



FOREWORD



My appointment as the Auditor General is an immense trust and confidence bestowed upon me by His Majesty, the Druk Gyalpo. I do pledge myself to uphold the trust and confidence bestowed upon me and commit in conscientiously discharging my duties in the service of TSAWA-SUM by working towards enhancing the accountability and promoting the integrity in the use of public resources in Bhutan.



According to the World Bank Governance Indicators for 1996 – 2004, Bhutan has been ranked the best among the South Asian countries in terms of control of corruption and the rule of law. While no studies, empirical or otherwise are made on the RAA's direct role and contribution in the control of corruption, the publication of the Annual Audit Report in the past had definitely created awareness of the extent of irregularities and deviations in the application of procedures, resulting in the containment of corruption and the establishment of the rule of law in Bhutan. We hope that the subsequent releases and publications of the Annual Audit Reports will receive similar responses and create more such awareness in future.

The Royal Audit Authority is pleased to submit **the Annual Audit Report 2005**. This report is the compilation of the significant observations from 392 audit reports issued during 2005.

Overall, significant irregularities in financial terms had reduced by Nu. 105 million as compared to 2004. The total audit recoveries made during 2005 amounted to Nu. 29.77 million as compared to the recovery of Nu. 22.512 million in 2004. Increase in audit recovery amount was primarily due to extensive follow-up made by the RAA and improved compliance to the audit observations by the agencies.

We have observed that there are many rules, regulations, orders and by laws that have been issued by different agencies. Such rules, regulations, orders and by laws framed by the concerned agencies are the benchmarks used by the auditors to review compliances and propriety of payments. Some of these rules have already become irrelevant in the changing environment while some others are contradictory as the old rules were not superseded with the issuance of new rules and procedures. To ensure consistency and to avoid ambiguities and contradictions, it may be desirable to institute a Standing Committee to review these rules and regulations on a systematic and periodic basis.

We also observed that lack of internal controls, inadequate follow-up and non-enforcement of government directives were the main causes of irregularities. While we would like to acknowledge the Government for instituting internal audits in accordance with the recommendation of the Good Governance Document of 1999, we would like to recommend that the government should strengthen the internal audit functions to increase their effectiveness.

While we are serious in our work and will leave no stones unturned in combating fraud and corruption on the soils of Bhutan, yet it should be the collective

responsibility of every loyal citizen of the nation to combat fraud and corruption in all its manifestations. The will to remain clean by every individual citizen is the only lasting solution to fraud and corruption.

Moving forward towards the future, as enshrined in the draft Constitution of the Kingdom of Bhutan, our focus would be more towards 'Performance Auditing', i.e. auditing and reporting on the economy, efficiency and effectiveness in the use of public resources. While detailed performance auditing will continue to be conducted by the Performance and Thematic Audit Division of the RAA, efforts will be made to integrate the performance audit concepts in all our normal auditing and reporting. Efforts are also being made to develop Manuals on different types of audit and trainings will be imparted in the use of these manuals.

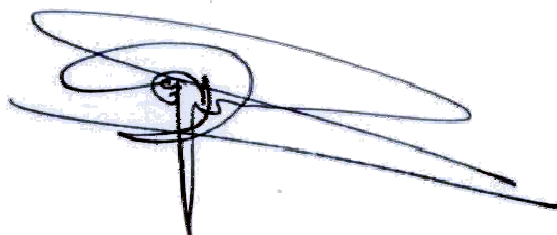
The drafting of the Audit Act of the Kingdom of Bhutan has been completed and accordingly endorsed by the CCM and the Lhengye Zhungtshog. We are very much hopeful that the Act will be passed by the 85th National Assembly in June 2006.

During 2005, we concentrated our efforts on building the capacity of the auditors in IT auditing. To that effect the very theme of the 7th Annual Audit Conference was '*Auditing in an IT Environment*'. Several ex-country and in-house trainings including a tailor made course were conducted on IT Audit. We are now, on the verge of starting IT Audit in Bhutan.

I would also like to acknowledge and commend the outstanding contributions made by Dasho Kunzang Wangdi, the former Auditor General. Taking over from such successful predecessor has proved to be a colossal challenge for me.

I wish to express our sincere appreciation to all the officers in the various ministries, departments and agencies who have rendered their full support and cooperation to our auditors during the time of audit and for providing timely response to the draft of this report.

Tashi Delek

A handwritten signature in blue ink, consisting of several loops and a long horizontal stroke extending to the right.

(Ugen Chewang)
Auditor General of Bhutan