

Peer Review Report of Royal Audit Authority, Bhutan



Conducted by Comptroller and Auditor General of India

CHAPTER – I

INTRODUCTION

The Peer Review of the Royal Audit Authority (RAA) of Bhutan was conducted by a team deputed by the Comptroller and Auditor General of India. The review focused on the following areas: adequacy and compliance to standards and manuals, reporting processes and systems for maintaining quality of reporting, training, quality control systems for auditing practices, Organisation and Management practices and auditing techniques. The team comprising of Ms. Suman Saxena, Principal Accountant General and Mr. Purshottam Tiwary, Senior Deputy Accountant General also examined the status of the implementation of the opportunities for improvement suggested in the previous Peer Review conducted in 2004. The review was conducted in two phases during November and December 2010.



Methodology adopted: The team interacted with the Auditor General and held extensive discussions with the Division Chiefs and other officers in the RAA, visited the sections and the divisions and examined the files, manuals, standards, action taken notes as well as the Audit Management System. The team also held entry and exit conferences with the senior management of RAA and the views of the RAA on our observations have been taken into account in this report.

Background

The Royal Audit Authority (RAA), which is the supreme audit institution of the Kingdom of Bhutan, has undergone a series of organizational and structural changes since its inception as a mere Committee of Accounts and Audit in 1961 to a Department in 1974 and a fully autonomous body in 1985 with constitutional status in December 2005.



The Royal Audit Authority (RAA) derives its mandates from the Article 25.1 of the Constitution of the Kingdom of Bhutan, which states that, “There shall be a Royal Audit Authority to audit and report on the economy, efficiency and effectiveness in the use of public resources.” The Constitution further provides that “The Royal Audit Authority shall, without fear, favour, or prejudice, audit the accounts of all departments and offices of the Government including all offices in the Legislature and the Judiciary, all public authorities and bodies administering public funds, the police and the defence forces as well as the revenues, public and other monies received and the advances and reserves of Bhutan.” In keeping with the constitution of Bhutan and His Majesty’s vision to enhance accountability and proper utilisation of public resources, in June 2006, the 85th session of the National Assembly of Bhutan passed the Audit Act of Bhutan, 2006, providing RAA with full organizational and functional independence with authority to determine and administer its own organizational structure, budget and personnel development. The Audit Act reiterates that there shall be a Royal Audit Authority to audit and report on the economy,

efficiency and effectiveness in the use of public resources. As a consequence, from its motto of "A clean public service-nation's pride", RAA is now moving forward with a pure vision and clear mission.

Vision: "A premier audit institution that promotes value for money in government operations and contributes towards good governance".

Mission: "To audit without fear or favour or prejudice on the prudent and effective use of public resources and report to the Parliament and stakeholders for enhancing transparency and accountability in the government".

In its initial evolutionary stage, RAA has charted out its development and growth trajectory with a well-conceived Strategic Plan-2008-13, which, after a mid-term review, has been upgraded to Strategic Plan-2010-15 (submitted in December 2010). The latter has, with candid clarity and foresight, identified RAA's strengths, weaknesses, perceived threats and opportunities. Besides, reiterating its vision and mission statements, the Strategic Plan-2010-15, identifies six program goals and outlines specific action plans and strategies to achieve the desired results.

Functions of the Royal Audit Authority

The functions of the Authority are to:

- (1) Carry out financial, propriety, compliance, special audits and any other form of audits that the Auditor General may consider significant and necessary;
- (2) Conduct Performance audit to ascertain and report on the economy, efficiency and effectiveness of the operations of agencies audited;
- (3) Conduct in depth audit of any aspects of the accounts, operations, systems and management practices of the agencies;
- (4) Conduct the audit of assessment, collection and accounting of revenues and taxes;
- (5) Conduct the audit of aid, grants and public debt of the Nation;
- (6) Certify the Consolidated Annual Financial Statements of the Royal Government;
- (7) Report its findings and recommendations to the relevant authorities; and
- (8) Follow-up on the compliances of the Audit Reports.

Audit jurisdiction

The Audit Act of Bhutan 2006 provides that the authority shall conduct without fear, favour or prejudice, the audits of the following:

- (1) Government or any of its instrumentalities which include, Ministries, Departments, Divisions, Units, Dzongkhags, Gewogs, Thromdues, autonomous bodies, foreign-assisted or special projects of the Royal Government;
- (2) Zhung Dratshang, Rabdeys and all related institutions;
- (3) Judiciary and Judicial Bodies;
- (4) Legislature and related institutions;
- (5) Constitutional bodies;
- (6) Defence and Security Services;

- (7) All corporations, Financial Institutions including the Central Bank and their subsidiaries established under the laws of the Kingdom in which the Government has an ownership interest;
- (8) All entities including non-governmental organisations, foundations, trusts, 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 collections and contributions from people and fund raised through lottery.
- (9) Any entity or activity upon Command of the Druk Gyalpo.

Notwithstanding the provisions of any laws relating to the accounts and audit of any public authority, the Parliament, if satisfied that the public interest so requires, shall direct that the accounts of such authority be audited by the Auditor General.

Scope of Audit by Royal Audit Authority:

The Audit Act mandates that the Authority shall audit the following matters to ascertain whether:

- (1) The amount appropriated have been expended for the specified programs and tasks within the approved budget limits;
- (2) The financial transactions comply with the existing laws and the evidence relating to items of income and expenditure are sufficient;
- (3) The accounts have been maintained in the prescribed forms and such accounts fairly represent the position of the transactions;
- (4) The program implementations are adequately monitored to avoid incidences of cost and time overruns;
- (5) The inventory of public properties is accurate and up-to-date, and custody, control, management and physical safeguard measures instituted are adequate;
- (6) Physical assets and infrastructures reported actually exist and confirm to the required specifications and standards;
- (7) The available resources including human, financial and other assets are properly utilised;
- (8) The accounting and related system of controls, financial or otherwise including the arrangements for internal audit and internal control of cash, kind and other public property against any loss, damage and abuse are adequate;
- (9) The accounts of revenue, taxes, other incomes and deposits are accurate and the systems relating to assessment, realisation, recording and methods of reporting are adequate;
- (10) The debts, liabilities and specific purpose funds are recorded accurately and managed properly;

- (11) The ICT and other technological systems developed are appropriate and adequate controls and security measures are instituted to prevent unauthorised access to the system; and
- (12) The implementation of programs and activities are as planned and the intended objectives achieved.

We acknowledge the cooperation provided by the officers and staff of RAA for their valuable insights during the elaborate discussions and timely production of records and replies which facilitated timely completion of the work.

CHAPTER – II

Adequacy and compliance with standards/manuals

Standards

Auditing standards/ manuals prescribe the principles and practices which the auditors are expected to follow in conduct of audit. They provide minimum standard guidance to the auditors in determining the scope of audit, the audit procedures and the parameters against which the quality of audit results can be evaluated.

Article 45 (b) of the Audit Act 2006 empowers RAA to issue statements on the generally accepted auditing standards and principles and related guidelines. Article 56 and 57 of the Act lay down that the Authority shall establish and publish auditing and reporting standards and practices that meet the highest standards. One of the main objectives of the Strategic Plan (2008-13) was to develop auditing standards and manuals for effective auditing and reporting. In line with the Audit Act and the Strategic Plan and based on INTOSAI Auditing Standards the Authority developed in-house the **RAA Auditing Standards (AS)**, formally adopted in August 2009. Prior to its adoption the draft standards were circulated to various stake holders by the Executive Committee of the RAA. The AS has four chapters containing Basic postulates, General Standards, Field Standards and Reporting Standards. Chapter three on Field Standards establishes the framework for detailed guidance of the auditors during actual audit. It provides the standards and guidelines for planning, understanding the entity, examining internal controls, assessing audit risk, materiality, development of audit programme, ascertaining compliance with applicable laws and regulations, obtaining audit evidence, documentation, supervision and review and analysis of financial statements. The Standards are comprehensive and provide broad guidelines to determine the extent, steps and procedures that could be applied during audit. We observed that the standards are being complied with and form the cornerstone for other standards and manuals prepared by the Authority. Its practical application was seen in the Performance and Financial Audits conducted by the Authority.

Section 42 (a) of the Audit Act 2006 stipulates that the Authority may develop rules, procedures and guidelines to carry out audit economically, efficiently and effectively. In line with this, RAA has prepared the **Auditor General's Standing Instructions** and formally adopted in July 2010. These instructions prescribe “what auditors are supposed to do” and “what they are not supposed to do” in the discharge of their professional duties. It is aimed at maintaining uniformity and consistency in audit work, promote greater accountability and professionalism, uphold the principles of integrity, objectivity and independence, as well as to ensure compliance with the RAA Auditing Standards, Guidelines and manuals in achieving quality audits in the most economical, efficient and effective manner. It also aims to provide directions to new recruits and forms the basis for measuring audit performance. The Standing Instructions has seven chapters covering audit execution, conduct, behaviour and ethics, audit reporting and documentation, quality control and job responsibilities. This effort of the Authority is laudable. It provides guidelines for the conduct of auditors from the pre departure formalities till the completion of audit and issuance of the Audit Report. Compliance to the instructions was evidenced in the working files of the Audit Reports.

Service Standards of the RAA- The RAA has issued and adopted a form of a citizen charter outlining its time bound commitments for different types of services like Audit Clearance, Audit Reports, Follow up Reports and payment of bills. This has enhanced transparency in its

functioning and identified responsibility centres for such functions. We observed that the service standards prescribed by the Authority are being complied with.

Manuals

The RAA as mandated by the Constitution and the Audit Act of Bhutan 2006 certifies the financial statements of the budgetary operations of the Royal Government and its instrumentalities, externally funded projects, Corporations and Financial institutions where the Government has financial interest, foundation and trust funds, NGOs, Civil societies and the religious bodies. The Authority has prepared the **Financial Audit Manual** (adopted and officially released during the 13th Annual Audit Conference held in July 2010) to ensure that the audits of financial statements are conducted in accordance with RAA's Auditing Standards (RAS) and International Standards on Audit (ISA). This manual is applicable to all audit of financial statements conducted by RAA. The manual is exhaustive and covers the objectives, principles and responsibilities, the types of Financial Statements to be audited, the Financial Audit Process containing pre planning activities, detailed audit planning, the execution, completion and review and finally the reporting. It also has supplementary chapters containing guidelines for materiality assessment, assessment of internal controls, consideration of fraud, relying on the work of internal auditors, using the work of others, consideration of related party transactions, audit documentation and quality control. The manual also has standardized formats and check lists for the auditors in the appendices. This manual would facilitate in enhancing consistency in financial reporting by the audited entities, ensure that the auditors comply with professional standards and applicable legal and regulatory requirements while carrying out audit and require auditors to follow specific and adequate audit procedures to maintain the quality of work. The effort of RAA in bringing out a detailed Financial Audit Manual is commendable.

Opportunities for improvement

For incorporation in the Financial Audit Manual

- **Concept of Materiality**-Apart from materiality by value and nature, the manual can also consider incorporating materiality by context. In this type of materiality the question which is addressed is 'is the error material because of its implication for other aspects of the Accounts?' For example, if due to a misstatement, the financial statements indicate that a department has savings when it has, in fact, exceeded its budget, it will become 'materiality by context'.
- The concept of materiality can be used both at the planning stage and the reporting stage. Planning materiality is mainly concerned with materiality by value. The materiality of errors by nature and context is to be considered specifically at the end of audit. Reporting materiality applies at the end of audit when all errors are evaluated and viewed in relation to their known effects on the financial statements. At this stage the auditor has to consider the audit findings by value, by nature and by context and errors and omissions may be considered material which otherwise by value would not. However, as a precaution the planning materiality may be taken as a lower figure than reporting materiality.

We examined the file on GFATM Project “Strengthening Quality TB Control in Bhutan” (MOH) for the period 1st January to 31 December 2009 conducted in July/August 2010 after the adoption of the manual. We observed that the audit exercise did not conform to the manual. The Financial audit was conducted in the same manner as was conducted prior to adoption of the manual.

Apart from the above manual, the Authority has prepared draft manuals on 11 specific audit areas (Appendix 2) but these await formal adoption. Besides, 11 other manuals/guidelines are under preparation by the Authority (Appendix 2). This effort of the Authority to systematize the audit work in specific areas/techniques of audit is a notable achievement.

Handbooks and guidelines

The Authority has prepared and adopted four handbooks.

- ❖ **Handbook on Audit Working Papers**- In order to streamline the ownership, custody and documentation of the audit working papers, the Authority prepared and formally adopted the handbook in July 2008. It outlines the form and contents of the working papers and the documentation of these in the form of Permanent File and Current File. It also provides guidelines on how to document the working papers including their indexing and referencing, methods of filing and documentation, their ownership, retention and custody. The Handbook has specified standard forms for requisition of documents, return of documents and audit working papers documentation. We observed that the documentation of the audit working papers conformed to the instructions in the handbook.

- ❖ **Handbook on Audit Quality Assurance Review Process**

In line with section 56 of the Audit Act of Bhutan and the RAA Auditing Standards, the Authority has brought out the Handbook on Audit Quality Assurance Review Process, formally adopted in August 2009. This handbook provides necessary guidance and the wherewithal to implement a comprehensive quality assurance review process particularly at institutional and financial audit level in the RAA. The handbook provides detailed guidelines for planning the QA review, conducting the review, reporting the findings and recommendations and the follow up. This effort is commendable as it would aid in providing reasonable assurance that actual control procedures, service deliveries etc. in RAA are in compliance to standards and yardsticks.

Opportunities for improvement

- The Authority may consider preparing a similar handbook for conducting QA Review for Performance and other types of audit.

- ❖ **Handbook on Audit Criteria**

In order to impart greater clarity to the auditors on the issue of audit criteria, the Authority prepared and adopted the Handbook on Audit Criteria in July 2008. It elaborates on how to determine the criteria, write the audit criteria, characteristics of good criteria and the sources of audit criteria with suitable examples. We observed that the current Performance Audits have utilized the guidelines while framing the audit criteria.

❖ **Policy on disclosure of RAA information**

In its continued effort to enhance transparency and accountability, the RAA brought out a policy on Disclosure of Information in August 2009. It sets out the policy on disclosure of information held or obtained by the RAA during the course of auditing and also to provide information on how it operates and what it does with the exception of information listed as confidential.

Opportunities for improvement

- To further enhance transparency, the Authority may consider prescribing time limits for the furnishing of information belonging to various categories listed in the policy document.

- ✓ Apart from the four handbooks, the Authority has also prepared a Handbook on Oath of Good Conduct, Ethics and secrecy of Auditors. It contains an oath to subscribe to 16 principles essential for good conduct, ethics and secrecy essential for an ideal auditor. As per extant instructions this handbook is to be carried in person by each auditor during audit. We were informed by the Auditor General during the entry conference that the auditors carry the handbook with them during field audit. These principles amply reflect the quote of H.M. the King Jigme Khesar Namgyel Wangchuk, “Every individual must strive to be principled. And individuals in positions of responsibility must even strive harder.”
- ✓ Apart from the Annual Audit Reports and the follow up Reports, the RAA has issued Auditor General’s Advisory Series to highlight significant issues that impact on the economy, efficiency and effectiveness in the use of Government resources. The last such paper was the AG’s advisory series on procurement and construction in 2007. The paper highlighted some major implementation issues relating to huge Government spending on construction and procurement and gave recommendations for the Government to take appropriate decisions. The basis of the paper was the review of past Audit Reports and the plans, policies and programmes. This initiative by the Authority is commendable as it draws the attention of the Government specifically to significant issues. The Authority may consider issuing such papers on other pressing issues which have significant bearing on Government resources.

Opportunities for improvement

- The Authority may consider bringing out handbooks on evidence gathering, analysis and evaluation techniques for various types of audit.

CHAPTER – III

Reporting processes and systems for maintaining quality of reporting

Annual Audit Report

Article 25.5 of the Constitution of the Kingdom of Bhutan and Sections 69 to 73 of the Audit Act of Bhutan 2006 require RAA to prepare and submit the Annual Audit Report (AAR). The AAR is a consolidated summary of the significant unresolved audit findings of the Authority. Section 72 of the Act states that the Auditor General (AG) shall submit the AAR to the Druk Gyalpo, the Prime Minister and the Parliament while Section 73 requires that the AG shall endorse copies of the AAR to the concerned Head of the audited entity, the Chairperson of the Anti- Corruption Commission and the Chairperson of the Public Accounts Committee.

