

**Auditor General's Report to the 8<sup>th</sup> Annual Audit  
Conference:**

*"Auditing in an IT Environment"*

(Thursday 21<sup>st</sup> July, 2005)

I would like to extend a warm welcome and thank you all for being with us this morning. We appreciate your presence greatly as auditors review our one year's achievement of implementation of earlier Audit Conference Resolutions and Annual Audit Plan 2004-2005; discuss and decide on the Annual Audit Plan 2005-2006; debate on a topical theme for auditing and other emerging auditing issues.

This year the theme is chosen as the **Auditing in an IT Environment**. We wish to see how we can harness the IT to take out the drudgery and monotony out of auditing while enhance the capacity to manage the complexity and bring in greater sophistication, economy, efficiency and effectiveness in auditing for creating bigger impact towards accountability in every sphere of public affairs.

The year 2004-2005 was a year of reckoning on many counts.

His Royal Highness Dasho Jigme Khesar Namgyel Wangchuck, the Crown Prince of the Kingdom of Bhutan visited the Bhutan Integrity House. The auditors were touched by the moments shared with each auditor and HRH'S sensitivities to roles of auditors in a closed knit society. Auditors were inspired and motivated by His Royal Highness' appreciation and support of the works of the auditors.

The draft Constitution of the Kingdom of Bhutan was circulated for comments and suggestions.

His Majesty the King received the prestigious Champion of the Earth Award at the special ceremony in New York from the UNEP.

His Royal Highness Dasho Jigme Khesar Namgyel Wangchuck was formally installed as the Chhoetse Penlop on October 21, 2004.

His Majesty the King was pleased to command the Auditor General that the Royal Audit Authority in consultation with the Ministry of Finance to draft Act for the Anti-Corruption Commission. Further His Majesty the King also commanded the Royal Audit Authority to review its earlier draft Audit Act. Both the drafts had been submitted to His Majesty the King for further directives.

As per a directive of His Majesty the King, these drafts will be tabled before the 84<sup>th</sup> Session of the National Assembly.

The Centre for Bhutan Studies (CBS) successfully co-hosted the Second International Seminar on the Bhutan's Development Philosophy of Gross National Happiness (GNH) with the theme ***"Rethinking Development: Local pathways to global well-being"*** in Nova Scotia, Canada.

For the Royal Audit Authority the year was particularly significant as it was able to successfully host an international meeting for the first time in its history and history of the country- the **14<sup>th</sup> INTOSAI Standing Committee Meeting on IT Audit**.

The long awaited pay revision for the civil servants was approved by the Government.

For the auditors this year is significant in another way. The RAA was deprived of the Migsel Soelra so graciously granted through a Kasho and the RCSC refuses to be audited. Urgency for full operationalisation of the independence of RAA in the areas of personnel and financial is being felt more than ever, if RAA is to be reasonably effective, conduct audit without fear or favour.

Whatsoever we have faith and hope in our King and the Royal Government.

We offer our gratitude to His Majesty, CCM, Tshogdu and the people of Bhutan for the trust, faith and confidence bestowed upon us. We are gratified that appreciation expressed by the people's representatives on the floor of the National Assembly of Bhutan. We pledge ourselves to continue to serve the Nation how insurmountable the odds that may come our way in our mission to promote a clean, transparent, effective and accountable system of governance in Bhutan. We shall overcome and we shall commit to make the difference.

May I now with Your Honour's permission present the AG's report to the 8<sup>th</sup> Annual Audit Conference? This is my Fifth Report as the Auditor General.

## **AG's Report**

### **1. Audits conducted and reports issued**

In 2004-05, out of 283 planned audits, 266 audits were conducted representing over 94% of planned audit. In total 573 reports were issued comprising of:

- 275 Inspection Reports;
- 97 Certification Reports;
- 22 Statutory Audit Reports;
- 4 VFM Audit reports;
- 2 Technical Audit reports; and
- 175 Follow-up Reports.

