

## From the Editorial

In celebrating the protitious birth of the Royal Gyalsey, His Royal Highness Jigme Namgyal Wangchuck coinciding with the birth year of Guru Padmasambhava and the 400<sup>th</sup> anniverary of the arrival of Zhabdrung Ngawang Namgyel to Bhutan, the Royal Audit Authority is pleased to publish the 10<sup>th</sup> issue of the bi-annual Newsletter.

In this issue, we bring to you a brief account of RAA's endeavours towards ISSAIs implementation initiatives (3i Programme) Phase II with the signing of the Statement of Commitment between the Royal Audit Authority and the INTOSAI Development Initiatives Board, release of RAA's Strategic Plan 2015-2020, release of Annual Audit Report 2015. Besides, there are also news on the internal governance including appointment of two Deputy Auditors General and three Assistant Auditors General.

We wish all our readers a happy reading!

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## Hon'ble Auditor General signed the Statement of Commitment with IDI



Mr. Per-Kristian Foss, Auditor General of Norway and Mr. Tshering Kezang, Auditor General of Bhutan

The Auditor General of Bhutan, Mr. Tshering Kezang, signed the Statement of Commitment on International Standard for Supreme Audit Institutions (ISSAIs) Implementation Initiative (3i Programme) Phase II with Mr. Per-Kristian Foss, the Auditor General of Norway & Chairman of INTOSAI Development Initiative (IDI) Board on April 24 in Oslo, Norway. Under the agreement, the RAA shall be piloted for 3i Phase II-ISSAI implementation with a financial support of the World Bank. The programme profile of the commitment consist of development of courses on ISSAIs, trainings of subject matter experts and piloting ISSAI based audits by the SAI Bhutan.

During the three day visit to the Office of the IDI, Oslo, discussion was held on the formulation and finalization of the RAA's draft Strategic Plan 2015-2020. As the member of the INTOSAI, the RAA has been receiving continuous support from the IDI in terms of professional capacity building.

## **The Royal Audit Authority launched its second Strategic Plan 2015-2020**

The Royal Audit Authority launched its second Strategic Plan 2015-2020 on 27<sup>th</sup> July 2016. The event was graced by His Excellency Lyonpo Namgay Dorji, the Finance Minister. Also present were representatives of the various media houses and officials of the RAA. The Strategic Plan document is a roadmap that the RAA will forge towards attainment of newer heights and meeting aspirations of stakeholders, adding value and benefits to the citizens.



*Hon'ble Finance Minister with Auditor General during the launch of RAA's Strategic Plan 2015-2020*

The Plan is prepared drawing inspiration from His Majesty's address during the 107<sup>th</sup> National Day celebration in 2014 and as per the RAA's oversight audit model formulated towards meeting Constitutional Mandates. Based on SWOT analysis, the strategic framework was formulated with revised Vision and Mission statements, core values and a modified and updated logo. The Plan entails two outcomes, three strategic goals and three areas for capacity building.

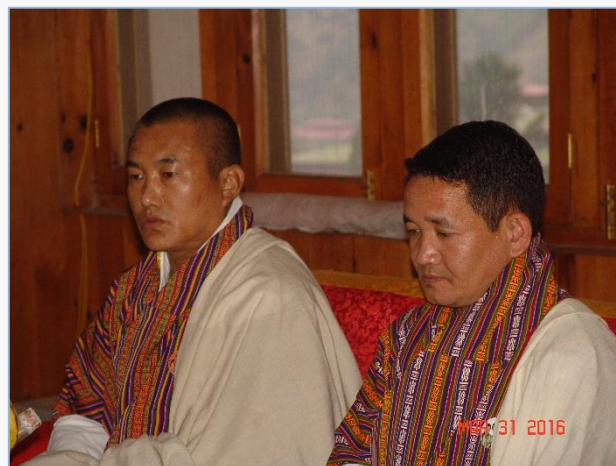
Sequel to this plan, the Operational Plan 2015-2020 and the Annual Plan for 2016-2017 were also published. The documents are available on the RAA's website.

*Read more.... on page 9.*

## **The Royal Audit Authority appointed two new Deputy Auditors General**

The Royal Audit Authority appointed two new Deputy Auditors General on March 1, 2016. They were selected through open competition conducted by the Royal Audit

Authority and Royal Civil Service Commission, which was held on February 15, 2016.



*Left. Mr. Chimi Dorji Right: Mr. Ugyen Dorji*

Mr. Chimi Dorji was appointed as Deputy Auditor General for the Department of Performance & Commercial Audits w.e.f March 1, 2016. He joined the Royal Audit Authority in 1998 as a Senior Auditor having been selected through Royal Civil Service Commission Examination in 1996. He was serving as the Assistant Auditor General of General Governance Division before assuming his new post and also served in the Office of Assistant Auditor General, SamdrupJongkhar in the capacity of Assistant Auditor General.

Mr. Chimi Dorji has a Master degree in Business Advanced (Accounting) from Queensland University of Technology, Brisbane, Australia. He completed his bachelor degree in Commerce (Honours) from Sherubtse College.

Mr. Ugyen Dorji was appointed as Deputy Auditor General of the Department of Follow-ups, Regions & HR management w.e.f March 1, 2016. He also joined the Royal Audit Authority in 1998 after selecting through RCSC examination. Mr. Ugyen Dorji served as Assistant Auditor General of the Office of Assistant Auditor General, Tsirang before assuming his new post. He completed his bachelor degree in Economics (honours) from Sherubtse College and has a Master degree in Business Advanced (Professional Accounting) from the Queensland University of Technology, Brisbane, Australia.

## Hon'ble Auditor General graced the ICAI Awards

The Hon'ble Auditor General of Bhutan, Tshering Kezang, was invited to grace the occasion of 'ICAI Awards for Excellence in Financial Reporting' as a chief guest. The occasion was held in Kolkata, India on February 6, 2016. Two officials accompanied the Auditor General.