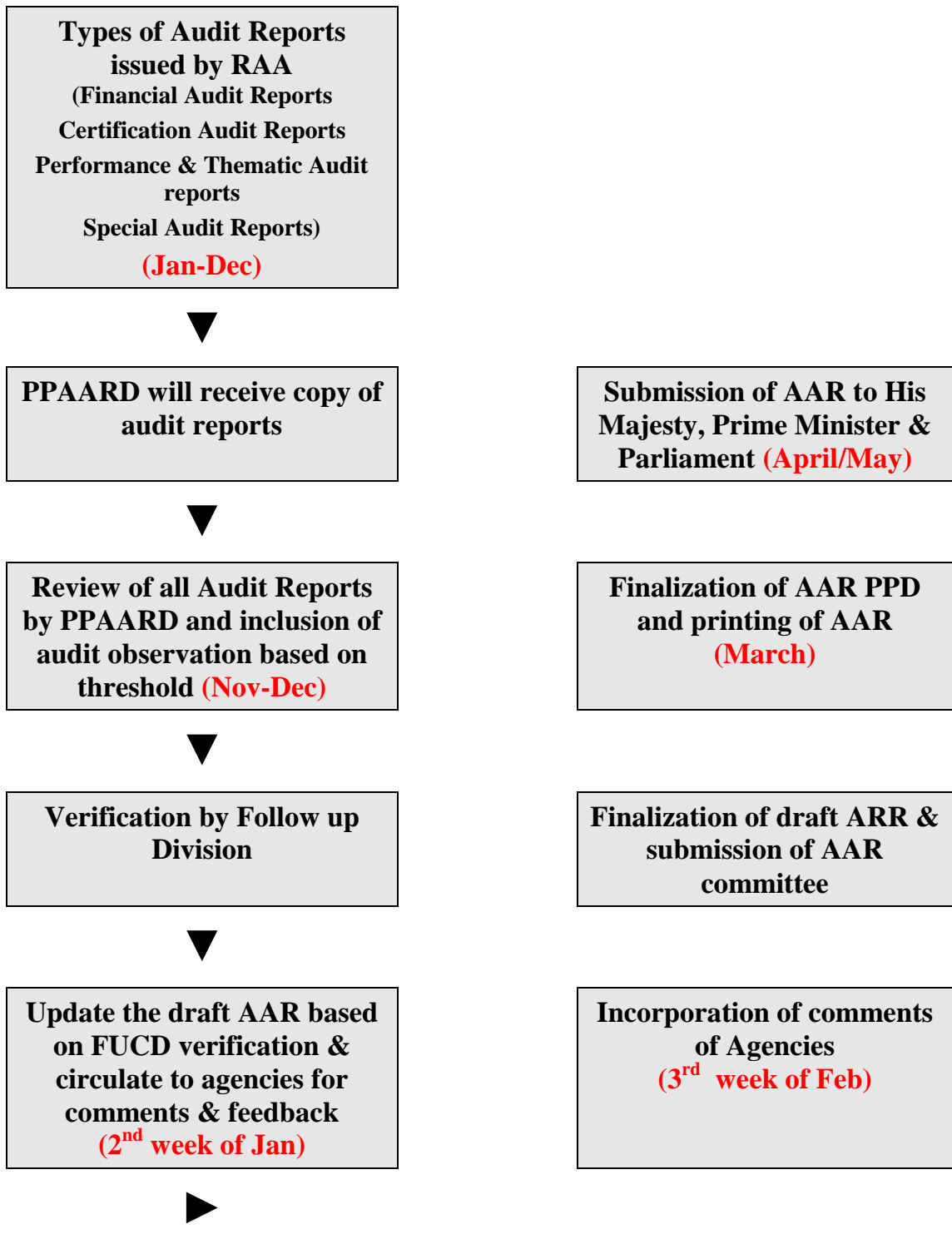
We studied the AAR of 2009 which is compiled from 609 audit reports issued during the year. The money value for the audit findings to be included in the AAR is fixed currently at Nu. 30,000 while there is no monetary limit for findings which involve cases of fraud and corruption. The AAR has 6 chapters including the Auditor General's perspective in the beginning.

- Chapter 1 contains the state of the governance of the RAA for the period.
- Chapter 2 contains a summary of audit findings.
- Chapter 3 is dedicated to report on the certification of the Annual Financial Statements of the Royal Government for the year.
- Chapter 4 contains detailed findings of the regular audits.
- Chapter 5 is confined to findings of Special Audits conducted
- Chapter 6 contains a summary of the Performance and Thematic Audits.

The Annual Audit Report 2009 contains unresolved significant irregularities involving Nu. 348.34 million with about 6% of the total irregularities categorized under fraud, corruption and embezzlement. In 2009 the RAA forwarded 11 reports containing significant cases of fraud and corruption to the Anti Corruption Commission for further investigation.

Section 69 of the Audit Act requires that the Auditor General shall submit the AAR during the fourth quarter of the fiscal year on the audits carried out during the previous fiscal year. Further, Section 74 of the Act states that the Auditor General shall publish its AAR every fourth quarter of the fiscal year on the activities carried out during the previous fiscal year. However, we observed that the AAR 2009 contained significant audit observations till December 2009 while as per the Act the AAR should have confined itself to the previous fiscal year. The work schedule for drafting and finalisation of the AAR 2010 also provides for incorporation of all the audit reports till end of December 2010.

Process for preparation of Annual Audit Report



Process of drafting and finalisation of the Annual Audit Report

- The drafting of the AAR is done by the Policy, Planning and Annual Audit Report Division (PPAARD) between October to December. This involves incorporation of the audit reports issued till the end of December.
- The draft report is then sent to the Follow up Division for verification of status of the individual observations in the Audit Information Management System (AIMS).
- The audit findings are then forwarded (January) to the respective agencies for their responses within one month of the issue of the draft by the Authority (Section 75c of the Act).
- After the receipt of replies from the agencies, the draft report is submitted (February) to the Annual Audit Report Committee to review and finalise the audit findings. The draft findings are reviewed by this committee by the first week of March.
- The AAR is then finalised by the PPAARD (March) and submitted to the Auditor General for review. Subsequently it is presented to a group of officers which includes the Division Chiefs, HODs and other senior officers.
- The final report is then translated in the local language (Dzongkha) and sent for print (first week of April).
- Final submission of the AAR to the Druk Gyalpo, PM and the Parliament is in April/May.

Opportunities for improvement

- Section 75 (b) of the Act provides three months time to the agency for response to agency specific audit reports while the work schedule for drafting and finalisation of the AAR to include reports issued till the end of December does not facilitate this time to the agencies for their response. The current schedule only gives one month time to respond to the draft AAR. Thus, the Authority may consider revisiting the schedule for drafting and finalisation of the AAR.
- The schedule of submission and publishing of the AAR should be in compliance to Section 69 and 74 of the Audit Act. If the Authority considers the current practice useful for the purpose of topicality, appropriate amendment in the Audit Act may be proposed. Alternatively, RAA may consider submission of the AAR to the Parliament during the winter session of the Parliament (November- December) as then the benefit of RAA's opinion and analysis of the fiscal status, budgetary allocation and utilisation of the previous fiscal year would benefit the Government in preparation of the Budget for the next financial year. This is not possible at present because the RAA presents the AAR in the month of April/May while the Budget is laid in June in the Parliament. For achieving this, the RAA may consider to pre pone the work of preparation of the AAR immediately after the close of the financial year instead of starting in October/November.

- Section 70 of the Audit Act requires that the AAR shall contain the result of the audit of the Annual Financial Statements of the Government, the overall financial condition and recommendations to improve the economy, efficiency and effectiveness of the Government. Chapter 3 of the AAR contains the report of the AG on the certification of the Annual Financial Statements. However, the chapter only contains statistical information on budget, resources, fiscal deficit, budgetary deficit and debt & equity portfolio and sovereign guarantees without any analysis. The RAA may consider widening the scope of this chapter to amply reflect the overall financial condition of the Government. The following important issues with appropriate analyses may be considered.
 - Analysis of revenue receipts and expenditure, revenue deficit/surplus and its implication
 - Capital Expenditure and the quality of expenditure- shortfall/increase and its implication for asset creation by the Government. Quality of expenditure may be analysed on three aspects- adequacy of the expenditure, efficiency of expenditure use and the effectiveness of expenditure (assessment of outlay- outcome relationships for selected services).
 - Cash balances and investment of cash balances
 - Debt sustainability- the change in the debt-GSDP ratio over a period of time, whether the rise in fiscal deficit matches with the increase in capacity to service the debt.
 - Fiscal imbalances- revenue, fiscal and primary deficit, way in which the deficit is financed and resources are applied.
 - Assets and Liabilities- growth and composition, fiscal liabilities, status of guarantees- contingent liabilities, borrowings by Public Sector entities.
 - Analysis of Government expenditure and investment- Status of completion of projects, investments and returns, loans and advances.
 - Section 41(a) of the Audit Act lays down that the Authority shall audit to ascertain whether the amount appropriated have been expended for the specified programmes and tasks within the approved budget limits. The Authority may consider including a comment in the AAR with respect to budget grants of the Government. It should also analyse and comment whether the expenditure so incurred is in conformity with the law, relevant rules, regulations and instructions.
 - The Authority may also consider commenting on the non receipt and delay in furnishing of Utilisation Certificates by the agencies receiving grants.
 - Arrangements to be made with the Government for furnishing information on mis appropriation, frauds.
 - The Authority may watch the adjustment of Detailed Contingent Bills (Advances) against the Abstract Contingent Bills (Adjustments) so as to ensure that every Nu is accounted for.

Audit/Inspection Report

Sections 62 to 64 of the Audit Act, 2006 prescribe the contents of the Audit Report while Sections 65 to 67 specify the authorities to whom the Audit Report shall be addressed, including the reports where serious offences requiring urgent action are reported. Section 68 states that the concerned agency shall immediately take action on audit observations and ensure that any fund or property mis spent, misused or wasted is recovered without undue delay. Section 75 (a,b) prescribes the time limit within which the audited entities must respond to the Audit Reports. The agencies must respond to the initial audit observations within one month of the issue of field audit memos while they must respond within three months of the issue of agency specific audit reports. Further, Section 77 of the Act mentions that the RAA shall issue reminders on reports not being acted upon and if there be further non compliance, a defaulting auditee must be questioned and required to submit explanation. Chapter 4 of the RAA Auditing Standards prescribe the reporting standards while Chapter 5 of AG's standing instructions contain guidelines on Audit Reporting and documentation.

The RAA has devised 6 categories of observations for systematic reporting. The categories are :

1. Fraud and corruption
2. Embezzlement
3. Mismanagement
4. Violation of laws and rules
5. Shortfalls, lapses and deficiencies
6. Opinions on statutory audit reports

These observation categories have several sub categories to facilitate precise and uniform reporting. A monthly report on the despatch of Audit reports is submitted to the AG. The Audit Reports are spiral bound and contain on an average 20 to 30 pages.

We examined the current Audit Reports issued by the Authority. The layout, presentation and documentation is excellent. The Audit Reports contain the Auditor's report on Audited Financial Statements, title sheet, disclaimer note, receipts and payment statements, audit findings and annexures containing background information on the entity, audit objectives, methods adopted for auditing, job description of the team members, field attendance sheet and accountability statement. The section on audit findings is elaborate which includes the audit observation, auditee reply, RAA further comments and the official who is accountable (both direct and supervisory accountability).

Opportunities for improvement

- The Audit Reports contain audit objectives and methodology in the annexure but not the audit criteria. It is recommended that the audit observations should contain the criteria against which the findings have been compared, conclusions drawn and recommendations made. Such criteria must be mentioned in the annexure to the Audit Report so that there is agreement with the agency on the parameters to judge performance. There is a handbook on audit criteria issued by the Authority for greater clarity on determining Audit Criteria. Chapter 5 (5.1.5) of AG's standing instructions emphasizes on the necessity of mentioning the audit criteria.
- The Act provides for 30 days to an agency to reply to the initial audit memos. During discussion, it emerged that the audit memos were issued after the completion of audit. Thus, the field audit party receives replies while conducting another audit. The team leader is required to then devote time to these replies, attend the exit conference alongwith Divisional Chief and draft the report. This draft AR is then submitted to the Division Chief and to the QAU before finally printing the report after obtaining AIN from the AIMS. The entire process affects the quality and the time schedule of the subsequent audit. In order to streamline the process of audit, it is suggested that audit memos should be issued during the conduct of audit and not at the end of audit as is in practice at present. The exit conference may be held at the conclusion of audit itself where the unreplied memos may also be discussed. The audit team may finalise the report and send an advance copy electronically to the Division Chief. The hard copy and the working papers should also be despatched from the field before taking up the next audit. This will help the team leader and the team in focusing on the subsequent audit as he will not have to divert his time and attention to finalisation of the previous audit. It will also make available more man days to RAA to meet its growing mandate.

Follow up

According to Audit Act 2006, Chapter 4 (38 h), it is RAA's responsibility to carry out follow up on the compliance of Audit Reports. Follow-up Division was set up under the Chief Audit Officer (CAO) in July 2005. Presently the CAO is assisted by about 10 officials of whom two are mainly deployed on examining the responses received from the audited agencies. The rest are required to enter the Audit inspection reports once they have been issued by the team leaders as per the prescribed format under the various categories/sub-categories in the Audit Information Management System and also to update the status as and when the issues are resolved. From January 2010, the work of follow up on the IRs has been decentralized. The follow-up division at the RAA headquarters pursues the IRs issued by the divisions at Thimphu, except those issued by the Performance Audit and Thematic Audit divisions. The regional offices are responsible for pursuing the IRs issued by them. For this purpose, the Head of the Regional Office is assisted by one official who enters the IRs in the audit management system as well as pursues responses of the agency. The guidelines on follow up of audit reports first published in 2009 have been revised keeping in view the decentralized functions. All audited agencies are required to respond and submit the Action Taken Report

(ATR) on the Audit/Inspection Reports to the RAA within three months from the date of issue. The follow-up division is responsible for issuing reminders if the replies are not received within the ATR date. Follow up is also done through subsequent audits by the audit teams. A Follow Up Audit Committee, consisting of three Deputy Auditors General, with Chief of the follow-up and Clearance Division as the member secretary, has also been set up at the headquarters to review and evaluate the responses given in the ATRs on complex and significant issues. The follow up division not only pursues the unresolved issues of the outstanding inspection reports but is also responsible for pursuing the observations taken in the Annual Audit Reports (AARs). The Parliament and the Public Accounts Committee (PAC) have ensured vigorous follow up of Audit Reports through their directives to RAA. The Audit Committee, set up under the Public Finance Act, 2007, with the AG and representatives of the Finance Department as its members, is also responsible for pursuing the unresolved issues.

Opportunities for improvement

- Section 77 of the Act mentions that the RAA shall issue reminders on reports not being acted upon and if there be further non compliance, a defaulting auditee must be questioned and required to submit explanation. It has been seen that pursuance of IRs, after the first reminder issued is not automatically supported by the AIMS and depends upon the efficiency of the individual official. Though a feature exists in the AIMS for generating status reports on the outstanding audit reports and paras agency/ sub agency-wise, category-wise, it is not being used for generating reports which can be sent to the agency heads for pursuance. To ensure compliance by the officials working on AIMS, it is suggested that RAA may consider incorporating this in the guidelines for follow up. Its enforcement will help in timely pursuance of unresolved issues of the ARs, also those which do not figure in the AARs.
- The review report of pending audit reports up to 2006 (status as on 2/11/2010) prepared by the Authority in compliance to the directives of the Parliament shows that in some cases unresolved audit observations have been pending since 1987. For improving audit effectiveness, it is suggested that RAA may consider getting audit committees set up for all the audited agencies which may comprise of senior level management officers/Head of Departments of the agencies, senior representative of RAA and representative of the Finance Department. These committees should meet regularly, at least every quarter for pursuing the unresolved issues of that agency. Sub-audit committees may be set up for agencies having a number of field units for better coordinated pursuance.
- Section 75 of the Audit Act, 2006 provides one month time to the agency for responding to the field audit memos and three months time to respond to the Audit Report from the date of issue. The Authority may consider revising the time schedule for receiving response to the Audit report to one month so as to ensure prompt and expeditious corrective action by the agencies. This is also necessary in view of the time bound schedule followed by RAA in issue of audit clearance certificates.

CHAPTER – IV

TRAINING

To achieve its primary mission to ensure "prudent and effective use of public resources and for enhancing transparency and accountability in the government" RAA has been striving to develop the technological skills and managerial talent of its small cadre of dedicated staff and officers.

Article 45 (f) of the Audit Act of Bhutan 2006 empowers the Auditor General to develop and implement training programmes to improve and maintain the competency of auditors in carrying out their duties. The RAA strategic plan 2008-13 specifically stresses on the need to enhance the professional development of auditors to keep abreast with the changing environment. Besides, Chapter 2.3.3 of the RAA Auditing Standards states that the RAA shall develop and implement training programmes which ensure that audit staff remains competent to carry out their duties in accordance with the prevailing standards and practices.

Based on the INTOSAI auditing standards, the RAA brought out in June 2008, a Continuing Professional Development Policy (CPDP) which aims towards achieving the vision and mission of RAA through promotion of high professional standards, quality audit and reporting. Under this policy it is mandatory for all the auditors to accumulate 40 hours of continuing professional development every year and in a four-year term accumulation of 160 hours of training is required. However, the hours can be accumulated also through participation in Annual Audit Conference, meetings, Symposium, Workshops, conference and Seminar. These points are to be considered as an eligibility criterion for promotions. Individual Auditors are responsible for documenting their CPD hours.

For training abroad the RAA is required to comply with the Bhutan Civil Service Rules and Regulations (BCR) 2006 and Human Resource Officers Manual of the Royal Civil Service Commission till the RAA Service Rules come into effect. The Human Resource Master Plan, approved in 2008, by the Royal Civil Service Commission (RCSC) for the Tenth Five-Year Plan, 2008-13, is for human resource development through training abroad in developed countries (DCs), South-East Asia and South Asia. The Plan specifies the field of study, number of slots under each field of study, budget required, group and the work area/location from where the trainee can be sponsored. The required budget is mobilized by RAA through foreign donors (UNDP, ADB, World Bank, DANIDA etc) and/or through the Gross National Happiness Commission (GNHC). The Master Plan is subject to mid-term review by RCSC for re-prioritization in view of constraints of budget, number of trainees for each course/slot keeping in view the overall needs of RAA. Funds from abroad have been a major source of capacity building in RAA. At present, ADB, United Nations Development Programme, Multi-Year Agreement under the Netherlands Fellowship Programme (NFP-NUFFIC), World Bank, Government of India, and Bhutan Trust Fund for Environment Conservation (BTFEC) are the major donors/partners.

Under the CPDP, the Human Resource and International Relations Division (HRIRD) is responsible for conducting and coordinating all the professional development of the RAA cadre. The International Relations Division is mainly responsible for garnering resources from foreign agencies through the GNHC. Once the funding is committed, it is required to ensure that the activities are implemented as per the requirements of the donor agencies, their reporting and monitoring policies, keeping in view the national policy. The CPD policy focused on in-house training courses and its requirements for the auditors at all levels (except

support staff at operational level and elementary staff). In the CPDP some mandatory courses have been identified for different position titles.

The in-house training programmes are planned and organised by an officer of the International Relation Division. CPDP lays down that while the RAA shall continue to support and encourage auditors to avail all types of training, in-house, in country and ex-country, 90 per cent active workforce (excluding support staff) shall be maintained in RAA at any point of time. During 2008-09 and 2009-10, RAA ensured that at no time its active work force was less than approximately 90 *per cent* as stipulated in CPDP.

RAA is also concentrating on creation of its own infrastructure in the shape of a state-of-the-art training institute at Tsirang, which in the years to come is expected to emerge as the centre of learning excellence in the South Asian and South-East Asian Region.