### **2. Audit Clearance:**

In 2004-05, a total of 5,707 Audit Clearance Certificates were issued i.e. 2,866 for promotion, 2,109 for Training, 492 for Retirement/Resignation, 232 for Contract Extension and 8 for Secondment. 85 Clearances were rejected for various reasons.

### **3. Audit Recoveries:**

In 2004-05, Audit Recoveries amounted to Nu. 28.730 million as against Nu. 19.094 million in 2003-04. Out of this Nu.17.605 million was already deposited to the Budget Fund Account.

Since 1985 to 30.06.05 recovery totals to Nu141.006 million.

### **4. Annual Audit Report 2004:**

The Royal Audit Authority issued its Annual Audit Report 2004 in May 2005. Irregularities in monetary terms had witnessed yet another decline as compared to all the previous Annual Audit Reports. The amount of Nu.369.339 million is a reduction by 28.097% from that of the AAR 2003, 42.099% from AAR 2002 and 54.370 % from AAR 2001 which had a reported figure of Nu.513.665 million, Nu.637.88 million and Nu.809.420 million respectively. The RAA is hopeful that instances of misuses would further see a descending trend as RAA consistently pursues its Zero Tolerance Approach in the years ahead.

The Royal Audit Authority for the first time reported the consolidated findings of the Performance (Value for Money) audit of Central Stores of the government Ministries, Government Policy of freezing the procurement of pool vehicles and Personnel actions of the Government.

We offer gratitude to the Council of Ministers for the positive account given of the Royal Audit Authority in the Prime Minister's report to the National Assembly.

### **5. Audit Awareness at the Grass-root:**

The Royal Audit Authority completed the audit awareness programme in all twenty Dzongkhags for members of GYT, DYT, Gaydrungs and Dzongkhag public servants.

The programme also included visits to higher and middle secondary schools and Training Institutions located in the respective Dzongkhags. Visits to development sites including Tala Hydro Power Authority Project site were also a highlight of our programme. We are happy to report that the programme was received well by the participants as well as considered as eye opening.

### **6. RAA Open Forum for Auditee agencies and others:**

The second **RAA** Open Forum was organized on 10<sup>th</sup> December 2004. Only finance personnel and engineers attended the session as if they only have interest in national accountability issues. Issues raised included circulation of individual accountability reports generated from the AIMS, Fraud Alert System, Lowest Evaluated Bid, Who audits the audit?, the role of finance personnel etc. We wish to say that there is **knowledge** and **interest** deficit on auditing in the central government employees at all levels. It is though improving in the engineering, finance and project managements through our direct interface. We

would consider devising ways and means as to educate the rest of target group henceforth.

#### **7. RAA In-house Training:**

A total of 131 participants attended five in-country trainings conducted by the RAA. Trainings included Dzongkha computing, Indo Bhutan Training on IT audit, IT Guidelines and BIPS and AIMS & FAIMS. We expect auditors not only to conduct IT audits but also apply IT audit tools in every audit.

Except for INDO Bhutan Training for which two eminent resource persons from the C&AG, India imparted the training and IT Guidelines and BIPS imparted by resource persons from the DIT, resource persons for all others were from the RAA.

#### **8. Ex-country Trainings, seminars**

During the period, 46 auditors were trained abroad. 39 in India, 3 in General Accountability Office, Washington, DC, 2 in Japan, 1 in the United Kingdom and 1 in China.

Subjects covered included Audits of Projects and Infrastructure, Auditing in IT Environment, Environment Impact Assessment & Auditing, Information System Promotion in Public Administration, Performance Audit etc.

Besides these, in 2004-05, 2 officials have completed IA&AS Course in **National Academy of Accounts and Audit**, Shimla and two are currently undergoing the course. We are discussing with the CAG to increase the number of slots to more than two every year.

We believe that only if we have quality workers there will be quality output.

#### **9. The Companies Act Awareness Workshop:**

The Auditor General and two officers from the RAA participated as the Chief Guest and resource persons for the Workshops on Companies Act awareness organized for the Company executives and the Company Secretaries. It was useful in understanding the perspective of the corporate sector and sharing our approach and concerns with them. We urged the corporate sector to be the model for better management and force for progress and growth.