*Auditor General at the ICAI Awards Ceremony*

With the objective to recognize and encourage excellence in preparation and presentation of financial information, the Institute of Chartered Accountants of India (ICAI) through its Research Committee, organized the annual competition 'ICAI Awards for Excellence in Financial Reporting'. For the year i.e. 2014-15, a total number of 175 entries were received across 13 categories in which the competition was held. A meticulous evaluation process was followed and unless the stringent criteria/minimum threshold norms were met, no entity was recommended for an award. The emphasis was on going beyond the normal reporting requirements. Thus, the awards were bestowed only upon those select few who have gone the extra mile in their financial reporting requirements.

For the year a total of 12 awards i.e. one gold shield, 7 Silver Shields and 4 plaques were given at the award function to honor the awardees.

The Auditor General, in his address, thanked the ICAI for extending invitation for such a prestigious award ceremony. He also highlighted the importance of auditing and accounting in promoting greater transparency and accountability and shared how two Institutions, i.e. the RAA and the ICAI, can mutually

benefit through sharing of information and common knowledge. He commended the ICAI for producing highly professional Chartered Accountants that has not just benefitted India but many other countries, including Bhutan and for its increasing global presence.

The central message of his address was that in the increasingly changing environment and presence of diverse and highly knowledgeable stakeholders, the reporting system calls for more integrated and comprehensive reporting so as to provide the stakeholders and other users with all-inclusive and holistic picture of the audited companies. Furthermore, information on corporate sustainability, environmental compliance, political and economic aspects and corporate social responsibilities are some of the emerging concepts that need to be incorporated in financial reports for informed decision making.

He also shared some of the initiatives of the Royal Government of Bhutan in regard to the implementation of the International Financial Reporting System (IFRS). In addition, he also made a mention about the new initiative of the RAA on Financial Resources Management Accountability Index (FRMAI) and its modus operandi of implementation.

Besides witnessing a highly professional panel discussion on financial reporting, the delegation also engaged in interaction with eminent members of the ICAI, including the current and past presidents, partners of Chartered Accountants firms and many other professionals present during the ceremony. Such exchange of ideas and information would go a long way in not only enhancing the professional knowledge of the RAA but also to build on the excellent relations shared by the people of two friendly countries.

The event ended with ICAI expressing their deep gratitude to the Hon'ble Auditor General of Bhutan for gracing the occasion as the Chief Guest.



## The Royal Audit Authority released Policy Guidelines on Media Communication



The Policy Guidelines on the Media Communication was officially released on March 28, 2016. The policy guideline aims to consolidate the existing practices and procedures and provides a formalized system in sharing of information to the stakeholders through the established media protocols. It provides an effective and efficient framework to facilitate timely, comprehensive, authoritative and accurate dissemination of information relevant to all aspects of Authority's functioning. Further, the policy prescribes what information are publicly available and what are restricted from public access. It also mentions the procedures for obtaining those publicly accessible information.

## Hon'ble Auditor General participated in the FRED Forum

The Hon'ble Auditor General of Bhutan participated in the two day forum on Financial Reform for Economic Development (FRED) in Kuala Lumpur, Malaysia held from 17<sup>th</sup> to 18<sup>th</sup> May 2016. The FRED forum is a joint initiative of Confederation of Asia-Pacific Accountants (CAPA) and the World Bank. It is a flagship event for the accountancy profession in the region that aims to address matters related to accounting, reporting, and auditing that has significant impact on economic development. The forum focused on a wide range of issues affecting the private, public, and not-for-profit sectors. The accountancy profession has a key role to

play in encouraging, designing or implementing many of the financial reforms and agendas.

This 2016 Public Sector Forum themed "*Driving Future Outcomes from Past Experience*" explored how improved public financial management contributes to strengthening the public sector, improving government accountability and transparency, and thereby supporting poverty reduction and economic growth. Experts from government, NGOs and the private sector also shared their experiences in dealing with challenges as they relate to public financial management, and identified with participants' practical strategies and programs to enhance implementation of effective public sector financial systems across Asia.

The Forum probed the role that the accountancy profession can potentially play in improving public financial management, build on identified good practices in public sector accounting and auditing, and explore how these can be mainstreamed across countries for effective resource mobilization and management.

## ISSAI based Performance Audit Training conducted in Paro

A training on ISSAI based Performance Audit was held in Paro from May 25 to 29, 2016. The training was attended by 30 auditors from the Royal Audit Authority and was facilitated by Mr. Rajesh Dayal, an International Consultant, who has vast experiences in performance auditing.



Participants with the resource person

The training was delivered in line with the RAA's move towards adopting ISSAIs as the authoritative standards.

With most of the SAIs in the INTOSAI community gearing towards the ISSAI as a common public sector auditing standards, the RAA also adopted this approach as a way forward. RAA has a plan to conduct large number of performance audits as per its Strategic Plan 2015-2020 priorities. Such type of training is aimed towards building capacity in the field of performance audit.

### **A web-portal for FRMAI Framework was launched**



*Auditor General inaugurating the web-portal*

Commemorating the joyous occasion of 60<sup>th</sup> Birth Anniversary of the Fourth Druk Gyalpo Jigme Singye Wangchuck, the Royal Audit Authority launched the web-portal for Financial Resources Management Accountability Index (FRMAI) Framework. The assessment using the Framework would enable the RAA in promoting good governance, which is one of the four pillars of GNH, a development philosophy propounded by His Majesty the Fourth Druk Gyalpo.

The launch of the web-portal is aimed towards sharing the concept of the Framework with the RAA's stakeholders and to seek comments and suggestions for further improvement of the tool. With this tool, the RAA would be achieving two objectives, i.e., assessing the financial resources performance of the audited agencies, and ensuring the concept of balanced-reporting by recognizing the positive contributions of the audited agencies through a rating system and appropriate motivational mechanisms.