Status of Training Programmes

In house

During the years 2008-09 and 2009-10, 15 and 28 in-house training programmes were conducted with 245 and 246 participants respectively for all levels of auditors. The courses held were largely regarding IDEA, Revenue Audit, Cash Book Audit, Environment Audit, Stores and Stock Audit, Performance Audit, Budgetary and Accounting, quality assurance, Audit criteria, Pension Audit and Dzongkha correspondence. However, during 2010-11, training programmes on Risk Based Financial Audit planned for October and November 2010 could not be held due to non appointment of a consultant for designing the training material for the course. Instead training on tools for effective communication in the work place and effective writing skills was imparted to 32 participants (support staff).

Three Training Programmes on Audit of Hydro power Projects (2008), Risk Based Financial Audit (2009) and Audit of Public Debts (2010) with 25, 38 and 31 participants respectively were also organized under the Indo- Bhutan Training Programme. We observed that consolidated data on hours of training logged by each Auditor is not available with the Human Resource Officer.

Training abroad

During the last three years 52 planned and 98 ad hoc training programmes were organized in which 128 officials participated in IT, IDEA, Environment Audit, Financial Management, IAFD, Budgeting and public expenditure management, quality assurance in financial audit, project management, audit of public sector enterprises, etc. at various levels viz. Ph.D/Specialisation/Masters, PG Diploma/Certificate and Bachelors/Diploma.

Opportunities for improvement

- **Training need analysis:** Training need analysis (TNA) is the first and most important step for management of training of personnel. It is vital that divisional heads and heads of regional offices are intensively involved in building a trained cadre. At present it is confined to ad hoc preparation of the in-house training calendar for the following year by the International Relations Division through consultation with divisional chiefs/team leaders. TNA should start ideally in the respective divisions/regional offices keeping in view the assignments, present and future, and then firmed up by the Training Division. A consolidated data base of training needs of each and every personnel of RAA should be created and regularly updated in consultation with division heads/regional heads. Capacity building will then be in specialized areas, wherever there is a felt need and will help RAA in meeting its present and future challenges.
- Chapter 1.7 and 2.1 of the CPDP extensively deal with the criteria for selection and responsibility of instructor/facilitator. Chapter 1.8 mentions the documents and forms to be used by the instructors, participants and others for the conduct and evaluation of the training imparted and the participant. Creation of separate Training Division is necessary to fulfill the requirements of ensuring design of proper curriculum, design and development of training material for focused programme delivery as envisaged in the CPDP.
- The Authority may consider setting up of a Human Resource Committee, responsible for the validation of the content of all the in-house mandatory courses as required under CPDP manual. Preparation of the draft training manual, draft participant manual in the form of guidelines would help in bringing about uniformity and ensure quality in the in-house training programmes.
- The onus of reporting back to the Training Division on the impact of training in the field work and on the quality of reports placed on divisional/regional heads is required to be enforced through a monitoring report.
- Deployment of trained personnel by divisional/regional heads should be in sync with the training in specific managerial and technical skills for optimum utilization of the critical human resource.
- While the HRO maintains a data base of all personnel trained abroad, a data base for in-house training has to be created.

QUALITY CONTROL SYSTEMS FOR AUDITING PRACTICES

Audit Planning

Selection of agencies to be audited

Chapter 3.2 of the RAA Auditing Standard states that the auditor should obtain sufficient knowledge of the entity to enable him to identify and understand the organizations, events, transactions and practices that may have significant effect on the audit results.

As per the Annual Audit Plan 2010-2011, there are 897 agencies which are to be audited annually. It was further mentioned that the Authority would carry out audit of 698 agencies which includes 536 normal audits, 10 Performance Audits, 131 certification audits and 21 statutory audits. The peer Review Team was informed that the audit agencies are categorized into A, B and C depending upon the size of the agencies (expenditure). The category A units are to be audited annually, category B to be audited once in every two years and category C agencies are to be audited once in three years. We were informed that the Authority does not have a comprehensive database of the agencies under the audit jurisdiction of RAA. The PPD (responsible for policy and planning) maintains an inventory of the total audit agencies but the inventory does not capture the details of the agencies which would aid in selection of the auditee on the basis of risk assessment. We were informed that a detailed risk assessment is not carried out at the planning stage for selection of agencies for audit and the exercise is mostly carried out on the basis of the judgment of the functional divisions and the regional offices.

Opportunities for improvement

- The Authority may consider preparing a database profile of the agencies under its audit jurisdiction to select the agencies for annual audit from the universe of the entities under its audit jurisdiction. This may include:
 - ❖ Expenditure of the agency during the last three years- establishment and non establishment expenditure (for trend analysis)
 - ❖ Mandate, legal status, organizational set up, complexity of operations, purpose of the organisation, plans and programmes etc.
 - ❖ Adequacy of internal controls in the agency
 - ❖ Instances of fraud, embezzlement, ongoing ACC investigations
 - ❖ Media reports
 - ❖ Level of computerization, availability of information Management system in the agency.
 - ❖ Past audit experience

This database may be updated after every audit in the proposed ARMS.

The degree of audit planning on the basis of risk assessment is elaborate in the case of an entity after it is selected for audit. This is also documented in the Audit Report working file which is a good practice.

Database of financial sanctions accorded by Government

At present the audit team ascertains the projects being executed and expenditure incurred by the auditee agency only when the audit is taken up. The Divisions in RAA Headquarters do not have a comprehensive database of projects and related expenditure sanctioned by government departments.

Opportunities for Improvement

- It is considered necessary that government departments must endorse copies of all sanctions. These can be entered in a database. RAA may take up the issue with the Finance Department to institute a system whereby the sanctions of the departments are endorsed to the Finance Department. These sanctions may be put up on the website of the Finance Department for easy access by audit.
- Also the Divisions can scrutinise the sanction order to see if it is issued by the competent authority and whether there is any prime facie objection to the order. If the sanction order is defective, the matter can be taken up with the Secretary to the Government at once.
- Sanctions to expenditure that need to be probed in local audit can be identified and given to the audit team when the audit is programmed for the concerned agency.

Statistical sampling

We observed from the working files of Compliance, Regularity and Performance audits that the authority has not been using scientific statistical sampling techniques in field audit. Although the quantum of checks as per risk analysis has been decided in the planning papers for individual audits, it is not clear how this was worked out in actual audit. For example, 60% audit check was prescribed for medium risk category audit areas, but how these 60% transactions were selected is not clear. The Financial Audit manual has detailed guidelines on the use of scientific statistical techniques. This needs to be implemented in actual field audits.

Opportunities for improvement

- The Authority may consider conducting pilot audit using scientific sampling techniques to ascertain transparency (obviate bias) and for effective extrapolation

Audit Quality Assurance

The Audit Act of Bhutan 2006 states that the Authority shall establish auditing, reporting standards and practices that will meet the highest auditing and reporting standards. The RAA has recognized the need for effective quality assurance to ensure high standard of audit work by improving audit performance and results. Chapter 2, Section 2.6.1 to 2.6.5 of the RAA Auditing Standards contain the standards on quality assurance and quality controls. Chapter 6 of the AG's Standing Instructions provides that the RAA in order to bring high quality and develop professionalism in its auditing has a quality chain into its audit throughout the audit process by way of review, supervision, consultation and advice. The RAA's framework of

Quality Management System is comprised of the Team Leader, Division Chief, Department Heads, Quality Assurance Unit, RAA Executive Committee and the AG. For ensuring audit effectiveness, the instructions provide that the QAR steps should be performed to determine whether the audit working papers contain documentation required by the audit programme and other evidence required to determine that the RAA process has been followed.

A Quality Assurance Unit was set up in the RAA in 2007 which is manned by an official with legal back ground. This unit conducted QA review (based on the draft **Handbook on Audit Quality Assurance Review Process**) on three audit reports from three different functional divisions on the basis of which the Handbook was finalised and then formally adopted in the Annual Audit Conference of 2009. The objective of this review was to assess the adequacy of the quality controls at the financial audit level and assess their linkage to the institutional level framework so as to suggest strategies for improvement. The methodology of the review was as per the Handbook. The findings of this review were discussed with the concerned audit team leaders and amicable cause effect relationships were drawn to suggest recommendations. The review was done with due diligence and suggested various quality improvements. The Handbook on Audit Quality Assurance Review Process contains details on quality assurance function to ensure institutional level quality assurance and Financial Audit level quality assurance. The QA unit has devised templates for the Management Appraisal Report and its forwarding letter and another template for balanced reporting in the AR and its transmittal letter. This unit also conducted review on the working papers of the AR which was presented to the Annual Audit Conference held in 2008. Instructions were issued in August 2010 to all divisions and regional chiefs to ensure that every draft final report is submitted to the unit for review to be further reviewed by the AG for uniformity and consistency. However, we observed that this was not being done.

Para 5.1.13 of AG's standing instructions prescribe the process to be followed by the Team leaders and the Department heads before finalization of the AR so that the QAU can ensure the compliance of the reports with the RAA standards for uniformity and consistency. We observed that some divisions have been sending reports to the unit and instructions have been issued on a few reports regarding observance of provisions of Auditing Standards and AG's Standing Instructions. These instructions were issued by the AG for following the templates and timely issue of audit reports.

We observed that the actual manning profile of the QAU is different from the competency provided for the QA staff in section 3.6.2 of the Handbook. Section 3.6.3 of the Handbook contains the functions of the QA team. We noticed that in some cases shortcomings noticed in the drafting of the AR and delays in issue of the report were got intimated to the Team Leaders/ AAGs of regional offices with copies to other concerned officers of RAA at the level of the AG. However, after the August 2010 instructions, the current function of the QAU is confined to editing of the reports to ensure uniformity and consistency and adherence to templates. We also observed that the workshop on institutional level quality assurance process and Financial Audit level assurance, though planned for April/May 2010, has not been held.

The Annual Audit Plan 2010-2011 envisages strengthening the QAU putting in key control processes such as the "Audit Technical Review desk", "Legal and documentation review desk", "Language & Presentation Review desk and "Layout and design desk". This does not facilitate the assimilation of QA in other divisions.

Opportunities for improvement

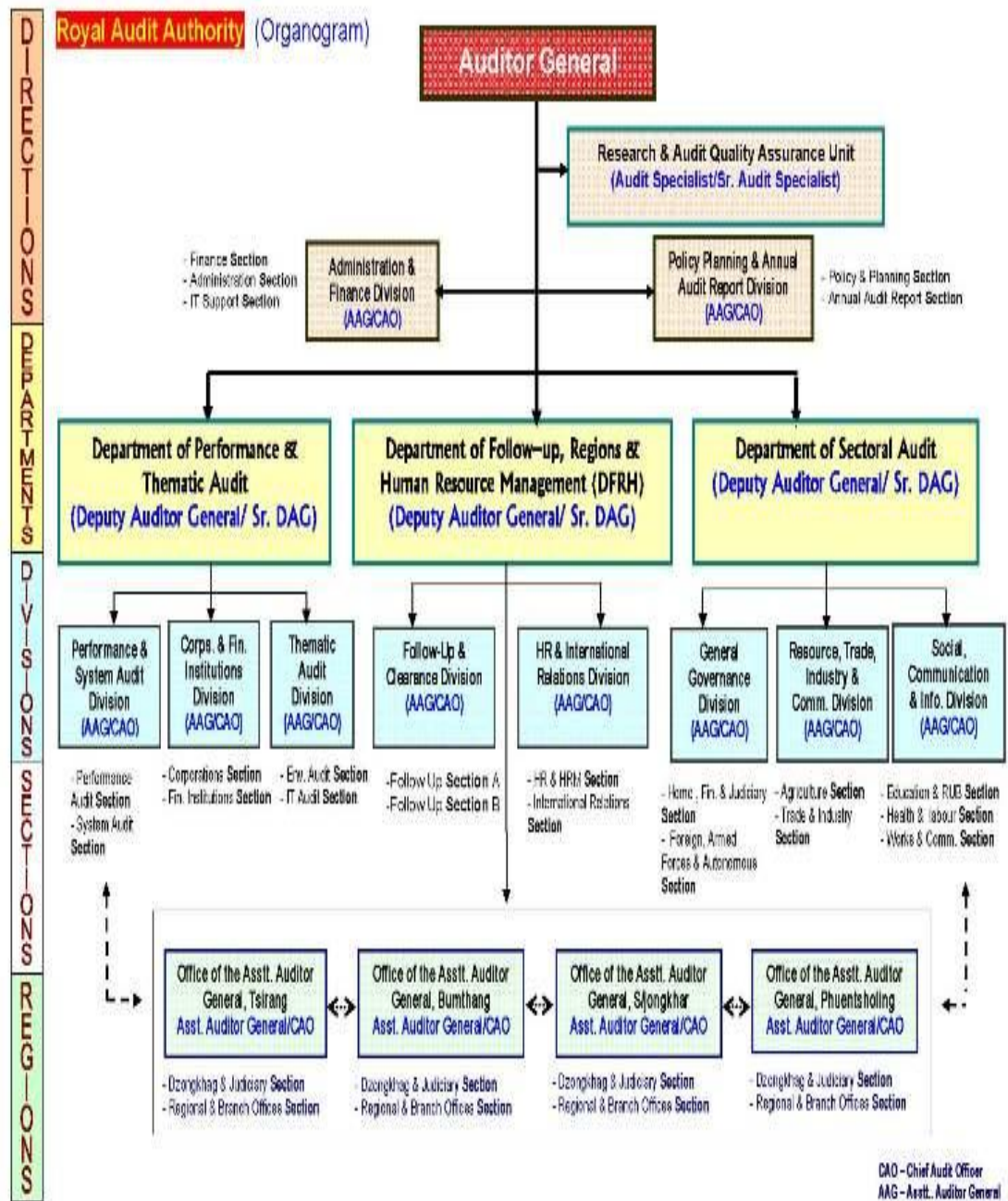
- **Quality Control-** The role of review in quality control is set out in ISA 220 Quality Control for Audits of Historical financial Information and the RAA's Quality Assurance Handbook (Section 5: Financial Audit Level Quality Assurance Process). We observed that no Quality Assurance Review has been conducted in respect of the 52 Financial audits conducted between 1 July 2010 to 30 September 2010. It is suggested that such Quality Assurance Review be conducted every quarter to ensure that the work has been performed in accordance with professional standards and regulatory and legal requirements. It would also assure whether the work performed supports the conclusions reached and is appropriately documented; the evidence obtained is sufficient and appropriate to support the auditors report and finally whether the objectives of the engagement procedures have been achieved.
- Strengthen the QAU in view of the instructions for competency and the functions expected of the QA staff in the Handbook. A multi disciplinary team may be constituted with officials having wide experience in different types of audit and managerial expertise. The Authority may also consider roping in experts.
- Conduct a pilot quality assurance review from the planning to the reporting stage of one audit. The INTOSAI Auditing Standards being followed by RAA require audit organizations to implement quality control policies and procedures designed to ensure that all audits are conducted in accordance with ISA or relevant national standards or practices.
- The steps being taken by RAA to strengthen its Quality Assurance Unit is appreciable. However quality management involves a system composed of the audit organization, the auditors and the audit process, all working together to produce outputs that fulfill the requirements of the stakeholders and the general public. The process of managing audit quality aims at ensuring that audit is planned efficiently, executed effectively and that the audit product meets the benchmarks of the audit organization. These aspects have to be built into the audit cycle at all stages and at all levels which helps in the quality control of the individual audit product and to one of continuous quality assurance. While the quality assurance unit can bring out measures required to ensure quality control and assurance in audit, this has to be read and supplemented by auditing standards, existing audit manuals, guidelines and instructions, to have a complete and exhaustive description of auditing principles, processes and practices followed in different streams of audit across RAA. Hence to ensure quality audit services, it is imperative that quality should embrace all levels of the organization as detailed in para 6.1: RAA's Quality Management System of AG's Standing instructions. Respective divisions, therefore, need to formulate internal instructions in accordance with the principles of quality control and assurance and consistent with the auditing standards and the relevant existing audit guidelines and be responsible for their implementation. The quality assurance unit through a review mechanism can ensure that the quality management policies and procedures that provide quality assurance are in place.

CHAPTER – VI

ORGANISATION AND MANAGEMENT PRACTICES

RAA Structure

The Organogram of Royal Audit Authority is given as under:



The RAA has three Departments with 10 functional divisions and four Regional offices headed by Assistant Auditor Generals.

The Office of the Assistant Auditor General, Phuntsholing was set up in 2007 and initially housed in the RAA HQ building. It has been relocated to Phuntsholing from November 2009.

The RAA instituted a Research & Quality Assurance Unit (QAU) in 2007. Earlier the RAA had a Technical Audit Support Division where the Engineers were posted. With RAA's policy of integration of professionals with multidisciplinary backgrounds, the Engineers were distributed to divisions conducting construction audit. However, other divisions which do not have Engineers can also requisition them for their expertise on need basis.

Staff

The total staff strength of the Authority is 230 which include 10 elementary personnel and 12 drivers determined by the number of vehicles. There were two vacancies at the officers' level. For recruitment of Diploma holders in Financial Management at the level of Auditor II requisition is to be submitted to the Royal Civil Service Commission as per the approved staffing plan, and for Diploma holders in Information Management has to be submitted to the Department of Information Technology, Ministry of Information & Communication. At the officers level the recruitment is done through common examination conducted by the RCSC depending on the availability of vacancies.

Staff Requirement

Staff requirement is basically prepared in line with the RAA's strategic plan and the annual audit schedule and submitted to the RCSC for approval. Following grades of staffing are existing in RAA:

Auditor III (being phased out) at Grade 11

Auditor II (entry level) at Grade 10

Auditor I at Grade 09

Sr. Auditor at Grade 08

Assistant Audit Officer (entry for officer level) at Grade 08

Audit Officer

Sr. Audit Officer

Dy. Chief Audit Officer

Chief Audit Officer/Assistant Auditor General

Dy. Auditor General/Audit Specialist

The Position Classification System launched in 2005 resulted in stagnation at auditors grade. RAA introduced the Sr. Auditor level position in grade 8 to provide promotional avenues to auditors in grade 9, not having the bachelors degree, which is the basic requirement for promotion to the officers level at Assistant Audit Officer. Similarly, in order to facilitate career enhancement, position of Audit Analyst and Audit Specialist equivalent to Chief Audit Officer and Deputy Auditor General respectively have been introduced. The advantage of these posts is that they are not to be filled through open competition like the equivalent management positions which are filled through competition amongst eligible candidates of other Departments as well.

