dimensions:

1. Good Practice Regarding Communication with the Media
2. Good Practice Regarding Communication with Citizens and Civil Society Organizations

The RAA engage media (both print and broadcast) for press conferences during the issue of major reports like AAR, performance audit reports and other reports. Press releases are also shared with the media and uploaded on the RAA's website. RAA has designated media focal persons who handle the media in line with the procedures outlined in the RAA's Policy Guideline on Media Communication.

Brochures are published by RAA for Annual Audit Reports summarizing the audit reports making it easier for citizens to understand the main findings. However, there is scope for establishing formal contacts with relevant civil society organizations and encouraging them to read audit reports and share the findings with citizens. Formalized strategies to stimulate citizens to access public sector audit and the RAA, beyond audit reports could also benefit as currently there are no opportunities for citizens to provide input to and/or participate in the RAA's work, without compromising the SAI's independence. Engaging in any debates in public forums on public sector improvement could help RAA in promoting good governance.

##### Dimension i: Good Practice Regarding Communication with the Media

During the period under review, RAA invites mainstream media for press conference during issue of major reports like AAR and performance audit reports after it is being tabled in the parliament. The RAA issued press releases with major reports like AAR including performance audit reports. The press releases contain summary of reports issued concurrent to the issue of reports and shared with media and uploaded on RAA's website.

During the press conference, RAA invites mainstream media (both print and broadcast) for dissemination of AAR, Performance Reports and any other significant audit reports. During the Parliamentary deliberation the media focal person or any designated officer comments on the content of the report in the print media as well as broadcast. The media focal person is responsible to provide information sought by the media personnel to be publicized and monitors the media's coverage of the RAA, and topics addressed by the RAA's audits of any distortions or misrepresentation of the facts by the media in





line with the RAA's Policy Guideline on Media Communication. The RAA sees the correctness of the reporting and in case of factual inaccuracy, RAA communicate with the media concerned. The media focal person along with the responsible officials participates in panel discussions and broadcast on the national television has designated two senior officers, Chimi Dorji DAG, Tashi Tobgay, DAG as media focal person to deal with any communication with the media. The media focal person handles the request from media as per the procedures outlined in the Policy Guideline on Media Communication

#### **Dimension ii: Good Practice Regarding Communication with Citizens and Civil Society Organizations**

The RAA has made its mandate public as the Constitution of the Kingdom of Bhutan 2008, Audit Act of Bhutan 2018 and other legislations are in the public domain. Besides, formal documents of RAA ensures that these mandates are reiterated and specified as far as possible to increase awareness amongst readers and the general public. New developments of RAA are disseminated through website, Facebook page and Twitter account by designated officials/ divisions.

Brochures are published by RAA for Annual Audit Reports summarizing the audit reports making it easier for citizens to understand the main findings. In the past, a few brochures were also published for performance audit reports, but has been discontinued for unknown reasons.

There is no formal established contact with relevant civil society organizations and encouraged them to read audit reports and share the findings with citizens. There is also no formalized strategy to stimulate citizens to access in public sector audit and the RAA, beyond audit reports except for audit awareness and sensitization programmes for different audiences in the government, corporations and financial institutions. The audit awareness and sensitization programme is conducted every year and the programme consists of presentation on the roles & responsibilities of RAA including Historical Evolution of RAA, Audit Mandates, Jurisdiction & Cycle, Audit Oversight Model, Accountability of the RAA, Significant Issues noted in the agencies, Strategic Plan and International Standards of Supreme Audit Institutions (ISSAIs).

No opportunities for citizens to provide input to and/or participate in the RAA's work, without compromising the SAI's independence besides the introduction of feedback and fraud alert system, anonymous letters, complaints, feedback boxes, audit awareness and sensitization programs. The introduction of Citizen's Participatory Audits (CPA) has potential to engage citizens in the audit process. However, such audits have not been taken up pending approval of the guidelines of the CPA.

The RAA has not engaged in any debate in public forums on public sector improvement. There is also no system of seeking feedback from CSOs and/or members of the public on accessibility of its reports

## Assessment Scores by Dimension

**Table 53: Assessment Scores by Dimension**

Dimensions	Score
(i) Good Practice Regarding Communication with the Media	4
(ii) Good Practice Regarding Communication with Citizens and Civil Society Organizations	1
<b>Overall Score</b>	<b>2</b>

## Assessment Findings and observations

**Table 54: Assessment findings and observations**

Dimension	Findings	Score
(i) Good Practice Regarding Communication with the Media	<p><b>All criteria met</b></p> <ul style="list-style-type: none"> <li>• The RAA held press conference for launching the AAR 2018 and other performance audit reports</li> <li>• Press releases were made for the AAR 2018 and other performance audit reports</li> <li>• The RAA approached media (both print and broadcast) for disseminating the AAR 2018 and performance audit reports.</li> <li>• The RAA has designated focal media persons</li> </ul>	<p><b>4</b></p> <p><b>All criteria are in place</b></p>
(ii) Good Practice Regarding Communication with Citizens and Civil Society Organizations	<p><b>Criteria a, and f are met.</b></p> <ul style="list-style-type: none"> <li>• The RAA has made its mandate public</li> <li>• The RAA has use adequate online media such as Facebook and twitter</li> </ul> <p><b>Criteria b, c, d, e, g and h are not met</b></p> <ul style="list-style-type: none"> <li>• The RAA publish summaries of AAR such as brochures but not for performance audit report to communicate easily with the citizens.</li> <li>• There is no established contact with the civil society organizations to encourage and read audit reports and share findings with citizens.</li> <li>• RAA has not participated in debates on public sector improvement</li> </ul>	<p><b>1</b></p> <p><b>At least two criteria are in place</b></p>