The idea of coming up with this initiative was conceived as early as 2010. The basic premise for the initiative

was on the foundation of a steward relationship between 'the government' and 'the governed', and the logical accountability framework in the public sector. The FRMAI Framework is intended to provide objective and holistic assessment of agencies entrusted with stewardship of public resources. This assessment model uses both financial and non-financial aspects consisting of nine main elements, and several indicators and sub-indicators. Through such assessment and reporting mechanism, it is intended to instill a sense of competitiveness amongst the agencies in discharging their duties and responsibilities as the trustees of public resources and promote a work culture that embraces good practices.

To begin with its implementation, the RAA will take up a pilot assessment in 20 Dzongkhags. The lessons learnt from this pilot test will be of great value in bringing further improvement to the tool and making it more responsive and inclusive assessment.

The development of FRMAI Framework was funded by UNDP. Please visit [www.bhutanaudit.gov.bt/frmai](http://www.bhutanaudit.gov.bt/frmai) for more information on the Framework.

### **RAA attended the international symposium on National Integrity Systems (NIS) at Chiang Mai, Thailand**



*Auditor General and Chimi Dorji, Deputy Auditor General at the symposium*

Hon'ble Auditor General of Bhutan accompanied by Chimi Dorji, Deputy Auditor General for the Department

of Performance and Commercial Audits, attended the international symposium on National Integrity System (NIS) at Chiang Mai, Thailand. The symposium was held from 18<sup>th</sup> to 19<sup>th</sup> February 2016 and was organized by the Office of Auditor General of Thailand in celebrating the 100<sup>th</sup> anniversary of its establishment.

The main theme of the symposium was the importance of building the National Integrity Systems (NIS). Under Sustainable Development Goals, NIS is the concept which is consisted of several factors as pillars to strengthen national integrity. The pillars typically include: Legislative branch of government, Executive branch of government, Judiciary, Public sector, Law enforcement, Electoral management body, Ombudsman, Audit institution, Anti-corruption agencies, Political parties, Media, Civil society, and Business. Supreme Audit Institution (SAI) is one of main pillars as the core agency which is responsible for auditing government income and expenditure and also represents a 'watchdog' over financial integrity and the credibility of reported information.

This symposium also aimed to share experiences and best practices among the SAIs and other perspectives in building National Integrity System and to support INTOSAI core value 'INTEGRITY'.

During the visit, the Auditor General also graced the national celebration of His Majesty the King's 36<sup>th</sup> birthday as a chief guest at the Royal Bhutanese Embassy. He met and interacted with the Bhutanese students studying in Thailand.

### **Three new Assistant Auditors General appointed**

The RAA appointed three senior officers to the post of Assistant Auditors General through an open competition conducted by the Royal Audit Authority and Royal Civil Service Commission.

Mr. Narapati Sharma has been appointed as the AAG of the Office of Assistant Auditor General, Samdrup Jongkhar. He did his Masters in Accounting & Control from the Hague University, Netherland. He completed

the prestigious Diploma in Indian Audit & Accounts Service from the National Academy of Audit and Accounts, Shimla, India. Mr. Narapati joined the Royal Audit Authority in January 1999 after completing a year PG Certificate course in Financial Management from Royal Institute of Management, Simtokha.

Ms. Rinzin Lhamo was appointed as the AAG of the Office of Assistant Auditor General, Phuentsholing. She joined the RAA in January 2000 after completing her postgraduate course from the Royal Institute of Management, Simtokha. She has a Master Degree in Public Policy from KDI, School of Public & Management, South Korea. During her Masters in Korea, she received the Deans' List, which is given to students with excellent academic performance.

Mr. Kencho Dorji was appointed as the AAG of Research & Quality Assurance Division. He has a Master Degree in Business Administration from the Hague University, Netherland. He also completed the prestigious Diploma in Indian Audit & Accounts Service from the National Academy of Audit & Accounts, Shimla, India. He joined the Royal Audit Authority in 2001 after completing a year PG course in Financial Management from Royal Institute of Management, Simtokha.

### **RAA presented the Annual Audit Report 2015 to the Public Accounts Committee**



*Members of the Parliament and Officials from the RAA during the presentation on AAR 2015*

The Royal Audit Authority presented the Annual Audit Report 2015 to the Public Accounts Committee (PAC) and other Members of Parliament on July 21, 2016. The presentation covered in brief the contents of Annual



Audit Report (AAR) 2015 and subsequently, the house deliberated on various pertinent issues highlighted in the report.

The Members of Parliament while commending the work done by RAA and acknowledging the evolution of RAA's reports, also provided suggestions and feedback on further improving the quality of the Annual Audit Report.

### **The Royal Audit Authority promoted twenty four officials**



The Hon'ble Auditor General conferred promotion order to 24 officials of the Royal Audit Authority including four meritorious promotion on 1<sup>st</sup> July 2016.

### **ISSAI Implementation training provided to sixty auditors in New Delhi, India**



*Participants with the resource persons from IDI*

Following the signed '**Statement of Commitment**' with the INTOSAI Development Initiatives (IDI), Norway, the Royal Audit Authority has sent sixty auditors to be trained on the implementation of International Standards for Supreme Audit Institutions (ISSAIs). In addition, six mentors from RAA have also begun a weeklong course design meeting from 18<sup>th</sup> July at iCISA, New Delhi. The mentors are expected to further train the auditors, who had not undergone the training upon their return.

The training was arranged in collaboration with IDI and delivered at iCISA, New Delhi from 25<sup>th</sup> July 2016 to 5<sup>th</sup> August 2016. The programme has been funded by the World Bank.