The Royal Audit Authority disbanded the Special Audit and Investigation Audit Division in 2006 after the formation of Anti-corruption Commission (Commission). Since then audit

findings regarding complaints and investigations are handed over to the Commission. However, if requested by the Commission concerned officials from the RAA are deputed along with the Commission's investigation team wherever the source of information regarding the corruption case is from audit reports or assignments.

Opportunities for improvement

- The Authority may consider augmenting the staff at Divisional Headquarters to assist the Division Chiefs in finalization of the Audit Reports.
- RAA may consider strengthening the staff strength of the Performance Audit and Thematic Audit Division at Headquarters so as to ensure prompt action on responses from the agencies and further pursuance.

Motivation

Until June 2009, the employees of the RAA used to get an allowance at 30 percent of the basic pay as His Majesty *Migsel Soelra* (Special incentive). The special allowance was stopped after the civil service pay revision from July 2009. However, from January 2010 employees of the RAA have been approved 20 percent of the basic pay as allowance as a strategy to motivate and retain officials in RAA.

Chapter 2.3.4 of RAA Auditing Standards envisages that the Authority should encourage its personnel to become members of a professional body relevant to their field of work and to participate in those bodies' activities.

Opportunities for improvement

- Rule 6.4 of the revised promotion Rules and Regulations of Bhutan Civil Service Rules 2006 states that training period beyond 18 months of any single training, and any other form of leave exceeding three months at a time shall not be counted as part of active service for promotion. This serves as a disincentive for officials willing to undergo training on approved courses beyond 18 months or availing study leave. The RAA may consider recommending to appropriate authorities to revisit this rule in the interest of skill upgradation and motivation of the officials.
- The Deputy Auditor General level officers be provided with vehicles and housing facilities at par with their counter parts in the Government.

Awards

In order to encourage excellence in audit reports and day to day functioning, RAA awards;

- Three cash prizes of Nu 20000, Nu 16000, Nu 14000 for the best Financial Audit reports
- One cash prize of Nu 20000 for the best Performance Audit report

- Award to a Division for outstanding work.
- Best Performing Team for the year
- Two Cash awards for significant Audit Observation

Some other Good Management Practices that have been implemented are:

1. Selecting the auditors for embassy audits based on recognition of their good service;
2. Granting of Meritorious/fast track promotion on the basis of outstanding performance;
3. Introduction of Continuous Professional Development Policy for compulsory training every year;
4. Introduction of Retreat Workshops for middle management officers;
5. Adoption of Auditor General's Standing Instruction;
6. Introduction of Online clearance services to ensure speedy issue of audit clearance certificates;
7. Creation of Quality Assurance Unit;
8. Issue of laptops to each team to increase work output and efficiency;
9. Appointment of Counsellors to provide advice to office personnel having personal problems; however, affected/distressed persons may hesitate to unburden themselves to a person, who pursues the dual duties of a colleague, present/future boss and counsellor.

Monitoring

The Policy and Planning section of the Policy Planning and Annual Audit Report Division (PPAARD) is responsible for monitoring all the activities of RAA. All the divisions and the regional offices are required to submit monthly progress reports by the 10th of the following month giving the status of the audits planned and actually conducted, reports planned and issued, and whether any significant issue was noticed. A weekly plan is also required to be submitted by Thursday of the current week which gives information on the activities planned for the next week. These reports are supposed to be compiled and submitted to the AG.

There is a Policy Planning, Programming and Coordination Committee Meeting (PPPCCM), chaired by AG required to be held once a month to discuss the various Audit related matters. However, we were informed that whenever there is any significant issue/ agenda, these meetings are held. PPPCCM has generally been meeting every quarter. The details of the last few PPPCCM meetings held is given in the table below.

Sl. No.	Policy, Planning and Consultative Meetings	Date of the Meeting	Endorsement Date of the Draft Minutes	Issue Date of the Approved Minutes
1.	44 th PPCM	27 May 2008	29 October 2008	31 October 2008
2.	45 th PPCM	10 September 2008	29 October, 2008	31 October, 2008
3.	46 th PPCM	29 October, 2008	12 January, 2009	15 January, 2009

Sl. No.	Policy, Planning and Consultative Meetings	Date of the Meeting	Endorsement Date of the Draft Minutes	Issue Date of the Approved Minutes
4.	47 th PPCM	12 January, 2009	29 May, 2009	9 June, 2009
5.	48 th PPCM	28 May, 2009	17 July, 2009	30 July, 2009
6.	49 th PPCM	17 July, 2009	NA	NA
7.	50 th PPCM	28 & 29 January, 2010	2 July, 2010	To be issued
8.	51 st PPCM	2 July, 2010	30 September, 2010	To be issued
9.	52 nd PPCM	30 September, 2010	To be endorsed during forth coming PPCM (10-12 January, 2011)	Yet to be issued

Monitoring and evaluation is also done through the mid term review which is normally done in January and finally at the end of the financial year along with the Annual Audit Conference in July/ August. The mid term review is used for any mid term corrections required in the annual audit plan and the audit schedule. The final audit plan and the annual audit report along with other important planning policy issues are taken up during the annual audit conference.

Opportunities for improvement

- PPPCCM is an important decision making forum. As PPPCCM meetings are held after a gap of three to four months the important decisions are communicated late as the minutes of the earlier PPPCCM are approved in the subsequent PPPCCM. RAA may consider a system whereby the minutes may be got separately approved and the decisions taken communicated for timely action.
- The timely and regular submission of the monthly reports by the divisions and the regional offices needs to be reinforced. Also all the offices may be encouraged to submit the reports online so as to facilitate systematic compilation and recording.
- During mid term reviews when audit plans and schedules are reviewed for mid course corrections and during Annual Audit Conferences when the proposed Annual Audit Plan is discussed, there can also be discussion whereby audit teams may review and discuss audit practices being adopted/ required to be adopted in respect of audit issues noticed in various agencies based on their experience in the field to further hone audit techniques and also for better deployment of scarce audit resources. This will provide an opportunity for a kind of self evaluation on the basis of lessons learnt during the course of audit and is an important quality assurance process through post audit discussion.

Internal Audit

A Division of the RAA or one of its regional offices conducts Internal Audit of RAA every year, and submits its report to the Auditor General.

Opportunities for improvement

- Internal audit needs to be made more meaningful as envisaged in para 2.6.3 of Auditing Standards as it is a management tool to draw assurance regarding sound functioning of the organisation.
- In the light of RAA's growing mandate, to strengthen the internal control system a standing committee of senior officials may be setup to study and review every function of RAA, encompassing areas such as internal administration, strengthening of headquarters staff deployment, collection, deposit and reconciliation of audit recoveries etc. to recommend checks and balances in the RAA control mechanism as an on-going process and oversee the implementation of its recommendations.

Annual audit Conference

Annual Audit Conference is held in July every year for three days in which all officers of Royal Audit Authority participate. There is a theme for each conference:

Annual Audit Conference	Year	Theme
IX th Annual Audit Conference	2006	Inroads to Performance Audit
Xth Annual Audit Conference	2007	RAA and its role as a constitutional body
XIth Annual Audit Conference	2008-	The role of RAA in promoting Good Governance
XIIth Annual Audit Conference	2009	RAA approach towards balanced reporting
XIII Annual Audit Conference	2010	Risk based approach to auditing

Overview of the status of the resolutions

Annual Audit Conference	No. of Resolutions passed	Balance reported during MYRM (2010)	No. resolved during & after MYRM	Balance
SEVENTH (2004)	27	1	1	0
NINTH (2006)	20	2	0	2
TENTH (2007)	34	1	0	1
ELEVENTH (2008)	27	5	4	1
Twelfth (2009)	29	19	15	4
Total	137	28	19	4

These conferences are funded by an external agency. The purpose of the conference is to create a forum for better interaction among the auditors, to build better team-spirit and understand each other more. The conference is inaugurated by a dignitary. At the end of the Conference a resolution is adopted, highlighting the program of action for the next year. The idea of the Annual Audit conference is laudable. It gives an opportunity to the Auditor General to interact with his officials and share with them his plans for the RAA to effectively discharge its duties. New management practices are discussed and adopted.

The Annual Audit Plan and Annual Audit Report are discussed in the conference. **This is a good practice** and it gives an opportunity to the officers to interact, share their experiences and express their opinions.

Monitoring of action on communications received

The Divisions of RAA receive a large number of communications from various government agencies in response to Audit Inspection Reports, Audit Recoveries, etc. Letters are also received from Financial Institution regarding loans given to staff of RAA, and from the Department of Budget and Accounts regarding monthly accounts etc. We observed that no mechanism existed to monitor the timely disposal of the communications received in the office. No returns are prescribed to the higher authorities at regular intervals for such monitoring.

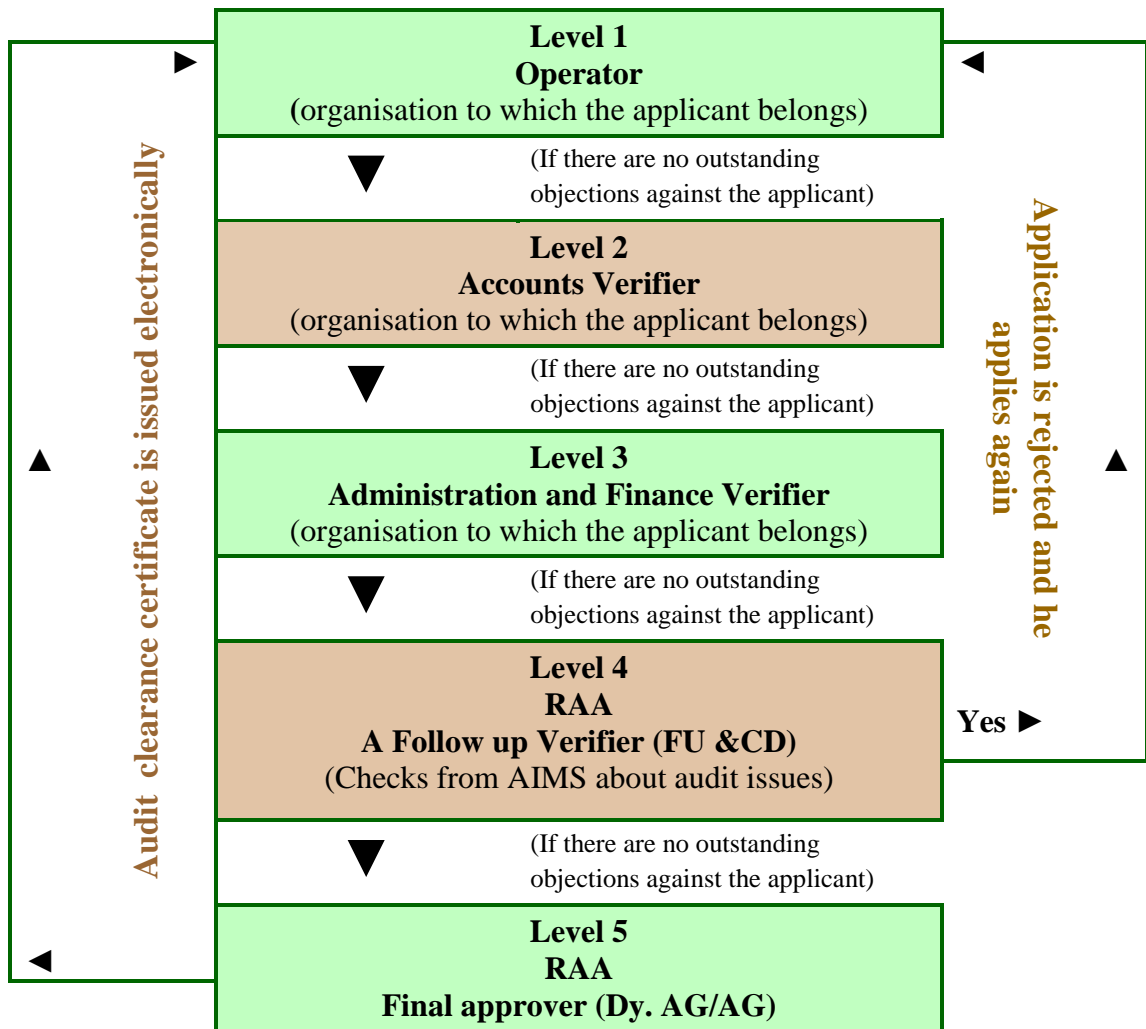
Opportunities for improvement

The Authority may consider putting in place a system to monitor the receipt and timely disposal of communications received in the RAA. The same system may be replicated in the regional offices. The communications received may be categorized on the basis of their significance and monitored appropriately at various levels.

Audit Clearance

The Audit Act, 2006, Chapter 5, 42(e) empowers RAA to adopt procedures for the issue of audit clearance certificates. Bhutan Civil Service Rules and Regulations, 2006 stipulate that all civil servants and public officials obtain Audit Clearance Certificates (ACC) from the RAA. The objective of this stipulation is to foster a sense of responsibility and accountability through specification of clear roles and responsibilities at all levels. Civil servants, ministers, corporations, constitutional post holders, Gups and public officials need to take Audit Clearance Certificate from RAA for promotion, training, study tour, higher studies, workshop/seminar, retirement benefit, and extension of contracts/service, service regularization for processing of secondment, election and re-election. ACC is given by RAA, certifying that an official does not have any adverse, unresolved audit observations as on the date of issue of the ACC as per the records of RAA. This is handled by two officials, under the Chief of Follow-up and Clearance Division (FU& CD). From January 2010, the application and issue of Audit Clearance Certificate has been made on-line.

Verification process for on line issue of Audit Clearance Certificate.



AIMS provides for the generation of this certificate. Para V of the Audit clearance guidelines stipulate the processing time for issue of the certificate. Para VI stipulates that the Audit Clearance Certificate shall be valid for the purpose and duration for which it was issued.

The number of clearance certificates (for various purposes) issued since January 2010 to 15 December 2010 is as below:

Sl. No.	Purpose	Total
(1)	(2)	
1	Training	2377
2	Promotion	6341
3	Resignation from Service	806
4	Contract Extension	954
5	Service Regularization	37
6	Secondment	43

Sl. No.	Purpose	Total
7	Further Studies	805
8	Workshop	140
9	Study Tour	640
10	Seminar	77
11	Re-election	1
12	Superannuation	144
13	Election	9
14	Service Conversion	26
15	Interview	85
	Total:	12485

Audit Clearance Guidelines also provide for issue of Audit Clearance Certificates on the basis of an undertaking given by an individual. This undertaking is to be treated as a bond of trust between the RAA and the applicant, who gives his/her assurance/commitment in a letter committing that the audit issues against his/her name would be resolved within a specific time agreed to. Based on this assurance letter, the officials in the respective organizations responsible for processing the case for ACC for onward transmission to RAA are required to ensure that the unresolved audit issues should fall under the following categories:

- For those observations that are not directly accountable but to follow up on observations other than fraud, corruption and embezzlement;
- For accountability and responsibility fixed for the failure on the part of tax payers to clear the dues despite several reminders and other recourses;
- For accountability fixed for the on going deposit works and imprest advances (where the settlement of accounts is not due);
- For accountability wrongly fixed on the officials by the agencies; and
- For those officials permitted to pay on installment basis.

This commitment letter is valid for three months only as per the ACC guidelines. The concerned official processing the ACC is required to remind the individual official in case the observations are not resolved within the stipulated time frame of three months.

From January 2010, 130 Audit Clearance Certificates, based on undertakings, have been issued by RAA.

No. of Audit Clearance Certificates issued from 1st January 2010 to 15th December 2010 on undertaking basis									
Sl. No.	Purpose	Total							
1	Training	33							
2	Promotion	61							
3	Resignation from Service	7							
4	Contract Extension	0							
5	Service Regularization	0							
6	Secondment	3							
7	Further Studies	6							
8	Workshop	5							
9	Study Tour	13							
10	Seminar	0							
11	Re-election	0							
12	Superannuation	1							
13	Election	0							
14	Service Conversion	0							
15	Interview	1							
	Total:	130							

The Audit Clearance Certificate can also be denied on various grounds by the RAA. The grounds are specified in Para VII of the Audit Clearance Guidelines, which stipulate that ACC shall be denied and deferred:

- If there is any unresolved audit issue against the individual
- Official is under suspension by the agency and the Anti-Corruption Commission
- Is reflected in the negative by the RCSC and
- Any other adverse report.

We were informed that for complicated cases decisions regarding issue of the Audit Clearance Certificate are taken by the DAG or even by the AG.

It was observed that while the AIMS shows that a clearance certificate has been given on the basis of undertaking, the software is not being used for monitoring further follow-up action. The official handling the cases of certificates issued on the basis of undertakings maintains a file manually. During discussions with RAA officials, it emerged that he/she has to keep checking manually. Review of a statement generated by the IT Section (May 2010) to check on the status of outstanding clearances given on the basis of undertakings showed that they

were pending since June 11, 2009. We were informed that these statements were generated on the directions of the AG.

Opportunities for improvement

- Since the Authority does not have facilities for safe keeping of the cash received on account of Audit Clearances from the Government officials, RAA may consider issuing instructions to the effect that the cash on account of audit clearances may be deposited by the officials directly in the designated bank (Audit recovery account) after the clearance is given from FU& CD and furnish a copy of the challan/ electronic receipt in the Authority (electronically) for final approval. This arrangement would take care of the cumbersome responsibility of receiving cash daily in the office and depositing it the same/next day in the bank. The Authority may enter the details of the challan in a cash book and reconcile the balance with the bank on a monthly basis. This arrangement would also ensure that the official need not visit the Authority personally to deposit cash for the Audit Clearance Certificate.
- In view of the significance of the Audit Clearance Certificate, the responsibility and accountability of the officials of the respective organizations processing the cases for transmission to RAA should be enforced so that cases are not rejected/ returned on grounds of being incomplete.
- As a measure of internal control, the monitoring of certificates given on the basis of undertakings should be made weekly at the level of the Divisional Chief, fortnightly at the level of departmental head and monthly at the level of the AG.
- To strengthen the monitoring of compliance by the officials, where ACC has been issued on the basis of undertakings, the RAA may consider involvement of controlling officials of the respective organizations to facilitate prompt compliance.