## 5.1 DESCRIPTION OF RECENT AND ON-GOING REFORMS

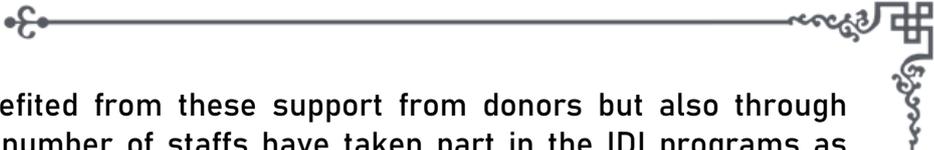
Since 2012 the RAA has been involved in major initiatives aimed at capacity development. In order to strengthen the institutional capacity and considering long term benefits for the RAA in particular and our peer SAIs, a project under the Global call for proposal for SAIs capacity development in 2011 initiated by the INTOSAI-donor cooperation initiative was submitted to the Austrian Development Cooperation (ADC). The ADC under the project “Capacity Development of Royal Audit Authority”, funded EUR 386,620.00 from 2012 to 2017. With the project funding the RAA developed the Policy on Outsourcing of Audit Services, Continuing Professional Development Policy and 22 Audit Manuals. Around 163 auditors were trained on the audit manuals and 10 auditors completed the training of trainers courses. There were four pilot audits conducted on risk based audits by the RAA. In addition, 19 audit managers were trained in Auditing from a Gender Perspective.

In 2018 ADC again under the project “Strengthening the Professional Capacity of the Royal Audit Authority for Better Governance”, funded EUR 170,000.00. The project was initiated with an objective to enhance professional and institutional capacity of the Royal Audit Authority, thereby, contributing towards enhancing auditing, reporting and institutional credibility. The RAA benefitted by training auditors on Training of trainers programme in Citizen Participatory Audit (CPA), Environmental Impact Assessment (EIA) & Social Impact Assessment and Environmental Management System (EMS), Quality Assurance (QA), Effective Follow-up of Audit Results, Financial Statement Analysis, Forensic Audit and Data Analytics for IT Auditors.

The RAA also received a grant from the World Bank in 2015 under the project “Institutional Capacity Development of the Royal Audit Authority” with the objective to enhance the effectiveness of the RAA by strengthening its operational capacity to produce and disseminate quality audit reports as per the International Standards of Supreme Audit Institutions (ISSAIs). The grant amounted to two hundred seventy five thousand United States Dollars (U.S \$275,000).

The Bhutan Trust Fund for Environment Conservation (BT FEC) “Strengthening Environmental Auditing towards Protection & Conservation of Environment” granted 6.924 million (Nu.6,923,720.00) in 2017 to provide long term studies on Natural Resource Management, establish institutional linkage with the National Environment Commission and other environment protection agencies, enhance environmental auditing and revision of the environmental auditing guidelines.

There is an ongoing project from ADC on “Strengthening the professional capacity of the Royal Audit Authority for better governance” to be implemented from 2019-2022 with a funding of EUR 200,000.00. The project is expected to support 4 auditors in Certified Professional Accountant (CPA) course at Royal Institute of Management, Bhutan and 1 auditor in Masters in Economics at the University of Vienna, Austria. The project will also support short-term trainings to 4 auditors to undergo the International Auditors Fellowship Programme (IAFP) with the Government Accountability Office, USA, and 60 auditors in hydropower project auditing which will directly benefit or impact the auditee agencies including numerous construction projects and hydropower sector under RAA’s jurisdictions.



The RAA has not only benefited from these support from donors but also through various IDI programmes a number of staffs have taken part in the IDI programs as resource persons, participants and mentors in the three discipline of audit.

A Statement of Commitment (SoC) was signed in April 2016 with Office of the Auditor General, Norway, the Chairman of INTOSAI Development Initiatives (IDI) Board, to implement the ISSAIs. As a part of Implementation Initiatives 3i programmes - ISSAI Compliance Assessment Tools (iCATS) for three audit disciplines of Performance, Financial and Compliance Audits was carried out in 2015.

At the professional development level, Subject Matter Experts from IDI (one each in Financial, Compliance & Performance audit) conducted ISSAI complaint audit workshop to 60 field auditors in August 2016 at iCISA, Noida, India. The IDI Trained auditors imparted training to 73 auditors at the Royal Institute of Management (RIM), Thimphu in July 2017 on all three disciplines of audits. All 25 new employees who joined RAA on lateral transfer and on contract were trained on ISSAI based audit methodologies by IDI trained Mentors in July 2017. In August 2017, auditors working in follow-up Division and other line Divisions were trained on ISSAIs based audit methodologies by financial audit Mentors. Currently, the RAA have now pool of over 206 ISSAIs trained auditors. At the organizational front to align audit methodology and process with ISSAIs, RAA revised the Financial Audit Manual, Compliance Audit Manual and Performance Audit Guidelines in November 2016 by ISSAIs trained auditors. The documents were also reviewed by IDI. The RAA carried out 6 pilots audits (2 each for Financial, Compliance and Performance audits) using ISSAIs based audit methodologies and issued reports; The two pilot Performance Audit Reports were tabled to the 10th Session of 2nd Parliament in December 2017 and drew huge interest of the Legislature. The RAA initiated 638 audits using its revised draft ISSAI based audit methodology for Financial, Compliance and Performance Audits in its Annual Audit Plan 2017-18. All 6 pilots audit reports underwent Quality Assurance review and issued reports. The QA function was strengthened with additional manpower, developed QA policy and QA Guidelines.