The Hon'ble Auditor General and Deputy Auditors General conducted a pre-departure briefing (PDB) for the participants and stressed on the importance of the training by highlighting the objective and expected outcome from the training.

The participants are divided into three groups and shall train on three streams - Compliance Audit, Financial Audit and Performance Audit. Upon their return the RAA shall conduct ISSAI based pilot audits as per the Statement of Commitment.

### **Deputy Auditor General attended the Audit Seminar in China**



*Deputy Auditor General with other members of delegation*

The Deputy Auditor General for Department of Performance and Commercial Audit led a two-member delegation to attend the Audit Seminar for 'SAIs along the Belt & Road Route' held in Nanjing, China from 27<sup>th</sup> June to 6<sup>th</sup> July 2016. The seminar hosted by the

National Audit Office of China (CNAO) and the Ministry of Commerce of China aimed to continuously promote good national governance through auditing and was composed of keynote speeches, presentations and open discussions on several themes, including functions of national audit, organization of audit projects, big-data analysis in audit, agricultural project audit and foreign funds audit, among others. The participants also visited regional and local audit offices in Nanjing & Shanghai.



# The Royal Audit Authority launched its Strategic Plan 2015-2016

*Policy Planning and Annual Audit Report Division (PPAARD)*

The Royal Audit Authority has launched its Strategic Plan 2015-2020 and Operational Plan 2015-2020 on July 27, 2016. The RAA's Strategic Plan 2015-2020 is sequel to our first Strategic 2010-2015 prepared upon the assumption of Hon'ble Auditor General as the Second Auditor General under the Constitution of Kingdom of Bhutan in July last year. The plan was submitted to His Majesty the Druk Gyalpo, the Prime Minister and the Speaker of the Parliament. It will also be shared with the Hon'ble Chairperson of the National Council, Opposition Leader, Cabinet Ministers, Head of the Constitutional Offices and donors.

What is too inspiring for the Royal Audit Authority is the Royal Aspiration descended from the Golden Throne. His Majesty's Address on 17<sup>th</sup> December, 2014 during the celebration of the 107<sup>th</sup> National Day has a lot to reflect upon, derive positive energy and synergy and chart out proper strategies to address the issues having higher national importance. This particular excerpt the RAA has captured at the very front page of its strategic plan. It is His Majesty's aspiration which propels the RAA to embark on formulating another strategic plan, keeping abreast with the changing environments and expectations, and coping up with the evolving internal strengths & weaknesses and external opportunities &; threats.

Other dynamism behind for the need of strategic plan is in fulfillment of our Constitutional Mandates. The RAA has formulated its Oversight Audit Model aligning to its mandates and the roles it has to play as the promoter of good governance, enabler of decision makings and as partners for building a clean society. The RAA's oversight audit model comprises of Legislature/Parliament and Executives. The Parliament entrusts resources to the executives. In return, the Executives implement the plans and programmes and are accountable to the Legislature.

The RAA is the Third Party here in this model. It provides independent views on the operations of the public sectors, service efficiency and stewardship of public resources through its Performance, Financial and Compliance audits. And this is done through the quality and timely audit services which are normally submitted to the Parliament for deliberations and passing resolutions. The RAA alone cannot complete the vicious cycle of audit oversight model. It has its stakeholders as the key players, amongst many; the media is one of them.

The RAA had undergone two times peer review by the Office of the Comptroller and Auditor General of India in 2004 and 2010, and Supreme Audit Institutions – Performance Measurement Framework by Office of the Auditor General, Norway and International Organizations of Supreme Audit Institutions Donor Secretariat, Oslo, Norway. Indeed, the RAA is the first country to make this report online though its scores are too less in some areas. The reason is the RAA wants to rise further against the rising challenges and leap to reap the best out of best. Not limiting to this, the RAA has also gathered feedback/suggestions from its stakeholders like Gross National Happiness Commission, Ministry of Finance, Royal Civil Service Commission and Public Accounts Committee. The RAA indeed had several discussions with the RCSC on its proposed organogram. The issues discerned from all these consultations and reports have enabled the RAA to know its SWOT (Strengths, Weaknesses, Opportunities and Threats). Its SWOT analysis is annexed in the main Strategic Plan document.

Based on the SWOT analysis, the RAA has revisited on our Vision & Mission statements, core values and even its logo which the RAA has captured in its Strategic Plan. It is to tune with the changing expectations and evolve further in fulfillment of the Constitutional mandates. In order to drive towards

attainment of mission and realization of the vision statements, the RAA has formulated its RAA's Strategic Plan Framework 2015-2020, identifying two Outcomes, three Strategic Goals and three areas for capacity building.

**Outcome 1:** Greater audit impact leading to improved accountability, transparency and ethical behaviour in the public sector in Bhutan.

The Outcome 1 focuses on strengthening accountability, transparency and ethical behavior in the public sector entities towards deriving values and benefits to citizens. To achieve this outcome, the RAA will focus on creating impact through its audit recommendations, formulating appropriate financial audit reporting framework, strengthening accountability systems, fighting for fraud and corruption and promoting internal governance; all aimed towards demonstrating on-going relevance and meeting the expectations of our stakeholders.

**Outcome 2:** Improved public sector performance in National Key Result Areas and Sustainable Development Goals commitments in achieving the Gross National Happiness.

The Outcome 2 focuses on improving public sector performance in NRKAs and SKRAs ultimately enabling government to perform well on its SDGs commitments which will in long run address the national priority of happiness for citizens. The Royal Government of Bhutan seeks to operationalize its unique development philosophy of Gross National Happiness through its successive Five Year Plans (FYP). The development outcomes of the 11<sup>th</sup> FYP formulated as National Key Result Areas (NKRAs) and Sectoral Key Result Areas (SKRAs) are defined and aligned to four pillars of Gross National Happiness. Keeping the promotion of good governance as cross cutting themes for all types of

audits, we aspire to contribute to performance of public sector entities by undertaking more performance audits. Further, aligning the development plans to the Sustainable Development Goals (SDGs) will also provide opportunity for the RAA to review and ascertain the performance of public sectors in attaining the SDG commitments.