Suggestions 2 and 3 have been made to ensure that dilution of the importance of the Audit Clearance Certificate does not take place due to the facility of undertakings which has been made available.

Administration and Finance Division

Till June 2010, we were informed that the accounts were being maintained in the Budget and Accounts System (BAS) of RAA. This was an accounting software operated by individual organizations on stand alone basis. From July 2010, RAA has shifted to Public Expenditure Management System (PEMS) at the initiative of the Ministry of Finance. PEMS is an online system for payment of salary in the bank, and expenditure details against allotment can be viewed by the Ministry of Finance online. Deductions such as PF, Group Insurance, House rent, Income Tax, health contribution etc, however, go to the respective agencies through cheques. We found that the system is working efficiently.

Outstanding advances

- Outstanding advances (salary and travel advances) is also being maintained in PEMS, but monitoring of adjustment is still watched through a register maintained by the Deputy CAO (Finance).

Opportunities for improvement

- Prior to releasing new advances, the PEMS may be checked for previous outstanding advances for better control.
- The Authority should consider keeping the cash on account of audit recovery securely in a cash chest with double lock for safe custody in view of heavy cash collection. It may also consider securing indemnity bond from the custodian of cash as an additional security measure.

Expenditure of RAA

The value of RAA as an impartial institution would be enhanced if recoveries are assessed in relation to the expenditure incurred on the Authority as also committed in the Strategic Plan-2010-15.

The position of total expenditure and the audit recoveries made by the Authority for the last three years is given below:

Year	Total expenditure (Nu)	Net Recoveries (Nu)	Percentage of recovery
2007-08	52191955	87670503	1.68
2008-09	61747992	44494488	0.72
2009-10	80281841	66441120	0.83

For every one Nu spent by the Authority during the last three years, the recovery ranged between 1.68 Nu to 0.72 Nu. We observed that while the monetary value of the significant audit observations featuring in the Audit Reports has been increasing over these years, the recoveries have been showing a declining trend.

Recoveries and refunds

We observed that though the audit recoveries have been increasing over the last two years the rate of increase of refunds has outpaced the growth in recoveries.

Year	Total recoveries	Refunds
2008-09	44,761,245.90	266,757.15
2009-2010	67,582,872.27	1,141,752.61

Opportunities for improvement

- In line with the resolutions of XIIIth Annual Audit Conference, the Authority may identify areas where cost cutting can be made to reduce the cost of audit.
- The amount of recoveries reported in the audit observations should be done with due care and diligence in view of the increasing trend of refunds.

We analysed the trend of recoveries and observed that remittance had not been done on a quarterly basis till 2009-10. However, it was observed that from July 2010 it was being done on a quarterly basis. We observed that despite a note of recommendation issued by the Deputy AG, DFRHRM (dated 2/12/2008) to the regional offices for expeditious remittance of the audit recoveries by the 28th of every month, there were delays in remittance to the RAA Hq. Perusal of the Report on the Audit recoveries account for the month of September 2010 revealed that there were instances of recoveries not received in the Finance Division but updated in AIMS as well as instances where less amount was deposited than that mentioned in AIMS (Annexure D and E of the monthly accounts).

Opportunities for improvement

- There is a need to tighten the system to ensure that the audit clearance system is backed by timely and correct data of audit recovery. The exception reports attached with the monthly accounts submitted by the Administrative and Finance Division need to be used to streamline the system.

Audit of the Accounts of RAA by Chartered Accountants

Section 83 of the Audit Act, 2006 provides for ensuring the accountability of the Authority through independent auditors appointed by the Parliament to audit the annual accounts of the Authority. With a view to promote greater accountability amongst auditors and improving the RAA's own housekeeping an independent professional firm of Chartered Accountants conducts the audit of the accounts of RAA. The last audit was conducted by SRI Associates (Kolkatta) in May 2010 for the year 2009. In this report no material and adverse findings were reported.

House keeping practices

House keeping is the responsibility of the Administration section. Guidelines for housekeeping issued earlier are not in vogue. Sanitation and security has been out sourced.

Opportunities for improvement

- Surprise checks by rotation for monitoring the performance of the service provider may be introduced.
- In view of the significance of gender sensitivity, the Authority may consider revisiting the existing facilities including the rest rooms.
- In view of the visit of the officials for obtaining the Audit Clearance certificates, appropriate arrangements may be made for visitors and differently abled people.

Record Keeping

We observed that the current year's files were stored systematically on racks in the division, but the older record and files stored in the record room were stacked in bundles (tied in cloth) and not stored in order, largely due to space constraint. This would hinder quick retrieval of records for follow up. The proposal for proper indexing in the new Audit Resources Management System (ARMS) is commendable.

Opportunities for improvement

- The Authority may consider determining a policy for the retention and disposal age of various types of documents according to their significance. This would facilitate easy retrieval and also free up valuable office space.
- The RAA may archive the records/ data electronically after ARMS is implemented.
- The Authority may consider storing the old records/files in compactors in record rooms with appropriate indexing for easy retrieval and saving up on space.

Asset Records

Procurement of Assets/equipments is mainly through the donors and maintained donor wise.

Pursuant to shortcomings pointed out by the Chartered Accountant in his report on the accounts of 2007-08 regarding documentation of fixed assets, the Auditor General issued instructions in September 2009 for entry of stock, carry forward of balances, proper and complete documentation in the Asset Management System (AMS). However, we observed that these instructions are yet to be complied with. During discussion it was informed that AMS had become defunct. The system after development could not be used for want of proper training and understanding.

Opportunities for improvement

- The officials handling the work may be provided with suitable training for upkeep of the relevant records/software.
 - Complete documentation and annual physical verification of stock/assets needs to be ensured.
- **Good Practice**- RAA has issued (2010) detailed terms and conditions for issue, custody and maintenance of laptops to ensure responsibility and accountability of the official to whom the laptop is issued.

Web site of RAA

The web site of the Authority is well conceived and provides relevant information to the users. The on line audit clearance and the “fraud alert” is a notable feature. The web site may be updated to include the approved manuals while some redundant parts like old forms for Audit Clearance may be removed as audit clearances are now on line. Besides, the Authority may consider inclusion of ministry wise/ Dzongkha wise search facility in Chapter 4 of the Annual Audit Report.

CHAPTER – VII

AUDITING TECHNIQUES

7.1 Scope of Audit

Article 25 (4) of the Constitution of the Kingdom of Bhutan (2005) lays down that the RAA shall, audit the accounts of all departments and offices of the Government including all offices under the Legislature and the Judiciary, all public authorities and bodies administering public funds, the police and the defence forces as well as the revenues, public and other monies received and the advances and reserves of Bhutan.

Chapter 4 of the Audit Act of Bhutan 2006 defines that the Authority shall audit the following matters to ascertain whether:

- (a) The amount appropriated have been expended for the specified programs and tasks within the approved budget limits;
- (b) The financial transactions comply with the existing laws and the evidence relating to items of income and expenditure are sufficient;
- (c) The accounts have been maintained in the prescribed forms and such accounts fairly represent the position of the transactions;
- (d) The program implementations are adequately monitored to avoid incidences of cost and time overruns;
- (e) The inventory of public properties is accurate and upto-date, and custody, control, management and physical safeguard measures instituted are adequate;
- (f) Physical assets and infrastructures reported actually exist and confirm to the required specifications and standards;
- (g) The available resources including human, financial and other assets are properly utilized.
- (h) The accounting and related system of controls, financial or otherwise including the arrangements for internal audit and internal control of cash, kind and other public property against any loss, damage and abuse are adequate;
- (i) The accounts of revenue, taxes, other incomes and deposits are accurate and the systems relating to assessment, realization, recording and methods of reporting are adequate;
- (j) The debts, liabilities and specific purpose funds are recorded accurately and managed properly;
- (k) The ICT and other technological systems developed are appropriate and adequate controls and security measures are instituted to prevent unauthorized access to the system; and
- (l) The implementation of programs and activities are as planned and the intended objectives achieved.

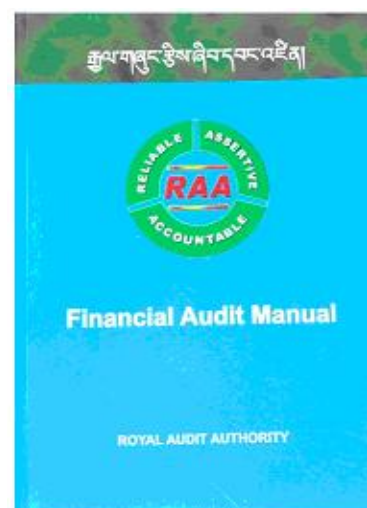
7.2 Types of Audit

The Authority is mandated to carry out financial, propriety, compliance and special audits along with performance audit. It can conduct in depth audit of any aspect of the accounts, operations, systems and management practices of the agencies. It also conducts revenue audit, audit of aid, grants and public debt and certifies the Consolidated Annual Financial Statements of the Royal Government. The RAA has been empowered to carry out any form of audit that the Auditor General may consider significant and necessary.

7.3 Focus Areas

Financial Audit

The RAA as mandated by the Constitution and the Audit Act of Bhutan certifies the financial statements of the budgetary operations of the Royal Government and its instrumentalities, externally funded projects, Corporations and Financial institutions where the Government has financial interest, foundation and trust funds, NGOs, Civil societies and the religious bodies. The Authority has prepared the Financial Audit Manual (adopted and officially released during the 13th Annual Audit Conference held in July 2010) to ensure that the audit of the financial statements is conducted in accordance with RAA's Auditing Standards and International Standards on Audit (ISA). This manual is applicable to all financial



statements audit conducted by RAA. The manual is exhaustive and covers the objectives, principles and responsibilities, the types of Financial Statements to be audited, the Financial Audit Process containing pre planning activities, detailed audit planning, the execution, completion and review and finally the reporting. It also has supplementary chapters containing guidelines for materiality assessment, assessment of internal controls, consideration of fraud, relying on the work of internal auditors, using the work of others, consideration of related party transactions, audit documentation and quality control. The manual also has standardized formats and check lists for the auditors in the appendices. This manual would facilitate in enhancing consistency in financial reporting of the audited entities, ensure that the auditors comply with professional standards and applicable legal and regulatory requirements while carrying out audit and ensure that the auditors follow specific and adequate audit procedures to maintain the quality of work. This endeavour of RAA is commendable.

We examined the files relating to the Financial Audits conducted prior to adoption of the manual to appreciate the quality improvements made after the manual was adopted. The file on the audit of accounts and operations of Thimphu City Corporation for the fiscal year 1st July 2008 to 30th June 2009 (conducted in August 2009) was examined. We observed that the procedure followed was not very different from the compliance audits conducted by RAA. The working file contained the audit plan, the conflict of interest declaration, audit intimation letter, audit memos and replies and the draft Audit Report. The section on planning contained risk analysis, thrust area, job distribution and time allotment. The assessment of risk was mostly based on past experience while the quantum of record verification was not based on

statistical sampling method. This was far removed from the systematic audit process enumerated in the manual. We observed that this audit did not have any reference to determination of materiality levels and the associated audit risks. Neither was there any documentation on understanding the entity, the IT systems and the accounting and internal controls. We did not see any documentation on the test of controls, audit sampling and the application of substantive analytical procedures.

We examined the file on GFATM Project “Strengthening Quality TB Control in Bhutan” (MOH) for the period 1st January to 31 December 2009 conducted in July/August 2010 after the adoption of the manual. We observed that the audit exercise did not conform to the manual. The Financial audit was conducted in the same manner as was conducted prior to adoption of the manual.

Opportunities for Improvement

- **Pilot Financial Audit** – we suggest that the Authority conduct a pilot Financial Audit strictly as per the provisions of the manual to assess the competence level of the staff as well as to determine the time taken to complete such audit as per the manual. It would provide an opportunity to make corrections in future audits and ensure application of the procedures of the Manual by the field auditors. This experience can be shared amongst the staff of the concerned division.

Revenue Audit

Chapter 4 of the Audit Act states that the Authority would conduct the audit of assessment, collection and accounting of revenues and taxes. It further states [Chapter 4 (41) (i)] that the Authority shall audit revenue, taxes, other incomes and deposits to ascertain whether the accounts are accurate and the systems relating to assessment, realization, recording and methods of reporting are adequate. Thus, the Act enables conduct of transaction as well as performance reviews under revenue audit. The authority conducts revenue audit along with the regular expenditure audit. There are no earmarked audit teams for revenue audit. The Authority has prepared a draft Revenue Audit Manual in 2007 but it awaits formal adoption. The draft manual has some illustrative sections on the audit approach to be adopted for Personal Income Tax, Business Income Tax, Corporate Income Tax, Sales Tax and Import Duty.

The tax revenue constitutes Direct taxes (Corporate, Business, Personal Income Tax, Motor Vehicle Tax, Royalties etc).and Indirect taxes (Sales Tax, Excise Tax, Import duty). The non tax revenue comprises mainly of administration fees and charges, dividends, revenue from government departments, capital revenue, transfer of profits and interest on loans from corporations. Tax revenue forms 46.1% of the total revenue. Direct tax constitutes 66.8% of the total tax revenue and 30.8% of the total revenue. The major increase in direct taxes has been mainly in Corporate Income Tax which constitutes 16.7% of the total revenue.

Opportunities for Improvement

- **Strengthening Revenue Audit**

The revenue, current expenditure and tax ratio of the RGoB is shown below.

Nu in million

Source of revenue	2004-05	2005-06	2006-07	2007-08	2008-09
Tax Revenue	3382.37	4124.68	4266.91	5238.36	6482.41
Non tax revenue	2683.73	2778.23	5815.25	7107.63	7566.63
Total revenue	6066.1	6902.91	10082.16	12345.99	14049.04
Current expenditure	6170.61	6672.38	7636.23	9718.50	11061.43
GDP	33390.79	37959.12	44901.51	51765.77	57981.15
Revenue as % of current expenditure	98.31	103.45	132.03	127.04	117.95
Total Revenue as % of GDP	18.17	18.19	22.45	23.85	24.23

National Revenue Report 2008-09 (Department of revenue & Customs, Ministry of Finance).

The actual collection of revenue has grown by more than three times over the last 10 years. It has increased from 6066.10 million Nu in 2004-05 to 14049.04 million Nu in 2008-09 (131.6%). Besides, the fiscal policy of RGoB requires that domestic revenue should cover the recurrent expenditure of the royal government. During the last four years, domestic revenue has not only met the recurrent expenditure but has also exceeded the recurrent expenditure. Given the manifold increase in revenue collection and the fact that the revenue expenditure is matched by the revenue collection, the Authority may consider to conduct independent revenue audit through dedicated revenue audit teams. This audit would cover the agencies responsible for assessment and collection of revenue and the audit may be planned by a suitable risk assessment of the agencies. The possible criteria of such risk assessment may be;

- The revenue collected by the agency over the last three years
- The number of refund cases
- Existence of internal controls
- Category of taxpayer- service, manufacturing, trading, construction
- Units filing returns vis-a vis number of estimated assessments
- The extent of computerization
- Inherent and control risk factors

The above criteria may be modified for different heads of revenue. It may be prudent to develop an auditee database profile of the units at the Headquarters level which can be updated through a standardized format by each revenue team conducting audit.

After the units are selected for audit as per the availability of audit resources, an audit check list may be developed for each domain of tax to be audited. Simultaneously the Revenue Audit Manual may incorporate the sample of assessments to be audited for each revenue head. It would be worthwhile to conduct cross verification of records relating to Income tax, Sales tax, Customs and Excise, wherever possible, to detect cases of evasion, suppression of sales/ income, non/short accountal etc. After the system of revenue audit is stabilized, the Authority may consider conducting Performance audit and IT audit of some applications for further assurance on the efficacy of the systems. It is also suggested that the Annual Audit Report may contain a separate chapter on the significant audit observations arising out of such revenue audit.

IT Audit

Article 41 (k) of the Audit Act states that the Authority shall conduct audit to ascertain whether the Information, Communication and Technology (ICT) and other technological systems developed are appropriate and adequate controls and security measures are instituted to prevent unauthorized access to the system. There is no separate IT audit division in the Authority. The IT Audit section is under the Thematic Audit Division, established in 2007. The Authority has conducted 6 IT Audits from July 2007 to June 2010. The Authority has prepared a draft IT Audit Manual which is under revision and awaits formal adoption.

The IT section does not have a database of the computer applications implemented in various government agencies and the topics for IT Audit are selected on the basis of scores obtained in the performance audit selection criteria. The Authority is using the audit software IDEA (Interactive Data Extraction & Analysis). We reviewed the IT Audit reports on the audit of electricity billing and collection system of Bhutan Power Corporation Ltd. (conducted between August 2008 to November 2008) and audit of Budget and Accounting system (conducted between December 2008 to May 2009). The former IT Audit was included in the Annual Audit Report of 2009 while the latter was directly submitted to the Parliament.

The IT Audit Reports have an executive summary which includes the justification for carrying out the study, audit findings and the recommendations. Section 2 of the report gives an introduction of the agency, its operations and the IT applications. Section 3 contains the audit findings highlighting the deficiencies in the application controls while Section 4 contains the recommendations for improvement. The IT Audit report also has an appendix which defines the scope and methodology of audit and a glossary of terms. The working papers are well documented and the Authority has devoted adequate time to plan the audit (one third of the audit period has been devoted to planning). The IT Audit section has submitted an audit plan and programme for the audit which contains background information about the entity, the various applications, audit objectives and scope, sources of audit criteria, audit methodology and an appraisal of the cost of such audit. This detailed planning exercise is commendable. The IT audit section has also designed a detailed audit procedure including risk analysis which is documented meticulously. Before start of actual audit, the Authority has sought the consent of the agency on the audit criteria

which is commendable. The layout and presentation of the IT Audit reports is excellent. The audit reports are balanced and mention the positive aspects of the applications and the benefits which have been derived after adoption of the applications.