The construction of the Professional Development Centre which started in 2011 was completed in 2018 at a total cost of Nu.276.60 million funded by the Government of India. The Centre is expected to play a vital role in not only enhancing capacity and competence of the RAA through regular capacity development activities but also to nurture human resources of other organizations. Initially the Centre plans to start with short-term trainings, seminars, workshops and conferences; and gradually build capacity for conducting long-term courses for auditors, accountants and other public sector employees. The RAA also expects to cater to audit fraternities from around the globe for important conferences, workshops and other discourses, for professional capacity development.

The reforms would help achieve the strategic outcomes and outputs identified in the Strategic Plan 2020-2025 in fulfilling RAA's mandates. The plan focuses RAA's efforts on the three outcomes.

1. Improved public sector performance and accountability, including integration and consolidation of financial accounts in government;
2. Improved credibility and reputation of RAA; and
3. Sustained collaboration with stakeholders.

The strategic outcomes and outputs will be pursued through its annual operational plans.

## 5.2 USE OF SAI RESULTS BY EXTERNAL PROVIDERS OF FINANCIAL SUPPORT

The grants and loans of the government are through the budgetary and accounting system of the Royal Government of Bhutan. The information of the external assistance are entered in the budget and accounting system and tracks the information of the donors and the projects.

The annual financial statement of the Government of Bhutan is certified by the RAA. In addition, RAA also audits the financial statements of the non-government organizations, civil charities and civil societies fully or partly funded by the Government; whose loans are approved or guaranteed by the Government; and those receiving funds, grants and subsidies directly or through the Government and all donor funded projects or special projects of the government as required by the Audit Act of Bhutan 2018<sup>124</sup>. The external providers (donors) of the Royal Government of Bhutan fully make use of RAA and its reporting requirements. The donors rely on the RAA's the audit opinion/ reports and do not make additional requirements on the government for auditing.

Donor assisted projects are audited at component level leading to fragmentation of audit resources and overall perspective of project not understood. Therefore, to render effective and impactful audits, RAA now conducts audits of the donor funded projects at Project Management Unit (PMU) level. Such modalities have rendered in higher audit coverage and consolidation of our audit resources, which are expected to enhance audit coverage. The copies of the audit reports are sent to the Ministry of Finance, the implementing agencies and the donors. The projects related to loans are audited annually.

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<sup>124</sup> Audit Act of Bhutan 2018, Section 90 (2& 10)

## Annex 1 A: Performance Indicator Summary

The following table provides a summary of the RAA's performance indicators. For each indicator, the table specifies the scoring assigned by dimensions and the overall score.

Indicator	Indicator name	Dimensions				Overall Score
		(i)	(ii)	(iii)	(iv)	
<b>DOMAIN A: Independence and Legal Framework</b>						
SAI-1	Independence of the SAI	3	2	2	4	3
SAI-2	Mandate of the SAI	4	4	4		4
<b>DOMAIN B: Internal Governance and Ethics</b>						
SAI-3	Strategic Planning Cycle	2	1	2	2	2
SAI-4	Organizational Control Environment	2	1	3	1	2
SAI-5	Outsourced Audits	4	2	1		2
SAI-6	Leadership and Internal Communication	4	3			3
SAI -7	Overall Audit Planning	3	3			3
<b>DOMAIN C: Audit Quality and reporting</b>						
SAI-8	Audit Coverage	2	3	0		2
SAI -9	Financial Audit Standards and Quality Management	4	4	3		4
SAI-10	Financial Audit Process	3	3	2		3
SAI-11	Financial Audit Results	2	4	3		3
SAI-12	Performance Audit Standards and Quality Management	4	4	2		3
SAI-13	Performance Audit Process	3	3	3		3
SAI-14	Performance Audit Results	3	4	2		3
SAI-15	Compliance Audit Standards and Quality Management	1	2	1		1
SAI-16	Compliance Audit Process	1	1	2		1
SAI-17	Compliance Audit Results	1	4	2		3
<b>DOMAIN D: Financial Management, Assets and Support Services</b>						
SAI-21	Financial Management, Assets and Support Services	3	4	4		4
<b>DOMAIN E: Human Resources and Training</b>						
SAI-22	Human Resource Management	3	0	3	3	2
SAI-23	Professional Development and Training	2	1	1	1	1
<b>DOMAIN F: Communication and Stakeholders Management</b>						
SAI-24	Communication with the Legislature, Executive and Judiciary	3	3	4	3	3
SAI-25	Communication with the Media, Citizens and Civil Society Organization	4	1			2

## **Annex 1 B: Performance Indicator Summary for Repeat Assessments**

The table is used to document performance change between two SAI PMF assessments. The pilot version of the SAI PMF framework was used for the first assessment from 2015 while the 2016 version of the framework has been used for the current assessment (repeat assessment). Due to changes in the framework it is in most cases not possible to directly compare scores. But in most cases, it is possible to conduct a qualitative assessment based on the scoring of the individual criteria which gives a good overview of performance change.

### **NC = Non-Comparable**

This entails that it is not possible to directly compare scores between the two assessments.