The RAA during the period has identified three Goals. **The Goal 1** is: RAA delivers high quality audits as per international standards, including ISSAIs- Delivering Quality, **the Goal 2** is: RAA leads by example in being accountable, transparent and ethical organization – Demonstrating excellence; and **the Goal 3** is: RAA enjoys strong partnerships and cooperation with key stakeholders– Fostering collaboration.

Under the **Strategic Goal 1**, for the wider acceptance and credibility of our services, it is utmost priority to enhance quality. The RAA will prepare towards using International Standards for Supreme Audit Institutions (ISSAIs) as an authoritative standards through ISSAI implementation strategy.

Under the **Strategic Goal 2**, the RAA will strive to lead by example towards building stakeholders' trust and confidence in its service and conduct.

Under the **Strategic Goal 3**, the RAA will build collaborative and professional partners for creating impact. Audit reports being the only output of the RAA will not derive added results unless the RAA strategize to build and sustain its relations with its key stakeholders.

The RAA has identified three areas for capacity building towards accomplishing the strategic goals and ultimately meeting the targets defined at the outcome level. It will strive to build a strong leadership and professional culture, institute appropriate institutional framework, organisational structure and

systems and create a competent and motivated workforce.

To strive to meet its targets and to maintain continuity, the RAA has also revisited on its core values and arrived at five core values to live by on a daily basis in the discharge of its constitutional roles and responsibilities. The new core values are: Integrity, Accountability, Transparency, Professionalism and Team work.

With this Strategic Plan in place, the RAA seeks to play vital roles towards the fulfillment of its Constitutional mandates as enshrined in the

Constitution of Kingdom of Bhutan and Audit Act of Bhutan 2006, thereby realizing His Majesty's Vision of promoting good governance in the Country. The Royal Audit Authority will always look up to its key stakeholders for the unstinted support and strive to serve to the best of its abilities in promoting good governance in the country.

For copy of the Strategic Plan and Operational Plan, please visit [www.bhutanaudit.gov.bt](http://www.bhutanaudit.gov.bt).



# The Royal Audit Authority released Annual Audit Report 2015 and Performance Audit Reports

## PPAARD

As required under the Constitution of the Kingdom of Bhutan and the Audit Act 2006, the Annual Audit Report (AAR) 2015, Performance Audit Report on Gewog Development Grant, 2016, Performance Audit Report on Disaster Management, 2016 and Performance Audit Report on Business Income Tax Administration, 2016 of the Royal Audit Authority have been tabled in the Parliament on 30<sup>th</sup> June 2016 and are now public documents.



Auditor General and Senior Officials attending the Press Conference

## 1. Annual Audit Report 2015

The Annual Audit Report 2015 is a compilation of unresolved significant issues from 616 audit reports issued during the year 2015. It includes the certification of the Annual Financial Statements of the Royal Government for the fiscal year ended June 30<sup>th</sup> 2015, audit of accounts and operations of the RAA, accomplishments made by RAA during the year and summary on significant issues from the Audit of Hydropower projects. Significant matters contained in AAR 2015 include the following:

### a) Certification of Annual Financial Statement for the year 2014-15

The RAA issued an unmodified (clean report) audit report of the Annual Financial Statement of the Royal Government of Bhutan for the year ending 30<sup>th</sup> June 2015 taking cognizance of improvement made over the previous years' financial statements presentation.

### Highlights of Annual Financial Statements

- ✓ Revised Budget: Nu.39,686 million
- ✓ Actual Expenditure: Nu.34,334 million
- ✓ Revised Capital Budget Nu.19,637million
- ✓ Actual Capital Expenditure: Nu.15,444 million
- ✓ Underutilised Capital budget: Nu.4,193 million (21.35% of revised capital budget)
- ✓ Total Public debt: Nu.120,783 million (Domestic Debt - Nu.2,107 million & External Debt - Nu.118,676 million)

*Note: Underutilized capital budget includes unadjusted advances of works*

### b) Total Unresolved Irregularities in AAR 2015: Nu.523.744 million

### c) Observation by categories

- ✓ Fraud, Corruption & Embezzlement: Nu.53.963 million
- ✓ Mismanagement : Nu.83.915 million
- ✓ Violation of laws & rules: Nu.255.672 million
- ✓ Shortfalls, lapses & deficiencies : Nu.130.194 million

### d) Agencies with significant amounts of fraud and corruption cases

- ✓ Dungsam Cement Corporation Limited: Nu.22.603 million

- ✓ Food Corporation of Bhutan Limited: Nu.9.122 million
- ✓ Ministry of Health: Nu.5.602 million
- ✓ Election Commission of Bhutan: Nu.5.235 million
- ✓ Ministry of Information and Communication : Nu.4.512 million

#### **e) Irregularities in Hydroelectric Projects**

- i) In Mangdechu Hydroelectric Project Authority (MHPA) : Nu.339.535 million
- ii) In Punatsangchu-I Hydroelectric Project Authority (PHPA-I) : Nu.63.898 million
- iii) In Punatsangchu-II Hydroelectric Project Authority (PHPA-II) : Nu.174.097 million

### **2. Performance Audit Report on Gewog Development Grant**

The Performance Audit Report on Gewog Development Grant covers the period from 2013-14 to 2014-15 and includes the review of actual implementation of GDG activities in entire 205 Gewogs Administration. The GDG has in general led to expansion of infrastructures like road access, provision of irrigation channels, drinking water and maintenance of cultural properties. If used judiciously and prudently, it would foster decentralization process as well as the economic growth at the grass root level. The report highlights both the positive aspects as well as inadequacies in the implementation of GDG. Pertinent inadequacies include the following:

- ✓ The activities implemented through the Grant lacked alignment with strategic long term goals;
- ✓ Despite introduction of GDG, there was reduction in the overall capital budget of Gewogs in the initial years;
- ✓ Utilization of Grants for farm roads was found not effective as the actual construction with limited

budget resulted in poor quality of roads providing no value for money in creating such infrastructures;

- ✓ Allocation of GDG equally to all Gewogs without considering the factors like, poverty incidences, level of development, size of population and geographical coverage of the Gewogs lacked fairness and equity in the distribution of fund; and
- ✓ There was no proper monitoring mechanism in implementation of GDG activities and transfer of ownership for assets created thereby lacking proper maintenance.