#### **10. Second Annual Engineering Conference:**

The Auditor General addressed the second Annual Engineering Conference. RAA shared the issues confronted by auditors and the role engineers could play in the areas of the need for proper planning, site visits, problems of under quoting, avoiding taking up too many works, avoiding unauthorized subletting, compromising the quality of works etc. Timely payments to contractors and Tender Committees to act as fire wall against misuse and abuses rather than proving shield were some of the other issues discussed.

Thereafter, RAA has issued an office order instructing auditors to report cases of delayed payments.

We advised the engineers to be the builders of a great nation as developing economy is more infrastructure development and needs better infrastructure.

#### **11. Audit of RAA:**

The Office of the Assistant Auditor General, Tsirang, conducted the internal audit of RAA for the financial year. An external audit of the RAA was also conducted by M/s L.B. Jha & Co. Chartered Accountants. No material error or omissions were pointed in the financial statements as per initial discussion of the audit findings, except recommendatory in nature.

Whatsoever, the RAA is subjecting itself to scrutiny with the intention that we continuously improve our own house keepings and our accounts and operations to be made as transparent as possible. This is our answer to the most frequently quizzed question “Who audits the audit?”

#### **12. An Audit Committee**

An **Audit Committee** was established with detailed Terms of Reference and mandates covering, *inter-alia*, internal/external audit of RAA, review of Inspection Reports and management practices within the RAA.

These initiatives are put in place being conscious of ourselves that we live in the glass house.

#### **13. Peer Review of RAA:**

The Office of the Comptroller and Auditor General of India conducted the peer review of the RAA. Recommendations have been either implemented or definitive action plans have been drawn up. Pertinent recommendations implemented or substantially implemented include:

- Development of audit checklists;
- Establishment of Centralized Follow up Division;
- Disposal of In-coming communication; and
- Development of Audit Working Papers.

We wanted to know where we stand in the world. We are happy that some of the audit practices in Bhutan were recognized as unique the world over. Auditing standard and effectiveness has been admired.

#### **14. International Anti-Corruption day**

To demonstrate Bhutan’s commitment to fight corruption the 9<sup>th</sup> December was observed as the International Anticorruption Day by the RAA in collaboration with UNDP, Thimphu.

- i. A Workshop on the ASSOSAI Guidelines on Fraud and Corruption was organized;
- ii. An essay competition on the subject **Combating Corruption - a Collective Responsibility** was held for two categories i.e. Open category and Secondary Schools and below. H. E. Lyonpo Yeshey Zimba, the Hon'ble Prime Minister of Bhutan awarded the cash prizes to the winners; and
- iii. A Fraud Alert System was launched in RAA's Web Site.

So far we had reports on DGM, Samtse Dzongkhag, DIT, Tang Geog, Ministry of Health, NHDC etc. Mostly these are on the issue of tenders and procurements.

While on the topic of corruption I take this liberty to share that according to the **Governance in the Least Developed Countries of Asia and Pacific published in March 2004 by UNDP, Sub- Regional Resource Facility (SURF) for the Pacific, Northeast, and Southeast Asia, Bangkok**, in terms of effectiveness in control of corruption, out of 14 countries evaluated, Bhutan ranked 1<sup>st</sup>.

Bhutan was among the top three with regard to overall six governance indicators. The Six governance indicators evaluated were Voice and Accountability, Political Stability, Government Effectiveness, Rule of Law, Regulatory quality and Control of Corruption.

#### **15. Mid-Year Review Meeting on the Annual Audit Plan**

Based on the Seventh Annual Audit Conference resolution, a mid year review meeting of RAA's annual audit plan was conducted on 17-18<sup>th</sup> January 2005. Plans were revised taking in to consideration the progress made. Around 45 numbers of planned audits had to be deleted due to the budget cuts imposed by the Ministry of Finance.