2016 Version		Pilot version		Performance change - description
<b>DOMAIN A INDEPENDENCE AND LEGAL FRAMEWORK</b>				
<b>SAI-1 Independence of the SAI</b>	<b>Indicator score is: 3</b>	<b>SAI-6 Independence of the SAI</b>	<b>NC</b>	
(i) Appropriate and effective constitutional framework	3	(i) Appropriate and effective constitutional and legal framework	NC	There have been no changes to the Constitution in the period between the two assessments. The Constitution provides the same level of independence for the RAA.
(ii) Financial independence / autonomy	2	(ii) Financial Independence / Autonomy	NC	There has been a new Audit Act of 2018. The legal framework provides for increased financial independence for the RAA.
(iii) Organizational independence / autonomy	2	(iii) Organizational Independence / Autonomy	NC	The legal framework provides in large the same level of organizational independence for the RAA.
(iv) Independence of the Head of SAI and its Officials	4	(iv) Independence of the Head of the SAI and its Officials	NC	The legal framework provides in large the same level of independence for the Head of SAI.
<b>SAI-2 Mandate of the SAI</b>	<b>Indicator score is: 4</b>	<b>SAI-7 Mandate of the SAI</b>		
(i) Sufficiently broad mandate	4	(i) Sufficiently broad mandate	NC	The legal framework still ensures a broad mandate for the RAA.
(ii) Access to information	4	(ii) Access to information	4	The legal framework still ensures that the RAA has access to necessary information to conduct its audits.
(iii) Right and obligation to report	4	(iii) Right and obligation to report	NC	There have been no changes and RAA still has a strong level of right and obligation to report on its audit findings.
<b>DOMAIN B INTERNAL GOVERNANCE AND ETHICS</b>				
<b>SAI-3 Strategic Planning Cycle</b>	<b>Indicator score is: 2</b>	<b>SAI-8 Strategy for Organizational Development</b>	<b>NC</b>	
(i) Content of the strategic plan	2	(i) Content of the Strategic Plan	1	The performance has improved. The Strategic Plan 2015-20 is prepared based on SWOT analysis. It articulates strategic outcomes and goals linked to vision and mission of the RAA. The Operational Plan is prepared as supplementary documents outlining the activities to be implemented under four Programmes.

				The Performance Measurement Framework which contains performance indicators have been developed.
(ii) Content of the Annual Plan/Operational Plan	1	(iii) Content of the Annual Plan	1	The score is the same but there has still been some improvement in performance. The annual plan has become more holistic in the sense that it includes relevant activities related to HR, support functions and so forth. And now clear timetables and responsibilities have also been included for non-audit activities.
(iii) Organizational Planning Process	2	(ii) Strategic Planning Process and (iv) Annual Planning Process	NC	Performance is in large the same.
(iv) Monitoring and Performance Reporting	2	(SAI 5 (iii) Measuring and Reporting on the SAI's Performance	0	The performance has improved quite substantially. The RAA assesses the implementation of Annual Plans during Mid Term Review Meeting and Annual Review. The annual performance report is included in a separate chapter in the Annual Audit Report. The performance report is limited to activity based rather than performance based reporting containing summary of activities accomplished during the year. The RAA has become more transparent and accountable, publishing the results of peer reviews, for instance the SAI PMF report from 2015. And it publishes statistics measuring the impact of its audits.
<b>SAI-4 Organizational Control Environment</b>	<b>Indicator score is: 2</b>	<b>SAI-18 Ethics, Management and Internal Control</b>	<b>NC</b>	
(i) Internal Control Environment – Ethics, Integrity and Organizational Structure	2	(i) Code of Ethics and Integrity; (ii) Management of Staff	NC	Performance is in large the same. Improvements are that the Code of Ethics is made publicly available.
(ii) System of Internal Control	1	(iv) Internal Control Environment; (ii) Management of Staff	NC	---
(iii) Quality Control System	3	(iii) Quality Control System	NC	Improvements have been made. Authority for managing the SAIs system of quality control is now delegated and the SAI considers whether its work can be delivered to the desired quality.
(iv) Quality Assurance System	1	SAI-9 (iv) Quality Assurance System, SAI 10 (i) Quality Assurance of FA, (ii) Quality Assurance of CA, (iii) Quality Assurance of PA	NC	Substantial improvements have been made. Responsibility of QA is now clearly established, the QA reviewers are independent, and the results are reported to Head of SAI.
<b>SAI-5 Outsourced Audits</b>	<b>Indicator score is: 2</b>	<b>SAI-10 Quality Assurance of Audit Processes</b>	<b>NC</b>	

(i) Process for Selection of Contracted Auditor	4	(iv) Quality Assurance of Outsourced Audit	NC	Performance has remained strong in this area.
(ii) Quality Control of Outsourced Audits	2	-	NC	Extensive changes in the SAI PMF framework entails that a comparison of performance is not likely to be meaningful.
(iii) Quality Assurance of Outsourced Audits	1	-	NC	Extensive changes in the SAI PMF framework entails that a comparison of performance is not likely to be meaningful.
<b>SAI-6 Leadership and Internal Communication</b>	<b>Indicator score is: 3</b>	<b>SAI-20 Human Resource Leadership and Function, SAI-22 Communications Strategy &amp; Internal Communication</b>	NC	
(i) Leadership	4	SAI-20 (i) Leadership of Human Resources	NC	The RAA is still demonstrating strong performance in this area.
(ii) Internal Communication	3	SAI-22 (ii) Good practices regarding internal communication	NC	The RAA is still demonstrating strong performance in this area.
<b>SAI-7 Overall Audit Planning</b>	<b>Indicator score is: 3</b>	<b>SAI-9 Overall Audit Planning &amp; Quality Management</b>	NC	
(i) Overall Audit Planning Process	3	(i) Audit Planning Process	NC	Performance is in large the same. RAA is still performing fairly well in this area.
(ii) Overall Audit Plan Content	3	(ii) Audit Plan Content	1	Although the score is the same there is still key performance improvements to highlight. The audit plan now demonstrates that the SAI is discharging its mandate and it specifies the necessary human and financial resources to conduct the planned audits.
<b>DOMAIN C AUDIT QUALITY AND REPORTING</b>				
<b>SAI-8 Audit Coverage</b>	<b>Indicator score is: 2</b>	<b>SAI-1 SAI-2 SAI-3</b>	NC	
(i) Financial Audit Coverage	2	SAI-1 (i) Financial Audit Coverage	NC	---
(ii) Coverage, Selection and Objective of Performance Audit	3	SAI-3 (i) Coverage, Selection and Objective of Performance Audits	NC	Substantial improvements in ensuring that PA is considered of equal importance to the other audit streams and improved documentation of the process for selecting audit topics.
(iii) Coverage, Selection and Objective of Compliance Audit	0	SAI-2 (i) Compliance Audit Coverage	NC	Extensive changes in the SAI PMF framework entails that a comparison of performance is not likely to be meaningful.
(iv) Coverage of Jurisdictional Control	NA	-	NC	NA
<b>SAI-9 Financial Audit Standards and Quality Management</b>	<b>Indicator score is: 4</b>	<b>SAI-11 Financial Audit Foundations</b>	NC	