### **3. Performance Audit Report on Disaster Management**

The Performance Audit Report on Disaster Management covers the period from 2010 to 2015 and includes the review on the operations of the Department of Disaster Management (DDM)/Secretariat of the National Disaster Management Authority and Dzongkhags Administration and other relevant government agencies involved in disaster management activities. The report highlights the significant accomplishments made in the disaster management and draws attention to the following inadequacies with conclusion that the disaster institutions may not be well positioned to respond to major disasters in the country:

- ✓ Non-compliance to the critical provisions of the Disaster Management Act 2013;
- ✓ Lack of effective coordination in disaster management amongst various agencies;
- ✓ Absence of hazard zonation maps and vulnerability assessment reports;
- ✓ Lack of central database system on disaster management activities;
- ✓ Inadequate fire safety measures in Dzongs and public buildings; and
- ✓ Non-establishment of Emergency Operations Centres (EOCs).

#### 4. Performance Audit Report on Business Income Tax Administration

The Performance Audit Report on Business Income Tax Administration covers the period from 2009 to 2013 and includes the review of systemic issues in administration of BIT including adequacy of legal, policy and institutional framework and tax assessment process and implementation of Fiscal Incentives 2010. The report recognizes many progressive developments taken place over the years including tax reforms, enactment of legislations, introduction of fiscal incentives, institutional reforms and also highlights inadequacies in overall BIT administration. Some of the pertinent shortcomings and deficiencies observed include:

- ✓ Absence of effective institutionalized co-ordination and information sharing mechanism between Regional Revenue and Customs Offices (RRCOs), Regional Trade and Industry Offices (RTIOs) and Bhutan InfoComm and Media Authority (BICMA);

- ✓ Absence of legal and policy framework for informal businesses undertaken by individuals which remain outside the purview of the BIT;
- ✓ Lack of comprehensive Human Resource Master Plan and gaps in key positions which would impede effective administration of BIT;
- ✓ Absence of Revenue Intelligence Mechanism to monitor, control and investigate tax fraud, illicit trading activities, cross-border activities, etc.;
- ✓ Inadequacies in BIT assessment system and lack of comprehensive information on tax payers; and
- ✓ Absence of effective system of monitoring activities and imports by business units classified as non-operational.

The draft reports were circulated to all the agencies concerned for their comments. The Reports were finalized giving due consideration to the responses received from the Ministries and other agencies.

Reports are available on the RAA's website [www.bhutanaudit.gov.bt](http://www.bhutanaudit.gov.bt)



# Peer Review on SAI Independence of the Royal Audit Authority

*Passang Wangchuk, Planning Officer & Peer Review Team*

The Chapter 8 Section 86 of the Audit Act of Bhutan 2006 states that “*The Authority may undertake a peer review by a member of peer organizations or other professional bodies from time to time to ensure consistency and high standard of auditing.*” Based on this mandate, the Royal Audit Authority was assessed under the Supreme Audit Institution (SAI) Independence Assessment Study. A detail of the study is highlighted as follows in an interview with the Assessment Team:

## **Brief introduction on the Study: How is the study designed? How it is different from SAI-PMF assessment?**

The independence of a Supreme Audit Institution (SAI) is crucial to ensure its ability to carry out its work in a free and impartial manner, thus contributing to good governance, transparency and accountability. Therefore INTOSAI and the Austrian Court of Audit (ACA) in its function as the General Secretariat of INTOSAI together with the Austrian Development Agency (ADA) initiated the Peer Review Project on independence of SAIs.

The overall objective of the Peer Review Project is to enhance transparency and accountability of public finances by strengthening the independence of seven SAIs in the seven INTOSAI Regions. To this end seven SAIs, one in every INTOSAI region, will be provided with an assessment of compliance with ISSAIs related to SAI independence as well as to make recommendations for action for promoting the SAI's independence. To this effect the Royal Audit Authority of Bhutan agreed to be peer-reviewed on the subject of independence by a team composed of the Austrian Court of Audit (ACA) and the Board of Audit of Japan.

The assessment is implemented as a peer review, conducted according to the Peer Review Guideline (ISSAI 5600), focusing on the eight principles of independence according to the Declaration of Mexico (ISSAI 10). Each of the seven peer reviews in the seven INTOSAI Regions will also include recommendations for action for promoting the reviewed SAI's independence.

Furthermore, the results obtained in the course of the seven worldwide peer reviews will be compiled in an anonymized cross-cutting report. This report will comprise the results of the seven peer reviews conducted worldwide in parallel illustrating the problems and necessary measures in the INTOSAI regions related to the implementation of the principles of independence of SAIs.

## **Team composition: Name of team leader and members with their SAIs:**

The ASOSAI peer review team reviewing the RAA consists of four auditors, three from Austria and one from Japan. The team leader is Mr. Klemens Gundacker from ACA, he is deputy head of the department responsible for the financial statement of the state and for audit of the final accounts.

Further, team members are Mr. Ukai Makoto from the Japanese Board of Audit, Ms. Martina Schenk, auditor at the ACA in the department for educational affairs and Ms. Elfriede Hammelmüller, auditor at the ACA and working for the INTOSAI General Secretariat.