#### **16. XIVth Meeting of INTOSAI Standing Committee on IT Audit**

I am pleased to report that during the year the RAA has successfully hosted 14<sup>th</sup> Meeting of INTOSAI Standing Committee on IT Audit at Paro. A total of 48 delegates including the representatives of the INTOSAI Development Initiative attended the meeting.

Auditing e-government, updating the guidelines on Auditing IT Service Management, Use of modern technology in decision-making and Computerized Audit System are some of the topics presented and discussed during the meeting. Bhutan is being appreciated in the world auditing family for warm, hospitality, culture and above all for its capacity to rise up to the challenges and occasion.

## **17. A Centralized Follow-up Division**

A **Centralized Follow-up Division** has been established with the aim to adopt a unified and standard approach and ensuring timeliness and synchronized approach in following up the audit reports.

## **18. Panel of Firms of Chartered Accountants**

The RAA revised the approved list of **Panel of Firms of Chartered Accountants** w.e.f. 1.3.2005 maintained by it for conducting statutory audits of corporations. A total of 34 Firms have been empanelled.

## **19. A Comprehensive Audit Checklist**

A **Comprehensive Audit Checklist** has been developed covering Government ministries, departments, Divisions, revenue & expenditures, corporations & financial institutions, NGOs, Externally funded Projects etc. The checklist has been developed to ensure that auditors cover all relevant and important matters.

## **20. A Field Audit Information Management System (FAIMS)**

A **Field Audit Information Management System (FAIMS)** has been developed for field auditors to facilitate field auditing and report processing.

## **21. Meetings, workshops, and conferences at the international and regional levels attended:**

The RAA actively attended series of other meetings, workshops, and conferences at the international and regional levels.

**21.1** The Auditor General of Bhutan attended the **Regional Auditor Generals Conference** on Harmonizing Institutional Efforts in Promoting Accountability held on 30<sup>th</sup> to 31<sup>st</sup> August 2004 in Dhaka, Bangladesh.

He spoke on the importance stressed by the Royal Government of Bhutan on the collective responsibility in ensuring accountability in Bhutan. I may wish to report that during the conference the WB representative praised Bhutan for its audit strategies and the Royal government's commitment in fighting corruption in his presentation.

**21.2** The Auditor General of Bhutan also visited the **Thai National Counter-Corruption Commission** en-route to understand its workings, for drafting and establishment of a similar body in Bhutan.

**21.3** The Auditor General of Bhutan led a two member delegation to the XVIIIth INCOSAI from 12-16 October, 2004 held in Budapest, Hungary. The Auditor General also served as the Vice chair of Theme II and made an intervention on environment and conservation issues in Bhutan.

- 21.4 The Auditor General of Bhutan attended the 18<sup>th</sup> UN/INTOSAI **Interregional Seminar on Government Auditing** on the topic "**Symposium on the Application of ICT in Audit of E-government: A strategy for Efficiency, Transparency and Accountability**" from 18-22 April 2005 in Vienna, Austria.

The symposium was directed towards contributing improved audit of and accountability for public expenditure and public sector activities.

- 21.5 Sherap Dorji, Deputy Auditor General led a two-member delegation to New Delhi, India to attend **34<sup>th</sup> Governing Board Meeting of ASOSAI**. The RAA was elected as one of the nine Governing Board Members of ASSOSAI in 2003.

- 21.6 Tashi, Head, Professional Development and International Relations Division from RAA participated in the **Training Committee Meeting** on behalf of SAI Bhutan on 30<sup>th</sup> November 2004. Tashi, conducted **Training on audit of Public Debt** in Australia from 4<sup>th</sup> to 15<sup>th</sup> October 2004. He is currently in Beijing designing course on auditing of fraud.

- 21.7 A five member delegation led by the Auditor General of Bhutan visited Nepal. The delegation visited the **Office of the Auditor General of Nepal (OAGN)** and **Commission for the Investigation of Abuses of Authority (CIAA)**. The delegation held informal discussions with the Chief Election Commissioner; Attorney General; Chairman, Public Service Commission; Secretary, Ministry of External Affairs of Nepal and Finance Secretary of Nepal.