(i) Financial Audit Standards and Policies	4	(i) Financial Audit Standards and Guidance	NC	The latest version of the Audit Manual is from 2019. Performance has remained strong in this area.
(ii) Financial Audit Team Management and Skills	4	(iv) Financial Audit Team Management and Skills and (i) c) I-VII	NC	Performance has improved with all criteria now met. Earlier there were some weaknesses in terms of guidance and templates for developing the audit strategy and audit plan, and for summarizing the risks of material misstatements.
(iii) Quality Control in Financial Audit	3	(iii) Quality Control in Financial Audit	2	The performance has remained stable. Under the current assessment criterion a) has been met as all work carried out were reviewed by the Research and Quality Assurance Division (RQAD) looking after both the quality control and assurance of audits. For quality control, the RAA relies largely on the hierarchical review of the audit documents (audit plan, working papers, audit report) by the team leader, Division chief, the Research and Quality Assurance Division (RQAD), Deputy Auditor General and the Auditor General.
<b>SAI-10 Financial Audit Process</b>	<b>Indicator score is: 3</b>	<b>SAI-12 Financial Audit Process</b>	<b>NC</b>	
(i) Planning Financial Audits	3	SAI-12 (i) Planning Financial Audits, SAI-11 (ii) Ethics and Independence in Financial Audit	NC	The sampled audits reviewed demonstrates that the RAA better documents its audits and the RAA is performing well when it comes to planning financial audits. The first SAI PMF assessment from 2015 demonstrated that documentation was incomplete which made it challenging to assess the criteria.
(ii) Implementing Financial Audits	3	(ii) Implementing Financial Audits	NC	The sampled audits reviewed demonstrates that the RAA better documents its audits and RAA is performing well when it comes to implementing financial audits. The first SAI PMF assessment from 2015 demonstrated that documentation was incomplete which made it challenging to assess the criteria.
(iii) Evaluating Audit Evidence, Concluding and Reporting in Financial Audits	2	(iii) Evaluating Audit Evidence, Concluding and Reporting in Financial Audits	NC	Performance has remained stable with some improvements and financial audit reports contain relevant information and is well communicated. The current score is 2 although only 1 criterion is scored not met. This criterion on evaluating uncorrected misstatements is weighted as more important.
<b>SAI-11 Financial Audit Results</b>	<b>Indicator score is: 3</b>	<b>SAI-1 Financial Audit Results</b>	<b>NC</b>	
(i) Timely Submission of Financial Audit Results	2	(ii) Submission of Financial Audit Results	3	In the pilot version, the coverage was calculated only for 7 sample audit files. From the 7 sample audit file, financial audit report for 6 files (85.7%) were issued within 9 months after the financial year end fetching a score of 3. However, for current assessment, we

				have taken all the financial audit conducted in 2017-18 and compared the financial audit reporting with agreed timeframe as per annual audit schedule. Agreed timeframe here is derived from report issue date as per annual audit schedule 2017-18 and only 40.71% of the financial audit reports were issued within the agreed timeframe,
(ii) Timely Publication of Financial Audit Results	4	(iii) Publication and Dissemination of Financial Audit Results	4	The performance has remained the same and the RAA performs well in this area.
(iii) SAI Follow-up on Implementation of Financial Audit Observations and Recommendations	3	(iv) SAI Follow-up on Implementation of Financial Audit Observations and Recommendations	NC	Performance has remained stable.
<b>SAI-12 Performance Audit Standards and Quality Management</b>	<b>Indicator score is: 3</b>	<b>SAI-15 Performance Audit Foundations</b>	<b>NC</b>	
(i) Performance Audit Standards and Policies	4	(i) Performance Audit Standards and Guidance	NC	The performance has remained stable and the RAA performs well. 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) Performance Audit Team Management and Skills	4	(iv) Performance Audit Team Management and Skills	NC	Earlier weakness in the auditor's knowledge of social science methods has been improved.
(iii) Quality Control in Performance Audit	2	(iii) Quality Control in Performance Audit	NC	Performance has in large remained stable.
<b>SAI-13 Performance Audit Process</b>	<b>Indicator score is: 3</b>	<b>SAI-16 Performance Audit Process</b>	<b>NC</b>	
(i) Planning Performance Audits	3	SAI-16 (i) Planning Performance Audits, SAI-15 (ii) Ethics and Independence in Performance Audit	NC	Based on the review of sampled audit files the SAI is now performing well in terms of planning PA. And it seems SAI performance has improved.
(ii) Implementing Performance Audits	3	(ii) Implementing Performance Audits	NC	Based on the review of sampled audit files the SAI is now performing well in terms of planning PA. And it seems SAI performance has improved.
(iii) Reporting in Performance Audits	3	(iii) Reporting in Performance Audits	NC	Based on the review of sampled audit files the SAI is now performing well in terms of planning PA. SAI performance has substantially improved.
<b>SAI-14 Performance Audit Results</b>	<b>Indicator score is: 3</b>	<b>SAI-3 Performance Audit Results</b>	<b>NC</b>	
(i) Timely Submission of Performance Audit Reports	3	(ii) Submission, Publication and Dissemination of Performance Audit Reports.	NC	Performance has remained stable. There are no legal timeframes for submission of PA reports and the report issue date in the AAS is the agreed timeframe and reports are tabled in the parliament in line with Audit Act 2018
(ii) Timely Publication of Performance Audit Reports	4	(ii) Submission, Publication and Dissemination of	NC	A material improvement is that RAA now published its performance audit reports which was not done earlier.