Opportunities for Improvement

- IT Audit may be a part of the various types of audit conducted by the Authority (Financial Audit, Performance audit, Regularity Audit) and not necessarily a distinct entity. For effective IT Audit, apart from the ICT officers, the audit team should have personnel having domain knowledge of the agency, nature of its operations and the controls.
- The Authority may consider preparing a survey questionnaire for IT applications, send it by e-mail to the various agencies which have computerized their applications or to the Department of IT, Ministry of Information and Communications and get their responses on the items in the questionnaire. This survey can be an effective databank to select the IT Audits to be taken up during the year.
- The Bhutan Information, Communications and Media Act 2006 seeks to promote electronic Governance (**e Governance**) in the form of an internet based system for providing the public with access to Government information and services. The RGoB has identified some G2C (Government to Citizen) services which would help provide every Bhutanese access to a variety of services within one day's reach and reduce turn around time by 50-70 per cent. Some services like security clearance, e- forestry, on line tax filing, labour net system, e- banking and audit clearance are already available on line. It is suggested that the Authority may plan to take up audit of e- Governance in future. For such audit,
 - ❖ the criteria for selection of an e Governance project may be coverage of critical citizen services (soft benefit focus) rather than expenditure or technology related aspects.
 - ❖ evaluation of quality of service may be the most important audit objective, and
 - ❖ end user/ citizen satisfaction may be the most important criteria for measuring performance of such projects.

The Authority may use CoBIT (Control objectives for Information and related Technology) as a structured framework to audit e governance projects and BS 7799/ ISO 27799 in the audit of information security. The Authority may also impress upon the Government to involve RAA during the system development phases of e Governance projects, especially in those where substantial business process re engineering is involved. As a matter of abundant caution, there is a need for balanced reporting in the audit of e Governance projects. An overtly critical report may mar citizen confidence in the project and undermine Government initiative.

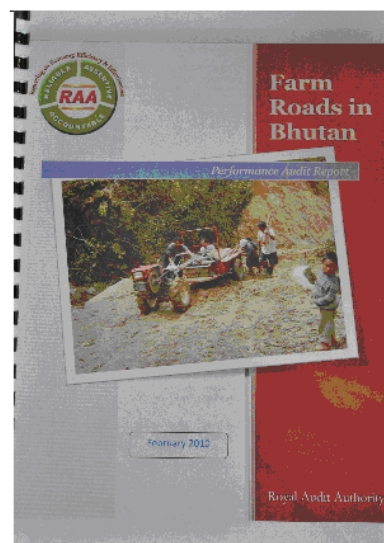
Performance Audit

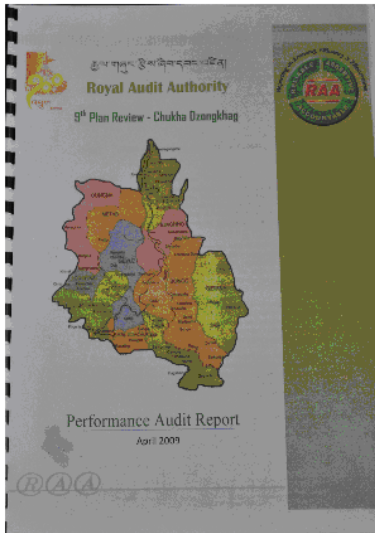
Article 25.1 of the Constitution of the Kingdom of Bhutan and Chapter 1, section 3 of the Audit Act of Bhutan specifically mentions that “there shall be a Royal Audit Authority to audit and report on the economy, efficiency and effectiveness in the use of public resources”. This mandate is further elaborated in section 38 (b) and 41 (d) of the Act of 2006. In pursuance with this important constitutional responsibility, the RAA is required to examine whether the Government agencies are doing the right things in the right and least expensive way. The RAA has prepared and adopted the Performance Audit Guidelines in 2005 which derives its mandate from the Royal Decrees (Kashos) and the provisions in the General Auditing Rules and Regulations of Bhutan 1989 (GARR). These guidelines were issued prior to enactment of the Audit Act of Bhutan 2006 and are currently under revision. The Performance Audit Division was established in 2000.

In order to facilitate the conduct of performance Audit, the RAA has formed two divisions, Performance and System Audit Division and Thematic Audit Division under the department of Performance and Thematic Audit. The Thematic Audit Division has two sections- Environment Audit section and IT Audit section. The RAA has issued 26 Performance and Theme based audit reports from January 2006 to June 2010.

We examined the working paper files and the Performance Audit Report of Chukha Dzongkhag- 9th Plan Review issued in April 2009 and the Performance Audit of Farm Roads- 9th Plan Review issued in February 2010. These two reports were extensively deliberated in the Parliament. The Audit Reports contain 5 Chapters and appendices.

- ✓ The forwarding letter mentions the notable achievements as well as the shortcomings and lapses. The report contains the title sheet which mentions the executing agency, name of the auditee officials, the period covered by audit, the audit schedule and name of the audit officials.
- ✓ The Executive summary has three parts: Why RAA did the study (which sets out the rationale for such study), What RAA found (which also includes the notable achievements and good practices of the entity) and What RAA recommends.
- ✓ Chapter 2 has the Introduction (background information of the entity);
- ✓ Chapter 3 contains the common audit findings on the planning, execution, monitoring and evaluation, financial reporting while Chapter 4 contains the specific audit findings.
- ✓ Chapter 5 contains the recommendations. The appendix has audit objectives, scope, criteria, sources of audit criteria and the audit methodology. The PA report contains photographs as audit evidence and the audit methodology includes extensive use of questionnaires and interviews, information from knowledgeable persons both inside and outside the entity as well as physical observation.





The working papers have Current file and Permanent files. The Current file has the audit intimation letter from the Auditor General, background information on the entity, the draft audit report, the planning and programming booklet which contains the audit objectives, scope, criteria, methodology, detailed audit programme, audit resources as well as the design matrix. The permanent file basically has the background papers containing financial and operational information of the entity. The layout and presentation of the PA report is excellent while the documentation in the working files has been done systematically and meticulously. The audit findings have been presented systematically and logically as per programme

evaluation techniques while the audit evidence is robust.

Process of selection of topics

The Division Chief of Performance and System Audit Division (PSAD) issues an inter office memo (in April/ May) inviting suggestions for the audit topics from the other functional divisions and the regional offices. Simultaneously, each member under the PSAD and Thematic Audit Division (TAD) is assigned areas to explore topics for the Performance Audits. After a shelf of topics is gathered, a week long workshop is held (May/June) to brainstorm and finalise the topics using the Audit Topic Selection Matrix (PA Guidelines). The Annual Audit Schedule is also prepared in this workshop. These topics are then presented in the Policy Planning and Coordination Meeting (PPCM) for formal endorsement. Usually 3 to 4 topics are selected every year. After the endorsement, detailed audit plan is formulated separately for all the topics and formally approved by the Head of the Department and the AG. This planning exercise takes around 1/3 of the entire audit time. Subsequently, the field audit commences and a draft Audit Report is issued to the management for confirmation of facts and figures. Finally, the Audit Report is issued and a time period of three months is given to the entity to submit Action taken Report (ATR). The above exercise is well documented and creditable.

Opportunities for Improvement

- The Performance and System Audit Division may select the topics for Performance and System based Audits to be conducted over the next five years. These areas may be covered in the Annual Audit Plans of the Authority.
- A research team/cell may be formed at the RAA Headquarters which would maintain and update entity wise portfolio files containing the budget papers, programme papers, plan documents, annual reports, national assembly debates and reports, media reports, research papers and reports of international agencies, follow up on past audit reports etc. During selection of topics to be covered over the strategic plan period, these documents may be analysed on the parameters of risk, materiality, significance, visibility, coverage etc.

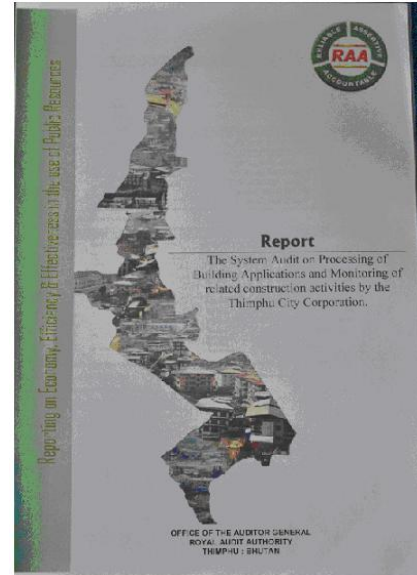
- **Selection of topics**- Apart from selecting topics which have financial materiality and significance, RAA may also select those topics which have insignificant budgets, yet deficient performance could affect a large or vulnerable section of population in a significant manner. Most of these issues may relate to good governance. In such cases, the materiality could be determined with reference to the size of the population affected and the risk may be assessed with reference to the consequence of deficient performance or non existent intervention by the entity expected to address such issue. Some examples may be ensuring quality control of drugs, prevention of adulteration of food, effectiveness of quality control mechanism in Public Works etc. Such issues will demonstrate the sensitivity of the Authority to the governance issues and people centric subjects.
- **Concurrent Performance Audit**- The Authority may also consider performance audit of programmes concurrently or at their initial stage of implementation in cases where the risk and materiality are perceived as being significant. Concurrent performance audit of long term on going schemes may be undertaken at appropriate intervals. Such concurrent audit may provide assurance on the soundness of the programme design and include recommendations that may obviate under performance. The strategic plan may also contain a list of recently introduced programmes and selection of subjects for Performance Audit at their initial stage should be made in the light of expected value addition.
- **Impact evaluation**- In order to assess the value addition through Performance Audit, the Authority may consider having an internal evaluation of the impact of performance audits at regular intervals. This exercise would enable proper feedback of the actual impact against the outcome anticipated in the strategic and the annual audit plan.
- **Follow up**- The Authority needs to follow up with the entities on the findings and recommendations included in the PA reports issued after 2007.
- **Performance Audit Guidelines**- As the guidelines were adopted before enactment of the Audit Act, certain sections of the guidelines require review.
 - Chapters 1.6 of the guidelines mention that performance audit also encompasses Financial Audit. This part needs to be revised as the objectives and scope of Financial audit are different from Performance audit.
 - Chapter 1.7 and 1.10 may be consolidated together as these sections are repetitive.
 - Chapter 7- Follow up procedures- the chapter may contain a definite time schedule for follow up reports for the various Performance Audit Reports. During discussion it was informed that follow up of PA reports issued only till 2006 have been conducted.

System Based Audit

Chapter 4, Section 38 (c) of the Audit Act of Bhutan 2006 requires RAA to conduct in depth audit of systems and management practices of the agencies. The authority has prepared a draft System based audit manual in April 2009. The manual states that system based audit is a study of systems with the objective of determining whether the system has been designed properly to achieve its stated objectives and whether the system has been performing in accordance with the expectation of those who set it up.

The system audit division is under the Department of Performance & Thematic Audit. The Authority has issued three system based audit reports between January 2006 to March 2010. All the three reports relate to examination of some functional area in the Thimphu City Corporation. We examined the report on the system audit on Processing of Building Applications and Monitoring of related construction activities by the Thimphu City Corporation. This report was issued in March 2007. The RAA reviewed the existing system and procedures relating to recording, processing and approval of building applications received from the public, identified the weaknesses and recommended measures for improvement. The report is well laid out and

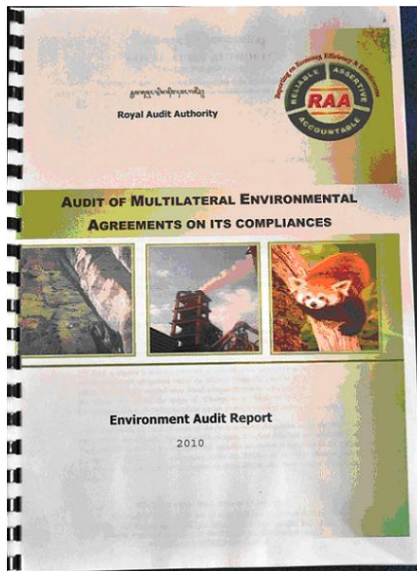
Contains the Executive Summary, System description, detailed audit observations and recommendations. It also has a diagnostic review matrix outlining the strengths, weaknesses, implications and recommendations in a tabular form which aids transparency in audit work and also to reach audit conclusions. The structure, layout, presentation and the audit findings is of high quality.



Opportunities for Improvement

System based audit is essentially an evaluation of the adequacy and effectiveness of the internal controls in both financial and non financial systems. The draft manual also states that such audit examines whether the system has been designed adequately and effectively to achieve its objectives. The Authority may utilize the system based audit personnel in the conduct of more performance audits in line with the operational objectives of the strategic Plan which envisages shift from traditional compliance and regularity audit to performance audit.

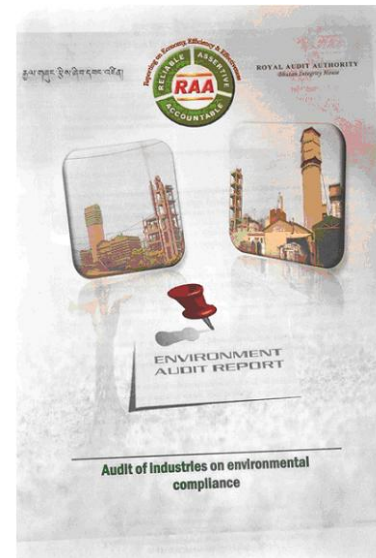
Thematic Audit



Article 38(a) of the Audit Act of Bhutan 2006 mandates the Royal Audit Authority (RAA) to carry out any form of audit that the Auditor General may consider significant and necessary. During the Tenth Annual Audit Conference held in July 2007, the RAA announced the introduction of Environmental Audit section in line with this mandate. The Thematic Audit Division has two sections- Environment Audit and IT Audit. The Environment Audit section was started in July 2007 and the Authority has issued five Environment Audit Reports till 2010. We examined the Environmental Audit Report on the compliance of Environmental Standards of Industries in Pusakha and Gomtu and the related working papers. This was issued

in October 2009 and deliberated in the Parliament. The manual on Environment Audit is at the draft stage at present and the topics for such review are selected on the basis of scores obtained in the performance audit selection criteria. This effort to conduct Environment Audit by the Authority is commendable as it addresses the issue of environment conservation which is one of the four pillars of Gross National Happiness.

The audit was conducted on the principles of Performance Audit. Like all other PA reports, the reporting is balanced (contains Good Practices and notable achievements), the report is reader friendly and catches the attention of the reader through pictures, tables and boxes.



Opportunities for Improvement

Performance Audit of subjects of Sustainable Development and environment management may have to be dealt with at three levels. The first relate to the programmes and activities in the context of explicit commitments made in pursuance to international treaties on environment and sustainable development. This aspect has been addressed in the Environment Audit report of Multilateral Environmental Agreements and on its compliance (2010). The second relates to other national environment management programmes. This level has also been addressed by the authority under the four Audit reports published between 2008 to 2009.

- At the third tier, performance audits of all development projects should also address the environmental impact and its management as a distinct theme apart from addressing other issues of economy, efficiency and effectiveness. The audit objectives and scope of such PA may be defined to include whether environmental concerns were adequately acknowledged while formulating the programme, as also to ensure that sufficient and timely steps were taken to address the environment issues economically, efficiently and effectively, particularly those which were incorporated while obtaining environment clearance of the project. The Authority may consider addressing the third tier in the projects/ programmes selected for Performance Audits in future. In this endeavor, concurrent performance audit is most relevant as it can be an aid to mid course correction by the executive authority.
- Apart from independent Environment Audits, such audit may also form a part of the Regularity, Financial and Performance audits conducted by the RAA. Given the limited audit resources, organizing full scale Environment Audit on every activity which impacts on the environment may not be feasible. Thus, the Authority may consider including the verification of environmental impacts as part of its regular audits. For example, in the Financial Audits it may be verified whether the entity has conducted its due environment activity in compliance with all legislation and regulations and recognized and reported the environmental costs, liabilities and assets appropriately. Similarly, in Regularity Audit, the objective will be to provide an assurance that the agency has conducted its activities in accordance with relevant environmental law, regulations, standards and policies, both at the national and local levels as well as international levels (where appropriate and relevant). During Performance Audit, apart from verifying the extent to which the programme has achieved its objectives, the audit would also examine the intended and unintended, direct and indirect impacts of programmes and activities subjected to audit as also the adequacy of data for evaluating such impacts.
- The Authority may consider referring to the Public Auditing Guidelines on Environment and Climate Change (2010) issued by SAI India while finalizing its own manual on the subject.

Compliance and Regularity Audit

The conduct of compliance and regularity audit is distributed amongst three divisions.

- The **General Governance Division (GGD)** is mandated with the audit of the Ministry of Home & Cultural Affairs and its Departments, Ministry of Finance & its Departments, Ministry of Foreign Affairs and its Departments, Armed Forces, Judiciary, Autonomous Bodies and Non-Governmental Organizations.

- **The Resource, Trade, Industry & Commerce Division (RTICD)** conducts audit of the Ministry of Economic Affairs and its Departments and Ministry of Agriculture & its Departments.
- **The Social, Communication & Information Division (SCID)** is responsible for the audit of Ministry of Health, Ministry of Education, Ministry of Labour & Human Resources, Ministry of Works and Human Settlements, Ministry of Information & Communication and few corporations.

We examined the Audit Reports and the working files in all the three divisions. The permanent file has the covering letter, title sheet, Auditor's report, audit objectives, scope, criteria and methodology as well as the background information on the entity. The current file has the conflict of interest declaration, competency matrix of the audit team, team agreement defining the roles and responsibilities of the audit team members, the audit engagement letter and the audit programme including the audit objectives, scope, methodology, criteria etc. It also contains an area of concern matrix (detailed audit programme) which maps the audit objectives to the criteria and the audit procedures and links it with the audit findings, the overall impact on audit opinion and the working paper reference. The audit plan for the entity is elaborated in the form of risk analysis which details the degree of risk in a particular area of account/ operation/ control and the amount of audit work is planned accordingly. RAA field audit has categorized risk as High, Medium and Low and the scope of audit work is 100%, 60% and 0% respectively for these categories of risk. The audit work is well structured and meticulously documented.

Good Practices

- Competency matrix
- Area of concern matrix
- Risk analysis
- Accountability Statement of the agency

Opportunities for improvement

- The Authority may consider highlighting the methods employed for testing of controls.
- Within an identified risk category, the Authority may consider employing appropriate scientific sampling techniques.