The delegation also made a courtesy call on the than Hon'ble Deputy Prime Minister of Nepal, H. E. Bharat Mohan Adhikari. The recent anti-corruption initiatives introduced in Nepal in the recent past were found noteworthy as they were innovative and practical.

- 21.8 The Auditor General of Bhutan attended the **INTOSAI Development Initiative (IDI) Focus Group Meeting** held at Oslo. The Meeting discussed the Project Plan for the IDI's 5 year Strategic Plan commencing in the year 2007. IDI is the Training Arm of the INTOSAI and looks after the capacity development activities of INTOSAI. The participation provided great opportunity to reflect our needs and aspirations in that strategy.

22. **CASES OF NATURE OF CORRUPTION ON WHICH ACTIONS TAKEN:**  
Cases pertaining to the four organizations were prosecuted or being prosecuted:

<b>Sl. No.</b>	<b>Name of cases of corruption</b>	<b>Action Taken</b>	<b>Audited during</b>
1	Lunana Flood Mitigation Project	Services of three officers terminated and prosecuted but under appeal with Royal Advisory Council	1997
2	FDCL/ DFO Samdrup Jongkhar	Services of three officers terminated and prosecuted but under appeal with RAC	2000
3	Manas Wildlife Park	sentenced for three years	2000
3	Army Welfare Project	Under prosecution	2003
4	National Women Association of Bhutan	Under prosecution	2003

### **23. Serious Audit Paras.**

A minimum of 35 cases of audit paras of the serious nature are being awaited in the audits to be acted upon by the competent authorities. We expect that appropriate administrative and legal actions will soon be taken on these by the authorities concerned:

<b>Sl. No.</b>	<b>Name of the organisation</b>	<b>Case of Corruption</b>	<b>Annual Audit Report</b>
1.	Education, Central Stores	Blockade of funds and excessive procurements- Nu.32.756 million	2004
2.	RBP	1.Procurement / award without tendering -Nu.3.293 million	2004
		2.Acceptance of undersized uniform- Nu.10.484 million	2004
3.	RBA	Release of payments without adjustment of advance	2004
4.	BDFC	Write off of Nu 1.5 million of bad loan by Managing Director	2004
5.	Ministry of Agriculture	Excessive procurements of Medicines valued at Nu 15.96 million over a period of three years	2004
6.	Ministry of Works and Human Settlement	1. Avoidable expenditure of Nu 4.2 million	2004

		2. Over/ Excess/ Double payment of Nu. 0.850 million	2004
		3. Procurement/award of without tendering	2004
7.	Ministry of Home and Cultural Affairs	1. Avoidable expenditure of Nu. 2.309 million	2004
		2. Over/ Excess/ Double payment of Nu. 2.66 million	2004
		3. Irregular/ inadmissible payments of Nu. 2.363 million	2004
		4. Payments for work not executed Nu. 1.33 million	2004
8.	Ministry of Foreign Affairs	Irregular/ inadmissible payments of Nu. 10.217 million	2004
9.	Bhutan Post	Loss sustained by Postal Shop	2004
10.	Bhutan Telecom	Procurement without tendering- Nu. 51.237 million	2004
11.	RICB	1. Overdue Loan- Nu. 56.04 million	2004
		2. Irregular scheduling of loan	
12.	Ministry of Works & Human Settlement	1. Award of work at estimated cost –extra financial implication- Nu. 4.388 million	2004
		2. Illegal construction on Government Land	
		3. Non-enforcement of Acts-delay in transfer of property ownership	
13.	Ministry of Finance	Purchase of vehicles upon freezing of pool vehicles	2004
	RCSC	Irregularities in Personnel actions	2004
14.	Ministry of Finance	Irregular waiver of penalty on evasion of income -Nu. 2.190 million	2003
15.	Dzongkhag Administration, Thimphu.	False verification - Nu. 2.150 million	2003
16.	Ministry of Home & Cultural Affairs.	Misappropriation- Nu. 0.985 million	2003
17.	Bank of Bhutan,	1. Irregular write off of Loan- Nu. 4.273 million	2003