		Performance Audit Reports		This can greatly contribute positively to the impact of the RAA.
(iii) SAI Follow-up on Implementation of Performance Audit Observations and Recommendations	2	(iii) SAI Follow-up on Implementation of Performance Audit Observations and Recommendations	NC	At the time of the first SAI PMF assessment in 2015 RAA's system for follow up of performance audit report was under implementation, and only partly in place. Performance in this area was consequently quite weak.  Performance has improved but there is still a clear potential for further improvements.
<b>SAI-15 Compliance Audit Standards and Quality Management</b>	<b>Indicator score is: 1</b>	<b>SAI-13 Compliance Audit Foundations</b>	<b>NC</b>	
(i) Compliance Audit Standards and Policies	1	(i) Compliance Audit Standards and Guidance	NC	Performance has remained stable.
(ii) Compliance Audit Team Management and Skills	2	(iv) Compliance Audit Team Management and Skills, (i) c)	NC	Some performance improvements in terms of ensuring that the auditors have the necessary competence and ensuring the auditors have access to the necessary templates and guidance material.
(iii) Quality Control in Compliance Audit	1	(iii) Quality Control in Compliance Audit	NC	Performance has remained stable.
<b>SAI-16 Compliance Audit Process</b>	<b>Indicator score is: 1</b>	<b>SAI-14 Compliance Audit Process</b>	<b>NC</b>	
(i) Planning Compliance Audits	1	(i) Planning Compliance Audits	NC	The review of sampled audit files demonstrates that there have been substantial improvements in the planning of CA. At the time of the first SAI PMF assessment from 2015 planning was not conducted as according to the ISSAIs. Now the RAA has improved on key aspects such as communication with the auditee, defining scope and criteria.
(ii) Implementing Compliance Audits	1	(ii) Implementing Compliance Audits	NC	Performance has remained stable. The quality of implementing CA is lower compared to FA and PA.
(iii) Evaluating Audit Evidence, Concluding and Reporting in Compliance Audits	2	(iii) Evaluating Audit Evidence, Concluding and Reporting in Compliance Audits	NC	Performance has remained stable. The quality is lower compared to FA and PA.
<b>SAI-17 Compliance Audit Results</b>	<b>Indicator score is: 3</b>	<b>SAI-2 Compliance Audit Results</b>	<b>NC</b>	
(i) Timely Submission of Compliance Audit Results	1	(ii) Submission of Compliance Audit Results	[include dimension score]	---
(ii) Timely Publication of Compliance Audit Results	4	(iii) Publication and Dissemination of Compliance Audit Results	[include dimension score]	Performance has remained stable.
(iii) SAI Follow-up on Implementation of Compliance Audit Observations and Recommendations	2	(iv) SAI Follow-up on Implementation of Compliance Audit Observations and Recommendations	NC	Performance has remained stable.
<b>SAI-18 Jurisdictional Control Standards</b>	<b>NA</b>	<b>-</b>	<b>NC</b>	

<b>and Quality Management</b>				
(i) Jurisdictional Control Standards and Policies	NA	-	NC	
(ii) Jurisdictional Control Team Management and Skills	NA	-	NC	
(iii) Quality Control of Jurisdictional Controls	NA	-	NC	
<b>SAI-19 Jurisdictional Control Process</b>	NA	-	NC	
(i) Planning Jurisdictional Controls	NA	-	NC	
(ii) Implementing Jurisdictional Controls	NA	-	NC	
(iii) Decision-making Process During Jurisdictional Controls	NA	-	NC	
(iv) Final Decision of Jurisdictional Controls	NA	-	NC	
<b>SAI-20 Results of Jurisdictional Control</b>	NA	-	NC	
(i) Notification of Decisions Relating to Jurisdictional Control	NA	-	NC	
(ii) Publication of Decisions Relating to Jurisdictional Control	NA	-	NC	
(iii) Follow-up by the SAI on the Implementation of Decisions Relating to Jurisdictional Control	NA	-	NC	
<b>DOMAIN D FINANCIAL MANAGEMENT, ASSETS AND SUPPORT SERVICES</b>				
<b>SAI-21 Financial Management, Assets and Support Services</b>	<b>Indicator score is: 4</b>	<b>SAI-19 Asset Management and Support Services</b>	<b>NC</b>	
(i) Financial Management	3	SAI-18 (iii) Financial Management, SAI-18 (ii) Management of Staff, SAI-5 (i) Content and Submission of SAI Annual Report	NC	Performance has remained stable.
(ii) Planning and Effective Use of Assets and Infrastructure	4	(i) Planning and Effective Use of Assets and Infrastructure	NC	Performance has remained stable.
(iii) Administrative Support Services	4	(iii) Administrative Support Services	3	The performance has remained stable with some improvements. Now the responsibility for file management and archiving is clearly assigned and rests with specific official within RAA.