## **Objectives of the Study: Why the study for the RAA?**

The main objective of the Peer Review Project on independence is the assessment of compliance with

ISSAIs related to SAI independence (ISSAI 1: Lima Declaration; ISSAI 10: Mexico Declaration on SAI Independence; ISSAI 11: Guidelines and Good Practices Related to SAI Independence; ISSAI 12: The Value and Benefits of SAIs) including recommendations in order to trigger national actions for promoting the reviewed SAI's independence. The report on the status of its independence shall be an instrument for the RAA for national follow-up measures and for enforcing the principles of its independence by using the report as an effective tool to approach Parliament, media, donors and the public at large.

The RAA is the representative of the ASOSAI region to participate in this global Peer Review Project. The agreement on the peer review to be conducted is based on the principles of voluntariness, partnership and mutual trust.

**Scope: List of key stakeholders to include for the study.**

The Peer Review at the RAA involves internal and external stakeholders. The overall goal for the peer review team by conducting interviews is to get a comprehensive view of the work and independence of RAA.

Interviews within the RAA are conducted with the Auditor General, Deputy Auditor General, Assistant Auditor Generals and other RAA staff members. External stakeholders to be interviewed include the PAC, Director of Parliament, representatives of the Ministry of Finance and the Royal Civil Service Commission.

**What will the peer review report entail? When will the report be finalized and released? How will the peer review report of the RAA support the global initiatives of the IDI/INTOSAI/ASOSIA?**

The peer review report will include an assessment of the implementation of the eight principles of independence at the RAA as well as recommendations for action for promoting the reviewed SAI's independence.

- Legal status of independence
- Head and members of SAI
- Mandate of SAI
- Access to information
- Reporting audit results
- Content, timing and publishing of audit reports
- Follow-up mechanism
- Resources

It is expected that the draft final report will be submitted for commenting to the Royal Audit Authority of Bhutan no later than mid-2016. The RAA is asked to provide its comments on this draft no later than three weeks after the draft report is submitted. The final report will be delivered to the RAA in the second half of 2016, presented to the management and thereafter – upon decision of the Royal Audit Authority of Bhutan – made public.

The results of the final peer review report of the RAA will be used in an anonymized way by the INTOSAI General Secretariat to compile a cross-cutting report. This cross-cutting report will also include the anonymized results of six further peer reviews conducted in parallel on the independence of SAIs of the different INTOSAI Regions and will be published by the INTOSAI General Secretariat. The cross-cutting report will be presented to the INTOSAI community at the XXII INCOSAI in December 2016.

In continuation a specific action plan based on the recommendations from the peer reviews will be drafted and adopted by INTOSAI and UN bodies as well as development partners at a conference at the end of 2017 to deliver sustainable international programmes to strengthen SAIs at national level.

# Mid-Term Review Meeting 2015-16 Conducted in Thimphu

The Mid-Term Review Meeting 2015-2016 was held in Thimphu from 2<sup>nd</sup> to 4<sup>th</sup> March 2016. Although the meeting was conducted to review the implementation status of Annual Audit Schedule 2015-2016, it also catered as a platform to share ideas and experiences. The meeting, apart from taking stock of performance achievements of individual audit teams, the meeting also discussed and deliberated on the issues and challenges impeding effective auditing in the fields. Further, the meeting discussed the Annual Audit Schedule (AAS) 2016-2017. During the discussion of AAS, the functional divisions and regional offices were given opportunity to revise the schedule considering the availability of adequate number of auditors, availability of key officials within the agencies on scheduled audit period, and priority assignments that Auditor General desires to take up during the next six months.

Since the RAA is adopting the ISSAIs as an authoritative auditing standards, information on ISSAIs were also disseminated during the first day of the meeting. The Prime Minister's Office made a presentation on Government Performance Management System (GPMS) and the Ministry of Finance did on Electronic Procurement System (e-GP). Further, the auditors were also familiarized on the new RAA's Strategic Plan 2015-2020. Various other important presentations and discussions took place during the meeting including a review of past resolutions, current best practices in different functional divisions and regions, and review of Strategic Plan 2010-2015. The meeting was attended by 100 auditors from head quarter as well as four regional offices.

## Resolutions of the Mid-term Review Meeting 2015-16

*(Source: PPAARD)*

- i. The house resolved to provide continuous awareness both to internal and external stakeholders towards materializing formal adoption of ISSAI as the authoritative standard for the RAA.
- ii. Steering Committee formed for the implementation of Financial Resources Management Accountability Index (FRMAI) framework shall pilot the Model during the audit of five selected Dzongkhag Administrations. For the purpose, the General Governance Division and four regional offices shall select a Dzongkhag Administration each and conduct audit by December 2016 to facilitate FRMAI assessment as scheduled.
- iii. Following the presentation on "Common findings on reporting", the house resolved to consistently use the term "Penalty" hereafter with reference to circular no.
- iv. MoF/R.Circular/2010/9842 dated 7th January, 2010. With regard to Penalty on State Owned enterprises, NGOs, CSOs and ROs, RAA shall take up the matter with the Ministry of Finance.
- v. The house applauded the web-based APEMS system developed by the Office of the Assistant Auditor General, Bumthang and resolved to pilot run the system first with the OAAG, Bumthang and replicate the same in the headquarters and regions after ascertaining the success of the system. Suitable integration in the ARMS shall also be explored.