		2. Irregular sanctioning of Personal Loan -Nu. 5.00 million	2003
18.	Ministry of Trade and Industry	1. Wasteful expenditure -Nu. 13.130 million	2002
		2. Award of work to contractor without valid license- Nu. 0.790 million	2002
19	Ministry of Agriculture	1. Payment without measurement -Nu. 1.010 million	2002
		2. Procurement/award without tendering -Nu. 6.480 million	2002
		3. Allotment/sale of teak timber at lower rate than government approved rate loss -Nu. 0.190 million	2002
20.	Ministry of Communications	Extra wasteful expenditure =Nu. 19.160 million	2002
21.	Ministry of Home Affairs	1. Payment for works not executed -Nu. 0.270 million	2002
		2. Procurement/award without tendering -Nu. 10.02 million	2002
22.	Ministry of Finance	Misuse of revenue -Nu.0.920 million	2002
23.	FDCL	Direct award of road construction contracts -Nu. 6.310 million	2002
24.	RBP	Defective constructions -Nu. 1.130 million	2002
25.	RBA	1. Double/excess payment -Nu. 1.440 million	2002
		2. Manipulation of forest permit loss of Government fund -Nu. 0.200 million	2002
26.	Ministry of Trade and Industry	1. Wasteful expenditure -Nu. 3.93 million	2001
		2. Irregular permission to lift marbles for export	2001
		3. Execution of contract work by DGM awarded to M/s Kelwang Consultancy -Nu. 0.930 million	2001
27.	Ministry of Home Affairs	Award of contract work to Gups without tender -Nu. 0.730 million	2001
28.	Army Welfare Project (AWP)	1. Loss due to acceptance of rectified spirit below specification	2001
		2. Receipt of contaminated Rectified Spirit	2001
29.	BBPL	1. Award of work without tendering Nu. 69.740 million	2001
		2. Avoidable expenditure Nu. 1.218 million	2001
30.	RBP	1. Purchases without tendering- Nu. 0.990 million	2001
		2. Award of contract based on cut off points Nu. 70.52 million	2001

31.	Ministry of Communications	1. Award of works on work order basis -Nu. 3.720 million	2000
		2. Mis-utilization of budget -Nu. 1.200 million	2000
32.	Ministry of Home Affairs	1. Misappropriation Nu. 2.110 million	2000
		2. Award of work on cut off points system Nu. 12.04 millions	2000
33.	Ministry of Agriculture	1. Wasteful expenditure- Nu. 2.460 million	2000
34.	Electrical Supply Unit, Paro	Services transferred without any legal action.	2000
35.	Ministry of Trade and Industry	Misappropriation -Nu. 0.260 million	2000

I would end my report by welcoming the new members of the RAA family who had taken up oath today. may they realise their entire dream to serve the nation. I also would like to congratulate all those who were promoted. I wish them further success and say keep it up.

I am grateful that we could organize this Conference. I hope there will be the ninth Annual Audit Conference.

In this regard we are grateful to SDC/Helvetas Bhutan for their support to the capacity building of the RAA and their funding of the successful and standard setting ISCITA meeting in April 2005 at Paro. Above all today's Conference would not have seen the day had not been for their generosity. We hope to continue our collaboration in the area of good governance.

## **PRAYERS**

I am confident and have the greatest hope that with the support of the Royal Government and empathy of the Bhutanese public, hard work of the auditors and continued international co-operation of INTOSAI, ASSOSAI and IDI, the RAA would be institutionally strengthened to take up more challenges.

My sincere appreciation and profound thanks to all our distinguished guests and well-wishers?

For Your Excellency's gracious presence here today and continued support, the RAA family is deeply honoured, highly encouraged, remains grateful and immensely indebted.

Let us pray that Bhutan will continue to progress in a manner our successive Kings wish. May any challenge Bhutan faces we overcome? May the fiscal Year 2005-2006 be another great year? May the 8<sup>th</sup> Annual Audit Conference be a great success with all your blessings.

**TASHI DELEG.**