				Archiving is done in the form of common drive by the respective Divisions. The other form of archiving are done in ARMS and AIMS by staff who have the appropriate skills set and resources to do the job.
<b>DOMAIN E HUMAN RESOURCES AND TRAINING</b>				
<b>SAI-22 Human Resource Management</b>	<b>Indicator score is: 2</b>	<b>SAI-20 Human Resource Leadership and Function</b>	<b>NC</b>	
(i) Human Resources Function	3	(iii) Human Resources Function and Recruitment, criteria a) and j)	NC	Extensive changes in the SAI PMF framework entails that a comparison of performance is not likely to be meaningful.
(ii) Human Resources Strategy	0	(ii) Human Resources Strategy	2	Under the current assessment none of the criteria was met as the HR draft strategy document of RAA has not been endorsed or approved for implementation. The draft strategy fulfills several of the criteria in the SAI PMF framework. In the previous assessment from 2015 there was no Human Resource Strategy developed, but some aspects were covered by the RAA Strategic Plan 2010-15. As a consequence performance may actually have improved although the score indicates the opposite pending on the draft HR strategy being approved and implemented.
(iii) Human Resources Recruitment	3	(iii) Human Resources Function and Recruitment, criteria b)-h)	NC	The RAA enjoys increased independence over recruitments. This has led to performance improvements and RAA now has written procedures for recruitment which are made public and promote diversity.
(iv) Remuneration, Promotion and Staff Welfare	3	(iv) Remuneration, Promotion and Staff Welfare	N/A	Performance has been stable with increased opportunities given to employees to express their views on the work environment and management has acted upon some of these issues.
<b>SAI-23 Professional Development and Training</b>	<b>Indicator score is: 1</b>	<b>SAI-21 Professional Development and Training</b>	<b>NC</b>	
(i) Plans and Processes for Professional Development and Training	2	(i) Plans and Processes for Professional Development and Training and (ii) Professional Development and Training in Relevant Audit Disciplines	NC	Performance has remained stable.
(ii) Financial Audit Professional Development and Training	1	(ii) Professional Development and Training in Relevant Audit Disciplines	NC	A small improvement is that now responsibility for professional development and training for the different audit streams are clearly allocated. But training plans are still not detailed enough to target the different competency requirements for the different audit streams.
(iii) Performance Audit Professional Development and Training	1	(ii) Professional Development and Training in	NC	

		Relevant Audit Disciplines		
(iv) Compliance Audit Professional Development and Training	1	(ii) Professional Development and Training in Relevant Audit Disciplines	NC	
<b>DOMAIN F COMMUNICATION AND STAKEHOLDER MANAGEMENT</b>				
<b>SAI-24 Communication with the Legislature, Executive and Judiciary</b>	<b>Indicator score is: 3</b>	<b>SAI-23 Communication with the Legislature, Judiciary and Executive</b>	NC	
(i) Communications Strategy	3	(i) Communications strategy	NC	Substantial performance improvement. At the time of the SAI PMF assessment in 2015 the RAA had not developed a communication strategy. Now the RAA has developed the Stakeholder Engagement Strategy 2018-2023 which is aligned to the overall strategic plan. Key stakeholders and messages have been identified, and tools and approaches for external communication have been identified.
(ii) Good Practice Regarding Communication with the Legislature	3	(i) Good practices regarding communication with the Legislature	NC	Performance has remained stable. Performance improvement is that policies and procedures regarding communication with the Legislature has been established.
(iii) Good Practice Regarding Communication with the Executive	4	(iii) Good practices regarding communication with the Executive	NC	Some performance improvements. Generic information is provided to auditees and increased communication with senior members of the Executive to discuss issues of common concern.
(iv) Good Practice Regarding Communication with the Judiciary, Prosecuting and Investigating Agencies	3	(ii) Good practices regarding communication with the Judiciary, prosecuting and investigating agencies	NC	Extensive changes in the SAI PMF framework entails that a comparison of performance is not likely to be meaningful.
<b>SAI-25 Communication with the Media, Citizens and Civil Society Organizations</b>	<b>Indicator score is: 2</b>	<b>SAI-24 Communication with the Media, Citizens and Civil Society Organizations</b>	NC	
(i) Good Practice Regarding Communication with the Media	4	(i) Good practices regarding the communication with the media	NC	Substantial improvements in performance. The RAA now conducts press conferences, issue press releases and during the period under review has approached appropriate media to disseminate audit reports.
(ii) Good Practice Regarding Communication with Citizens and Civil Society Organizations	1	(ii) Good practices regarding communication with citizens and civil society organizations	NC	Performance has remained stable.