Appendix 1

Review of implementation of recommendations of Peer Review 2004

Recommendation of Peer Review 2004	Status of implementation	Comments
<p>Develop Manuals for various Audits such as</p> <p>Accounts of Foreign assisted projects with reference to the project agreements and financing pattern, transactions of government-owned/controlled corporations, Non-government organizations funded by donations/grants by government, Ministries of government and their subordinate agencies, Banks and Financial Institutions.</p>	<p>Partially implemented. The Financial Audit Manual, which is the main manual has been developed and adopted in July 2010. Apart from this, 13 other audit manuals on different subject matter have been drafted awaiting finalisation and adoption. These manuals will be finalised in phased manner and in the coming year, the RAA will adopt Construction Audit Manual, Procurement Audit Manual and Performance Audit Guidelines. The manuals to be developed as recommended by the review team will be undertaken once these draft manuals have been finalised and adopted. The manuals were drafted by in-house personnel on supervision of in-house experts. Therefore, the RAA will continue to utilise its in-house experts to draft the manuals as recommended by the review team. The RAA intends to avail financial assistance from the World Bank, ADB and UN agencies to finance the drafting of the manual.</p>	<p>The RAA has made substantial headway in preparing manuals. While 11 manuals have been prepared after 2004 which await formal adoption, 11 more are under preparation. The Financial Audit manual is very comprehensive. It is recommended that the Authority organise pilot audits based on the manuals which have already been prepared so as to test their completeness and efficacy.</p>
<p>The Inspection Reports which will be approved at the level of the Division Chief or Department Head or by the Auditor General can be spelt out.</p>	<p>Implemented. The Audit Reports pertaining to audit of Dzongkhag, Corporations & Financial Institutions, Ministries, Autonomous Agencies and Constitutional Offices are approved and signed by the Auditor General.</p>	<p>Complied with.</p>

Recommendation of Peer Review 2004	Status of implementation	Comments
	Reports pertaining to departments, units and donor funded projects are approved and signed by the Head of Department, functional Division Chiefs and Assistant Auditors General of Regional Offices depending on the type and seriousness of the audit findings.	
The audit memo may be written only when all the relevant records have been scrutinised and required information obtained from the auditee, and the audit point to be raised is clear.	Implemented. The AG's Standing Instructions and the Financial Audit Manual spell out the requirement to follow such procedures	Complied with.
Audit Memos are issued as soon as they are ready, without waiting till the last day of audit.	Implemented. The AG's Standing Instructions also cover this procedure	We have been informed during discussion that the earlier practice is being followed.
<p>Despatch of Inspection Reports</p> <p>We suggest that once the IR has been approved, the task of printing the required numbers of copies, binding and dispatch to various authorities should be done by an officer in the functional division. The team leader can then continue with his next audit without any disruption</p>	This has not been implemented due to lack of adequate manpower in the respective functional divisions. The RAA is in the process of upgrading the Quality Assurance Unit into Division, and this division will be responsible for finalizing all audit reports (now called financial audit reports). Once the division becomes operational, the RAA will have centralized printing unit with dedicated staff who will print all the reports.	May be expedited.
The Powers for settling observation in the Inspection Report with money value (which are to be recovered from individual government officer) may be delegated to various officers in RAA depending on the money value.	Implemented. Centralised Follow-up Division has been established and all unsettled issues are taken care of by this division, and the Follow-up Committee.	System may be monitored on a continuous basis.

Recommendation of Peer Review 2004	Status of implementation	Comments
<p>In order to appraise the agency about the paras of Inspection Report still pending and not settled as per the records of the Royal Audit Authority, list of such paras can be communicated once in six months to the agency as well as the Ministry concerned together with the money value of para and the person held accountable.</p>	<p>Implemented. The list of unsettled issues are communicated to the agencies by default with the time period as recommended through parliamentary directives to review the unsettled issues and also through the circulation of draft annual audit report in which the unsettled issues are incorporated. The need to have such procedure will be captured in the revised Follow-up Audit Guidelines, which is in the draft stage.</p>	<p>The draft revised Follow-up guidelines do not provide for issuance of six monthly list of outstanding objections to the agencies. It only provides for furnishing the list annually. The recommendation may be followed up further.</p>
<p>An exclusive follow-up section can be set up at the RAA Headquarters. This can be common to all functional Divisions and could be under the charge of Chief Auditor.</p>	<p>Centralised Follow-up Audit Division has been established in the Headquarter and dedicated Follow-up Section created in the Regional Offices.</p>	<p>Complied with.</p>
<p>In order to expedite timely actions on the Inspection Reports, discussion may be held between the agency heads and the OAAGs/Division Chiefs/Department Heads. If required, Auditor General may invite the Heads of agencies or visit the agencies for discussing Inspection reports, ascertaining status of action taken and agreeing on further actions required to be taken. If need be meeting of the Auditor General and the Secretary to Government ministry can be arranged to review the progress in the settlement of paras of Inspection Reports/ Annual Audit Reports that pertains to the auditee agencies under his control.</p>	<p>Implemented. Discussions of the unsettled audit findings are carried out on need basis, and as and when the management approaches the RAA with responses to unsettled audit findings. During the year 2009, Hon'ble Auditor General made visits to various agencies including Dzongkhags to hold discussions with the management on unsettled audit findings.</p>	<p>There is a need for the Authority to take the initiative further as suggested in the opportunities for improvements.</p>

Recommendation of Peer Review 2004	Status of implementation	Comments
<p>Performance Audit/Value For Money Audit Report be included in the Annual Audit Report and made public through newspapers/website. They can be translated into the national language for wider dissemination.</p>	<p>Chapter 6 of the Annual Audit Report contains the summary of the performance and thematic audit reports.</p>	<p>As suggested in the opportunities for improvement.</p>
<p>Annual Audit Report could be translated into national language and submitted simultaneously with the English version to His Majesty the King. Copies could be given not only to the speaker of the National Assembly, Ministers and Secretaries to Government, but also to the members of the National Assembly</p>	<p>Annual Audit Report translated into Dzongkha and copies are also distributed to the members of the Parliament.</p>	<p>Complied with.</p>
<p>In the Annual Audit report, the outstanding advances can be emphasised by giving further details as under: Breakup of the amount unadjusted, between suppliers, contractors and employees can be given. The amounts unadjusted can be given year-wise, so as to reflect the age of the advances. The opening balance at the beginning of the year, fresh advances given during the year, advances adjusted during the year and closing balance at the end of the fiscal year can be presented, so as to reveal the slow progress of settlement during the year. The amount of fresh advances given to individuals, who have not presented the account for the previous advance can also be ascertained and included in the AAR, so as to quantify the irregularity.</p>	<p>Partially implemented. Such details of advances are included in the individual audit reports and it was not found practicable to include such details in the Annual Audit Report and felt not necessary to do since individual audit reports are the sources of Annual Audit Report and the reports are being forwarded to the head of agencies with copies endorsed to the concerned authorities.</p>	<p>Complied with.</p>

Recommendation of Peer Review 2004	Status of implementation	Comments
<p>The Annual Audit Report should contain only very significant observations selected from the Inspection reports issued during the year.</p>	<p>Implemented. Only significant audit observations from the inspection reports are included in the Annual Audit Report with a threshold amount of Nu.30,000/- and those observations involving fraud and corruption irrespective of the amount involved.</p>	<p>Complied with.</p>
<p>The AAR is submitted to His Majesty the King and to the Head of Government (Prime Minister). Therefore, the response of the Secretary to Government may be incorporated in the AAR, instead of the response of the Auditee Agency.</p>	<p>Implemented. The AAR is finalized giving due consideration to the responses given by the audited agencies. To incorporate responses on every audit observation in the annual audit report will make the report bulky, which may not become user friendly, and therefore, was felt not necessary to incorporate the comments of the secretary to the government.</p>	<p>The recommendation needs to be further considered.</p>
<p>Draft paras for the AAR can be written by the AAR Division giving the audit findings. These can be forwarded to the Division Chief concerned to verify the facts. Then each para can be referred to the concerned Secretary to Government or Head of the autonomous body for his comments/action taken since the Inspection Report was issued.</p>	<p>Implemented. The draft annual audit report is drafted by the Annual Audit Report Division. The draft is forwarded to the Follow-up Division to check each audit observation in the AIMS after which they submit to the PPAARD. The PPAARD prepares the final draft based on the comments and status report given by the Follow-up Division and then the draft reports are sent out to the concerned agencies for their comments.</p>	<p>Complied with.</p>
<p>Only the comments of the Secretary to Government/Board will be taken note of and incorporated in the AAR.</p>	<p>Implemented. Separate Review Report of the earlier Annual Audit Reports is issued after giving due consideration to the responses given by the audited agencies.</p>	<p>As already commented earlier.</p>

Recommendation of Peer Review 2004	Status of implementation	Comments
<p>In the AIMS, there can be a provision to watch the settlement of the paras of AAR, which can be distinctly identified by giving unique AAR para number. It is desirable to distinguish the AAR paras from the less significant and routine observations in the inspection Report. RAA may even suggest to the ministries/autonomous agencies what corrective/ remedial action is needed.</p>	<p>Not implemented. The procedure was not found feasible, since there would be duplication of works to be performed by the Follow-up Division. The individual reports are already entered in the AIMS as when the reports are issued by the respective functional divisions.</p>	<p>The recommendation needs to be carried forward.</p>
<p>Pursuance of Inspection report paras can be the responsibility of the Division, while AAR paras can be pursued by AAR Division</p>	<p>Implemented. Centralised Follow-up Division takes care of all unsettled audit paras of both the reports.</p>	<p>Complied with.</p>
<p>Paras of a VFM Audit report that require action can be identified (excluding paras that are descriptive of the programme) and replies may be watched by the Performance & Thematic Audit Division.</p>	<p>The Performance and Systems Audit Division has already conducted follow-up (desk review) of performance audit reports issued prior to 2007.</p>	<p>Follow up on the PA reports after 2006 needs to be pursued in view of the significance of the subject.</p>
<p>The AG's Advisory Series can be published by the AG and released to the press, both in English and the National Language.</p>	<p>AG's Advisory Series is published in the RAA web page. Publishing the paper into national language will be looked into in future.</p>	<p>Translation in the national language of the last Advisory series may be pursued.</p>
<p>Wide publicity may be given to such Occasional Paper through the media in the National Language, for the benefit of the public.</p>	<p>Implemented. Since issues concerning public interest were already addressed in the AG's Advisory series, there were no other pertinent issues to be reported through AG's occasional paper separately. The need to publish the paper in national language will be looked into in future when such paper is issued by the Auditor General.</p>	<p>Needs to be pursued.</p>

Recommendation of Peer Review 2004	Status of implementation	Comments
<p>Training Committee can identify training needs and draw up in-house training calendar for the year. Faculty can also be selected at the same time. Standard training material can be developed and used. Training could be practical, based on case studies; trainees can be given assignments to write audit observations given the working papers from actual audits; Training in word-processing can be given to all field audit teams.</p>	<p>Implemented. Training needs are usually identified in consultation with division chiefs, team leaders and team members. The needs are also identified from the Individual Performance Ratings that are submitted to the HRIRD. The HRIRD also circulates form to auditors attending In-House training to fill up the course requirement, and accordingly the course requirements are incorporated in the annual training calendar. The organization's needs on specific training are usually given priority.</p>	<p>As in the opportunities for improvement.</p>
<p>In the new area of VFM Audit, officers of the RAA can be trained by attachment with a Performance Audit Team in India. They can also study the VFM audit reports included in the Audit Reports of CAG of India and discuss them in a seminar. Manuals for Audit developed by RAA can be made use of during training.</p>	<p>Implemented. Over the period January 2006 to June 2010, 27 auditors have availed ex-country training on performance and theme based audit. Besides, 92 auditors have availed various in-house training during the same period. Trainings are conducted as and when the manuals are formally endorsed, the recent one being the financial audit manual.</p>	<p>As in the opportunities for improvement.</p>
<p>Sample checks of transactions of routine nature based on statistical principles can be introduced. Systems to ensure documentation of working papers and audit procedures need to be brought in place. Control system to ensure that auditors remain objective needs to be introduced.</p>	<p>Implemented. Several in-house training on the subject was conducted, besides, the experts from the office of the C&AG had imparted training on the same subject in 2008 as per the Indo-Bhutan Audit training. Further, the Financial Audit Manual takes care of these aspects. The RAA to ensure quality of its work had also instituted the Quality Assurance Unit.</p>	<p>The Authority has introduced the quantum of checks to be conducted depending upon the risk assessment of the areas of operations and accounting of the audited agencies. However, the exact statistical technique employed to select the desired quantum of checks was not documented in the</p>

Recommendation of Peer Review 2004	Status of implementation	Comments
		working papers. The Authority may consider including this documentation in the planning documents of the Audit Reports for objectivity.
The Auditor General Act of Bhutan be expedited	Implemented. The Audit Act was enacted in 2006	Complied with.
Each of the three Regional Officers may be headed by Assistant Auditor General. Adequate delegation of powers may be made to them.	During the period 2015 -2020, the RAA intends o create the post of Director in the Regional Offices	To be pursued further.
There should be a Wide Area Networking connecting the regional offices with the Headquarters at Thimphu.	Implemented. All regional offices are now connected with VPN	Complied with.
Considering the importance of Audit of receipts, there should be a dedicated Division for the same, headed by an Assistant Auditor General.	Partially implemented. The need to have exclusive receipt audit team is not found necessary, since the tax auditors from the Department of Revenue & Customs carry out the audit of revenue receipts. With the present staff strength, the RAA will still continue to carry out the audit of revenue receipts along with the audit of Letter of Credit (LC) Accounts. The RAA during the 52 nd PPCM had resolved to certify the revenue statement prepared by the Revenue Generating agencies.	To be pursued further.
Seniors Officers of the level of Chief Auditors should be provided with secretarial assistance.	Not implemented. Since the RAA was still under the RCSC, the need to have such secretarial service personnel was not approved. The RAA will act upon the need to have such personnel once the Civil Service Bill is enacted	To be pursued further.

Recommendation of Peer Review 2004	Status of implementation	Comments
The Human Resource Officer should be absorbed in the RAA and report only to the Head of the AFD division	Implemented. The Human Resource Officer in the payroll of the RAA.	Complied with
RAA should have its own personnel in all the grades from top to bottom. Officers may be initially recruited by RCSC, but once allotted to the RAA, they may not be transferred elsewhere. Promotions may be decided by the AG without reference to RCSC.	Partially implemented. As per the Act, the RAA enjoys independence in terms of personnel management. However, the RAA still make reference to RCSC for promotions	To be pursued further.
Officials who have been imparted professional training in specialised areas like IT Audit, VFM Audit, Revenue audit, Commercial and Financial Institution Audit, etc may be retained in the respective Division for a reasonable number of years so that they gain experience in these specialized fields and contribute to quality enhancement.	Implemented. Auditors who had availed specialised training programmes/courses are to the extent possible retained in the respective functional divisions.	To be pursued further.
Engineers in the RAA may be attached to work audit teams with directions to (a) check the estimates with reference to Bhutan Schedule of Rates (b) tenders evaluations, pre-qualification on technical criteria, verification of market rates (c) verify the measurements based on which payments were made to the contractors; etc.	Not implemented. Engineers are currently attached with the respective functional divisions. The RAA will create Works Audit Division during the period 2010-2015. Once the division is created all the engineers in the RAA will be placed under this Division with specific terms of reference drawn.	To be pursued further.
Staff requirements for each division could be worked out on the basis of audits due in a year and the duration of each audit. The shortage of manpower can be assessed in	Implemented. Recruitment of the employees are made based on the requirements submitted by the respective divisions	Complied with

Recommendation of Peer Review 2004	Status of implementation	Comments
this manner and proposals for creation of posts in various grades can be processed.		
If possible, number of levels could be further reduced by merging the Assistant Chief Auditor with the Deputy Chief Auditor.	Implemented. The RAA follows the position level specified in the RCSCs Position Classification System.	Complied with
Officials with relevant qualification, skill and investigative aptitude may be taken on deputation from different departments on investigation. Existing audit personnel performing this function may be given specialized training in this area.	Not implemented. With the Constitution and the Audit Act in place, investigation is not the responsibility of the RAA. It falls within the mandate of the Ant-Corruption Commission. Therefore, the need to have personnel on deputation has not been pursued	No further comments.
Division Chiefs can report follow up action on the decisions taken in the last meeting. They can also hold similar follow up meetings with the officers within their Divisions.	Implemented. Resolutions of the past meetings are followed-up and status presented in the subsequent monthly PPPCCM	Complied with
The category/Sub category/item is not clearly indicated against each para in the IR. The operator of AIMS is then forced to use his judgement or discretion to categorise the observation, leading to errors. Whether any person can be held accountable for the lapse of it is an implied loss only is not indicated in the para. When the person responsible deposits the money in the Audit Recoveries Account and a receipt issued to him by	Partially implemented. The RAA is going to develop Audit Resources Management System (ARMS) during the period 2011 to 2012, which will be an integrated system. The issues which cannot be implemented through the use of the existing AIMS will be taken care of in the ARMS. The Project proposal for the development of ARMS is attached as Annexure - . The funding for the project has already been secured from the Asian Development Bank (ADB).	To be pursued further.

Recommendation of Peer Review 2004	Status of implementation	Comments
<p>the RAA, the corresponding entry is made in the AIMS. However if the para is settled by adjustment, the operator makes entry in the AIMS after consulting the Division Chief. There is no definite procedure to authenticate before entering the adjustment in the AIMS. Audit report master template should be reviewed and adopted.</p>		
<p>Observation categories developed for AIMS should be used in the Inspection Reports to facilitate data input to AIMS</p>		To be pursued further.
<p>In every IR there should be an Accountability Statement. This should contain para number, para title, category/item of the observation, amount involved, person responsible, if any, for the lapse, his ID number, whether the para relates to an implied loss or not. This Accountability Statement should be prepared with great care by the Team Leader and checked and signed by the Division Chief. This should be the input for the operator to enter that data in the AIMS.</p>	<p>Implemented. Accountability Statements are attached with audit reports.</p>	Complied with
<p>After data is entered in the AIMS in respect of each para of IR, it must be checked cent per cent by the superior in the Division for accuracy.</p>	<p>Not implemented. The RAA is going to develop Audit Resources Management System (ARMS) during the period 2011 to 2012, which will be an integrated system. The issues which cannot be implemented through the use of the existing AIMS will be taken care of in the ARMS. The Project proposal for the development of ARMS is attached as Annexure - . The</p>	To be pursued further.