## **Annex 2: Sources of Information & Evidences to Support Indicator Scoring**

### **General Sources of information**

1. The Constitution of the Kingdom of Bhutan, 2008
2. Companies Act of the Kingdom of Bhutan, 2000
3. Civil Service Act of Bhutan, 2010
4. Bhutan Civil Service Rules and Regulations 2018
5. The Twelve Five Year Plan 2018-2023, Volume 1 Main Document, Gross National Happiness Commission, 2017
6. Public Financial Management Performance Report, RGoB 2016
7. Public Finance Act 2007
8. The Royal Government of Bhutan: Financial Rules and Regulations, 2016
9. The Royal Government of Bhutan: Financial and Accounting Manual, 2016
10. The Royal Government of Bhutan: Property Management Manual, 2016
11. Royal Civil Service Commission: Position Directory 2018
12. Royal Civil Service Commission: Civil Service Welfare Scheme by-law 2015
13. Human Resource Management A Guide for SAls, 2012
14. Learning for Impact, a practice guide for SAls, 2009
15. The Kuensel, <http://www.kuenselonline.com>
16. SAI PMF Report 2015, RAA

### **Evidence to support Indicator**

1. The Constitution of the Kingdom of Bhutan, 2008
2. The Audit Act of Bhutan, 2018
3. Bhutan Civil Service Rules and Regulations 2018
4. The Twelve Five year Plan 2018-2023, Volume 1 Main Document, Gross National Happiness Commission, 2017
5. Public Financial Management Performance Report, RoB 20RAA: Auditor General's Standing Instructions, 2010
6. Royal Civil Service Commission: Position Directory 2018
7. Royal Civil Service Commission: Civil Service Welfare Scheme by-law 2015
8. Human Resource Management A Guide for SAls, 2012
9. Learning for Impact, a practice guide for SAls, 2009
10. RAA: Strategic Plan 2015-2020
11. The Budget manual 2016
12. The Budget call notification 2019-2020
13. IDI Strategic Planning Handbook
14. RAA: Operational Plan 2015-20
15. RAA: Annual Audit Plan 2017-2018
16. RAA: Annual Audit Schedule 2017-18

17. RAA: Annual Audit Report 2018, with forwarding letters.
18. RAA: Performance Audit Reports issued during 2017-2018,
19. RAA: Financial Audit Reports issued during 2017-2018
20. RAA: Financial Audit Manual
21. RAA: Performance Audit Guidelines
22. RAA: Guidelines on Follow-up of Audit Report
23. RAA: ICT Policy 2017
24. RAA: Annual HR Report 2017-18
25. RAA: Draft HR Strategy
26. RAA: Draft Competency Framework
27. RAA: Audit Staff Welfare Scheme by-law
28. RAA: SAI PMF Report of Bhutan 2015
29. RAA: Training Calendar 2017-18
30. RAA: HR Report 2018-2019
31. RAA HR information, HRIRD
32. RAA: Follow-up Review Reports issued by Follow-up and Clearance Division for both financial/compliance audits and performance audits
33. 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,
34. 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
35. RAA: Terms of Reference for specific assignments of outsourced audits RAA
36. RAA: Policy on Outsourcing Audits
37. RAA: Handbook for Quality Assurance of Performance Audit, 2009 RAA
38. RAA: Handbook for Quality Assurance, 2009
39. RAA: Copies of minutes and memos from meetings at different level of RAA and its committees
40. RAA: Continuing Professional Development Policy, 2008
41. RAA: Staff list (includes e.g. educational background and date of appointment)
42. RAA: IWP Ratings for 2017-18
43. RAA: Quality Assurance Review Report on Financial Audit
44. RAA: Quality Assurance Review Policy
45. RAA: Executive Order on QA Policy
46. RAA: Submission procedure for tabling of AR
47. RAA: Stakeholder Engagement Strategy 2018-2020
48. RAA: Press release statement AAR 2018 and performance audit reports
49. RAA: Press release statement for PA of Revenue collection and management in Thromdes
50. RAA: Press release for PA in Core Banking System of Bank of Bhutan

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51. RAA: Brochure AAR 2016, 2017, 2018
  52. RAA: RAA Newsletter Vol II issue IV July 2018
  53. RAA: RAA Newsletter Vol II issue III December 2017
  54. RAA: RAA's World Bank Project Grant Contract
  55. RAA: ADC Project Phase I
  56. RAA: ADC project Phase 2
  57. RAA: ADC Project Phase 3
  58. RAA: BTF Project proposal
  59. RAA: Stocktaking report on ISSAI Implementation 2019
  60. RAA: Report on PDC Consecration
  61. RAA: Auditor's General's Term Report 2015-2020

#### **Sample audit files for financial Audits**

1. Audit of the Dzongkhag Administration, Haa
2. Department of Geologies and Mines
3. Save the Children's Fund
4. Royal Court of Justice, Wangduephorang
5. Audit of the Dzongkhag Administration, Bumthang
6. Audit of the Dzongkhag Administration, Trashigang
7. Yoeseltse Middle Secondary School, Samtse

#### **Sample Audit files for Performance Audits**

1. Performance audit for Bhutan Chamber of Commerce and Industry
2. Core banking solution of Bank of Bhutan
3. Revenue collection and management of Thromdes

#### **Sample audit files for compliance audits**

1. Prudential Rules and Regulations
2. Government Property Management System

#### **Sample of Outsourced audits**

1. Dagachhu Hydropower Project

#### **Lists of Interviewees**

1. Dasho Tshering Kezang, Auditor General
2. Chimi Dorji, DAG
3. Ugyen Dorji, DAG
4. Cheki Dorji, AAG,
5. Dechen Pelden, AAG
6. Kencho Dorji, AAG
7. Sonam Dema, AAG

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8. Sonam Wangmo, AAG
  9. Sonam Yangchen, Offg. AAG
  10. Karma Jambayang, Offg. AAG
  11. Karma Yoezer, Asstt. HRO
  12. L.B Ghalley
  13. Dhiraj Sharma
  14. Gem Dorji, AO
  15. Tshering Dhendup AAO
  16. Leki Tshering
  17. Namgay Wangchuk
  18. Kinley Zam
  19. Suk Bahadur Subba
  20. Kumar Gurung, DCFO
  21. Robin Gazmer,
  22. Leki Phuntsho
  23. Tara Bir Rai

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