Recommendation of Peer Review 2004	Status of implementation	Comments
	funding for the project has already been secured from the Asian Development Bank (ADB).	
<p>When a para is settled, the Division Chief may fill up an Authority form for Updation based on which the operator will enter in the AIMS. The Authority Form for Updation of AIMS should contain the following: AIN number; Para number; para title; ID number of person responsible; amount recovered/refunded with receipt number and date; Brief explanation of adjustment</p> <p>leading to settlement of the para. If this procedure is adopted, the operator will have no difficulty and he will have a definite order from the Division Chief to update the AIMS. It will also leave no scope for arbitrary entry or updation in the AIMS. Close interaction is necessary with the consultants who are modifying the AIMS to make it user friendly, so as to achieve the objective.</p>	Implemented. Following act as authority for inputting in AIMS 1: Acknowledgement letters issued by Division for amount deposited. 2: Follow up Reports; 3: Adjustment details received by the divisions; 4: Minutes of the decisions taken by the Regularization Committee and minutes of meetings held with the agencies.	Complied with.
Several officers have acquired professional qualification abroad such as CIMA or ACCA. They were sent abroad by the Royal Government of Bhutan under programs funded by UNDP etc. we understand that if their absence from RAA exceeds 18 months, the excess period will not count as service in the RAA. This affects their eligibility for promotion. We recommend that such a	Not implemented. Awaiting enactment of Civil Service Bill after which the rules may be amended	To be pursued further.

Recommendation of Peer Review 2004	Status of implementation	Comments
restriction may be removed, in consultation with the RCSC. Monetary incentive in the form of a one-time grant can be considered for those who acquire professional qualifications.		
Further incentives for auditors may be considered, so as to attract the best talent	Implemented. Attraction and retention strategies of employees are already included in the RAA's Strategic Plan 2010-2015. The RAA will prepare the operational plans to decide the types of incentives to be provided to the auditors. Besides, all the staff of the RAA receives 20% allowance from the government.	Complied with.
Remittance to Budget Fund Account may be made regularly by the RAA every quarter.	Implemented. The RAA carries out the reconciliation of the Audit Recoveries with the Bank Statement after which two cheques are issues; one in favour of Ministry of Finance on recoveries made on account of non-revenue nature and other in favour of Regional Revenue & Customs for recoveries made on account of revenue in nature.	Complied with.
Some officers deposit the Audit recoveries directly into the Bank Account of RAA. Since no receipt is issued by RAA in such cases, there is difference between the amount deposited in bank and the RAA's books. Such unidentified deposits lead to problems in reconciliation.	Implemented. All audit recoveries are now deposited with the RAA instead of depositing with the Bank directly. Therefore, the problems as pointed out are now encountered in the present system.	As per the recommendation for further improvement in the section on Audit Recoveries.
We recommend that the challan for such deposits into bank account be approved by RAA before deposit, so that full details of para of the	Implemented. All audit recoveries are now deposited with the RAA instead of depositing with the Bank directly. Therefore, the	As per the recommendation for further improvement in the section on Audit

Recommendation of Peer Review 2004	Status of implementation	Comments
Inspection Report etc. are entered in the challans. When the bank forwards the challans to the RAA, it will be easy to link the deposit and update the AIMS.	problems as pointed out are now encountered in the present system.	Recoveries.
A computer -based MIS may be designed and implemented by incorporating additional features in AIMS. It should generate reports on: Audits completed but Inspections Reports not yet issued, and reasons for delay. Audit completed vis-à-vis Audit Plan and shortfall. Inspection Report paras settled during the month and number still outstanding; agencywise. Audit recoveries made during the month with full details. Progressive expenditure incurred by RAA with reference to the allocation, under each head of account. Advances given to officers/staff of RAA, but not yet settled. Paras of internal audit reports on RAA remaining unsettled. Paras of external auditors reports on which action is pending.	Partially implemented. The RAA is going to develop Audit Resources Management System (ARMS) during the period 2011 to 2012, which will be an integrated system. The issues which cannot be implemented through the use of the existing AIMS will be taken care of in the ARMS. The Project proposal for the development of ARMS is attached as <i>Annexure - C</i> . The funding for the project has already been secured from the Asian Development Bank (ADB).	Needs to be pursued further.
Some more features can be incorporated in the MIS, as considered necessary for monitoring.		
In order to ensure disposal of all incoming communications, it is necessary to have a monitoring system. Each division can enter the details of letter number and date, from whom received and the subject in the computer. When the letter is disposed of, the exact manner of disposal can	Implemented. The Administration Section takes care of the incoming communications through making entry in the system and thereafter distributed to the concerned division. It is the responsibility of the concerned divisions to monitor and follow-up of the actions to be	Needs to be pursued further

Recommendation of Peer Review 2004	Status of implementation	Comments
be entered in the system. The system will generate the list of communications still pending disposal, when required, which will enable the Division Chief to monitor the action to be taken.	taken thereafter.	
It is considered necessary that government departments must endorse copies of all sanctions to expenditure accorded by the Secretaries to Government. These can be entered in a database. Topics for thematic audit could be selected from such database. Also the Divisions can scrutinise the sanction order to see if it is issued by the competent authority and whether there is any prime facie objection to the order. If the sanction order is defective, the matter can be taken up with the Secretary to Government at once.	Partially implemented. Database as such has not been developed. However, the audit team prior to visiting the field obtains such information from the audited agencies while carrying out the audit planning and programming	This requires to be pursued further.
Sanctions to expenditure that need to be probed in local audit can be identified and given to the audit team when the audit is programmed for the concerned agency.		
Indexing and storing of records is of great importance to facilitate retrieval. Inspection reports as well as working papers need to be indexed systematically. With the rise in the number of audits conducted, the volume of records and reports to be preserved has increased. The RAA may design and implement a suitable system for indexing and storage of current as well as old records.	Implemented. Indexing of working papers is done for every audit. Electronic system of storing the working papers is one of the features in the upcoming ARMS. With this system, the problem of current storage system will be solved and the RAA is even looking for converting the storage rooms (record rooms) into working space for auditors. The old records will be destroyed once the electronic	Needs to be pursued further

Recommendation of Peer Review 2004	Status of implementation	Comments
Old records such as attendance registers and dispatch registers which are no longer needed can be destroyed, in order to make room for current records.	system of record keeping is in place.	
In order to conduct internal audit of the Divisions by rotation throughout the year, we recommend that an Internal test Audit section may be created. This can be headed by a Chief Auditor, who will report directly to the AG. The internal audit of the Regional offices will also be conducted by them. The internal audit reports will be submitted to the AG. They may also be assigned specific tasks by AG, when he considers it necessary to look into the working of any particular aspect of the RAA. This may be better than conducting internal audit only once a year.	Not implemented. The possibility of establishing the dedicated Internal Audit Unit has been included under Programme Goal 6 in the RAA's Strategic Plan 2010-2015. During the period of five years, it is expected that the RAA will be adequately equipped with staff so that the creating of Internal Audit Unit would be justified.	Needs to be pursued further
One substitute officer may be trained in the use of the 'Druk Pay' soft ware so in case of the absence of the officer on leave, the work could not held up.	Implemented. The Druk Pay system is no more in use now since the pay bill system is integrated in the Public Expenditure Management System (PEMS). The Finance Officer and the Accounts Assistant are well versed in the system as a result of which the absence of either person is not going to affect the day to day operation of the system.	No further comments.
Sample checks of transactions of routine nature based on statistical principles can be introduced. Systems to ensure documentation of working papers and audit procedures need to be brought in place.	Implemented. Several in-house training on the subject was conducted, besides, the experts from the office of the C&AG had imparted training on the same subject in 2008 as per the Indo-Bhutan Audit training.	The Authority has introduced the quantum of checks to be conducted depending upon the risk assessment of the areas of operations and accounting of the

Recommendation of Peer Review 2004	Status of implementation	Comments
Control system to ensure that auditors remain objective needs to be introduced.	Further, the Financial Audit Manual takes care of these aspects. The RAA to ensure quality of its work had also instituted the Quality Assurance Unit.	audited agencies. However, the exact statistical technique employed to select the desired quantum of checks was not documented in the working papers. The Authority may consider including this documentation in the planning documents of the Audit Reports for objectivity.
RAA should bring to the notice of the Government-owned Corporation when they find that any accounting policy declared in the Annual Accounts is at variance with the generally accepted accounting principles. As an example, we found that the accounting policy of Food Corporation of Bhutan (Schedule N) for valuation of inventories of food grains and corporate products is that these are valued at landed cost, which includes cost of material, transport, handling charges, normal shortages on transportation and bank charges; stores and spares are valued at weighted average cost. The generally accepted accounting principle is that they should be valued at cost or realizable value, whichever is less. Further, accounting policy in respect of provision for doubtful debts/advances has not been declared by the Food Corporation of Bhutan.	Implemented. The Accounting and Auditing Standards Board of Bhutan under the Chairmanship of Hon'ble Auditor General is in the process of developing the Bhutanese Accounting Standards in line with the International Financial Reporting Standards. This initiative is going to address the lacuna in the accounting and reporting of the corporate entities	To be pursued further.

Recommendation of Peer Review 2004	Status of implementation	Comments
RAA may request the Ministry of Finance to ensure that uniform accounting policies are followed by all the Corporations and Financial Institutions.	Not implemented. The upcoming Bhutanese Accounting Standards will address the issue.	To be pursued further.
RAA, may consider the possibility of building up expertise within the organization, in the long run for audit of commercial accounts of government Corporations/ financial Institutions.	Implemented. The RAA sends more officers to avail courses on Professional Accountancy to strengthen the expertise for corporate audit.	No further comments.
We find that Auditor's observations on Accounts are followed by the Management's replies. We suggest that further comments of the Auditors on management's replies may also be given. The propriety audit being conducted by RAA should be comprehensive and look into the operations, targets and achievements of the Corporation/Financial Institution, besides the procurements, construction activities, investments etc.	Implemented. The statutory auditors include their further comments in the management report once they receive responses from the management. Other aspects of the corporations are also looked into while carrying out the propriety audit of corporations. Besides the RAA will also take up the specialised areas of corporate activities as performance audits.	Complied with.
For all financial and compliance audits, there should be a standard checklist of records to be seen and audit checks to be exercised. The team leader can certify that the audit checks have been conducted. Each team member should indicate what records he has audited and sign the statement, which should be forwarded to the Division Chief.	Implemented. Check lists were developed for different kinds of audit. Besides, the data bank on Audit Objectives, Criteria and Procedures, which is in the draft stage, will take care of the issues to be looked into.	Complied with.

Recommendation of Peer Review 2004	Status of implementation	Comments
<p>The team leader should distribute the work among the auditors/senior auditors and himself and attach the distribution statement with the letter forwarding the draft Inspection report to the division Chief. The measures will ensure that all the relevant records have been audited and ensure the Division Chief that all audit checks have been exercised.</p>	<p>Implemented. The work distribution of the teams members is now included as exhibit to the main audit report.</p>	<p>Complied with.</p>
<p>For salary, travel allowance, rent and such other routine payments, cent percent check may be unnecessary. One month's Vouchers per year can be checked. It is necessary to check the correctness of pay, leave encashment, leave travel concession of all staff in the agency, rather than check the salary vouchers mechanically. By limiting the check of routine payments to one month, more time can be devoted to risk-prone transactions such as procurement of goods/services, contracts for constructions, bank reconciliation. Outstanding advances given to employees, suppliers and others can be scrutinized in detail and year-wise analysis can be shown in the inspection Report, to emphasize the age of the advances. Statistical sampling can be adopted for selection of salary, travel vouchers. Check will be limited to the selected sample only. It is possible to project the sample result to the entire population.</p>	<p>Implemented. With the risk-based approach to auditing, the RAA will concentrate only on those areas of audit with high risk.</p> <p>An appropriate format of reporting the outstanding advances have been designed and put into implementation since July 2010 (format attached as Annexure -).</p>	<p>Complied with.</p>

Recommendation of Peer Review 2004	Status of implementation	Comments
<p>Considering the importance of this conference, it is suggested that a record of the discussion held in the exit conference be maintained</p>	<p>Implemented. Records of the exit meeting are documented in the form of Minutes of the Meeting. Besides, the AG's Standing Instructions require the audit team to maintain the minutes of the audit exit meeting.</p>	<p>Complied with.</p>
<p>The Auditee agencies may be categorized into A,B, C. The Auditee agencies with high annual expenditure/receipts and risk-prone agencies, to be audited once a year. Category to include agencies to be audited in two years. Category to include agencies which are less risk prone to irregularities, or which spend mainly on salaries and office expenses, these can be audited once in three years. By such categorisation, the available audit manpower can be utilized optimally. Some manpower can be diverted for exclusive VFM audit teams, and for audit of receipts, government corporations. To facilitate the categorisation, database of all auditee agencies may be maintained, with the auditee profile, receipts/expenditure for three years and nature of activities. The five year plan and budget documents of government can be studied to ascertain the priorities of government and the projects being executed with huge outlays. Topics for thematic audits and Value For Money audits can be chosen on the basis of such study.</p>	<p>Implemented. Agency categorisation has been done for all agencies. The VFM audit aspects are now taken care of by the Performance and Systems Audit Division and the Thematic Audit Division.</p>	<p>Complied with.</p>
<p>Social welfare programs including health, education can be selected for VFM</p>	<p>Implemented. The Performance and Systems Audit Division study and</p>	<p>Complied with.</p>

Recommendation of Peer Review 2004	Status of implementation	Comments
audit, with the audit objective to ascertain how far the goals have been achieved and whether the resources were utilized effectively and economically. Comprehensive performance audit of one major organization, such as Bhutan Power Corporation, Royal Insurance Corporation of Bhutan, Food Corporation of Bhutan, can be included in the Annual Audit Plan every year.	deliberate on the topics of performance audits to be taken up during the plan period.	
Annual Audit Plan can be finalised after discussion in a group consisting of the Heads of Department and Division Chiefs and then approved by the Auditor General. It should be realistic and based on the available manpower. Thereby, the Audit Plan can be implemented with no shortfall.	Implemented. The Annual Audit Schedules are realistically prepared and are consistently achieved.	Complied with.
For each thematic audit/VFM audit selected for the year, detailed guidelines indicating the points to be seen in audit may be prepared. This will ensure that the audit objectives are met and the team focuses on the major audit checks.	Implemented. The Performance & Systems Audit Division has systematic approach of conducting the performance and system audit including the preparation of document of planning and programming	Complied with.
Exclusive audit teams may be constituted for VFM audits so that expertise is developed in the new area of performance audit. The performance audits conducted by CAG of India, NAO of UK can be studied for guidance.	Implemented. Two new divisions have been established with members of staff having Degree and Masters qualification.	Complied with.
A comprehensive list of foreign-aided projects whose accounts are to be certified by the RAA can be obtained in	Implemented. The PP&AARD request the Gross National Happiness Commission to furnish the list of donor funded	Complied with.

Recommendation of Peer Review 2004	Status of implementation	Comments
advance and included in the Annual Audit Plan.	projects prior to preparing the Annual Audit Schedules. The list of projects is then given to the functional divisions to be incorporated in their respective Annual Audit Schedules.	

Appendix 2

1. List of Standards and Manuals

Sl. No.	Name of the standard/manual	Year of preparation	Date of formal adoption
1	Standards		
1.1	RAA's Auditing Standards	2008	3 Aug 2009
1.2	RAA Service Standards	2009	Due for adoption
1.3	Auditor General's Standing Instructions	2008-2009	21 Jul 2010
2.	Audit Manuals existed prior 2006		
2.1	Manual on Auditing the Contract Process	Prior 2004	Not applicable
2.2	Manual on Auditing the Capital Asset Acquisition	Prior 2004	Not applicable
2.3	Manual on Auditing the Construction Project	Prior 2004	Not applicable
3.	Audit Manuals developed since 2006		
3.1	Financial Audit Manual	2009	21 Jul 2010
3.2	Dzongkhag Audit Manual (completed Draft)	2006-2007	Due for adoption
3.3	Pay & Allowances Manual (completed Draft)	2006-2007	Due for adoption
3.4	Public Utilities Audit Manual (Completed Draft)	2006-2007	Due for adoption
3.5	Revenue Audit Manual (completed Draft)	2006-2007	Due for adoption
3.6	School Audit Manual (completed Draft)	2006-2007	Due for adoption
3.7	Forestry Audit Manual (completed Draft)	2006-2007	Due for adoption
3.8	Municipal Audit Manual (completed Draft)	2006-2007	Due for adoption
3.9	Hospital Audit Manual (completed Draft)	2006-2007	Due for adoption
3.10	Armed Forces Audit Manual (completed Draft)	2006-2007	Due for adoption
3.11	IT Audit Manual (completed Draft)	2006-2007	Due for adoption
3.12	System-Based Audit (completed Draft)	2006-2007	Due for adoption
4.	Handbooks and guidelines developed since 2006		
4.1	Performance Audit Guidelines	2006	Not applicable
4.2	Continuing Professional Development Policy	2008	Due for adoption
4.3	Policy on disclosure of RAA Information	2008	3 Aug 2009
4.4	Handbook on Audit quality Assurance Review Process	2008	3 Aug 2009
4.5	Handbook on Audit Working Papers	2008	21 Jul 2008
4.6	Handbook on Audit Criteria	2008	21 Jul 2008

2. Manuals which are under preparation

Sl.No.	Name of the manual/guidelines
1.	Environment Audit Manual
2.	Procurement Audit Manual
3.	Construction Audit Manual
4.	Human Resource Audit
5.	Hydro Power Audit Manual
6.	Public Enterprise Audit Manual
7.	Gewog Audit Manual
8.	Election Fund Audit Manual
9.	Planning & Programming Manual
10.	Follow-up Audit Guidelines
11.	Performance Audit Guidelines