- vi. Following the good practices presentations made by the OAAG, SJ, Tsirang, GGD and PSAD, the house directed the PPD to assimilate the same for the purpose of information dissemination to other divisions as to replicate the good practices in their respective divisions/regions upon further discussion in an appropriate forum.
- vii. The house resolved that all performance audit reports, both soft and hard copies issued hereafter by all auditing divisions shall be shared with the PSAD for the purpose of maintaining a repository of performance audit reports.
- viii. The house resolved that all reports which are not 'closed' shall be followed-up by respective divisions to enhance impact from performance auditing.
- ix. The house endorsed the review report of the RAA's Strategic Plan 2010-2015 and directed the Policy and Planning Division to finalize the document for future reference.
- x. The Advisory Group for the review of the GDG report shall be formed spearheaded by the Assistant Auditor General, Performance and System Audit Division with members comprising of Assistant Auditors General of General Governance Division, Regions and other relevant divisions.
- xi. The house resolved to hold a weeklong workshop for the Assistant Auditors General towards April/May to prepare realistic Annual Audit Schedule for the Plan Year 2016-2017. Prior to the workshop, the AAGs should hold consultative meeting with regard to the AAS preparation with the team leaders of their respective divisions/regions to gather appropriate strategies in terms of prioritization and enhancing audit coverage in line with the Annual Performance Target of the RAA.
- xii. The house resolved to carry out the audits of the small agencies (Category C) using ARMS and larger agencies (Category A and Category B) using the Risk- Based Audit Approach till the ARMS system is fully stabilized and operational. In case of any systemic problems faced in the field, respective teams shall immediately intimate the issues to the ARMS team who shall then address the problems by maintaining 'complain redressal system'.
- xiii. A new editorial team for the RAA's Newsletter was formed for the year 2016 with members comprising of Sonam Delma, Sr. ICT Officer, TAD and Bikram Gurung, SAO, PSAD. The team shall take over the charge from the former editorial team and work towards timely publication of RAA's bi-annual Newsletter.
- xiv. The house deliberated the GGD's Divisional Terms of Reference and formulated outline for drafting the Divisional roles and responsibilities. The approved outline shall be shared by PPD.
- xv. The house resolved that the Divisions and the OAAGs to intimate the PPD timely with regard to any changes in the team composition.
- xvi. The house endorsed the guidelines for reporting achievement of the audited agencies and audit recommendations in the audit report as proposed by the core group. To this effect an Executive Order shall be drafted by the RQAD and issued accordingly under the signatory of the Auditor General.
- xvii. The house endorsed that hence forth the audit report template shall be in line with compliance framework for financial audit of government budgetary agencies and Annual Financial Statement. To this effect, an Executive Order shall be drafted by the RQAD and issued accordingly under the signatory of the Auditor General.

- xviii. The house resolved that financial audit of Tax & Non-tax revenue (DRC & RRCOs) shall be conducted by having dialogue with the Ministry of Finance to come up with applicable reporting format.
- xix. The house resolved to synchronize group/consolidated financial statements and component audits from the next financial year, spearheaded by CFID.
- xx. The house resolved that audit observations with prima facie evidence of existence of fraud, corruption and embezzlement cases must be recommended for appropriate actions as per the Laws of the land and the audit observations on occurrence of serious lapses however with prima facie documents evidencing absence of fraud, corruption and embezzlement must be recommended for appropriate administrative action as per the Executive Order No. RAA/AG-SP/2009/543 dated 17<sup>th</sup> August 2009.
- xxi. The house resolved that the number of audits to be outsourced by June 2016 be revised to 10.
- xxii. The house resolved that one desk audit should be conducted by all Divisions and OAAGs until June 2016 and the experiences to be shared at an appropriate forum. Based on experiences gained, minimum guidelines/instruction pack for Desk Audit shall be drafted upon formation of a core group.
- xxiii. The house adopted the proposal defining the standard time frame for receiving responses from agencies after exit meeting, submission of the draft report to RQAD and final issuance of Audit Reports presented by the core group and to effect the implementation, an executive order to be issued by the RQAD.
- xxiv. The house resolved that the AFD should install toll free number for the FUCD, implement Centralized Printing and install first Aid box by April 2016.
- xxv. The house resolved that Namgay Lhendup Dzongkha Coordinator to develop action plan for the promotion of dzongkha after holding a meeting with relevant officials and submit the same for endorsement by the Auditor General.
- xxvi. The house resolved that the RQAD should amend the conflict of interest statement format and implement the same through an Executive Order issued under the signatory of the Auditor General.
- xxvii. The house endorsed the accountability fixation guidelines proposed by the core group.
- xxviii. The house resolved that the ARMS team shall develop pop-up notification option in the system by identifying users and assigning rights for the effective monitoring and coordination of audits.
- xxix. The house resolved that when there are 'emphasis of matter' paragraphs in the auditor's report, the transmittal letter shall state that the report is 'unmodified'. To this effect an executive order shall be issued by RQAD under the signatory of the Auditor General.

## *Vision*

A credible Supreme Audit Institution that promotes value for money and good governance in public operations and contributes towards achieving the societal aspirations of Gross National Happiness.

## *Mission*

RAA is an independent constitutional body which contributes to accountability, transparency and effective service delivery. In the service of Tsa-Wa-Sum (the King, Country and People), we audit without fear, favour or prejudice and provide timely, reliable and quality audit services to assist effective decision making in the sector.

## *Core Values*

Integrity, Accountability, Transparency, Professionalism, Team Work

RAA Outcomes: What the RAA is working to achieve?	
RAA OC 1	Greater audit impact leading to improved accountability, transparency and ethical behaviour in the public sector in Bhutan.
RAA OC 2	Improved public sector performance in National Key Result Areas and Sustainable Development Goals commitments in achieving Gross National Happiness.

RAA Strategy: How the RAA will add value?	
RAA SG 1	RAA delivers high quality audits as per international standards including ISSAIs- Delivery Quality.
RAA SG 2	RAA leads by example in being an accountable, transparent and ethical organization- Demonstrating excellence.
RAA SG 3	RAA enjoys strong partnerships and cooperation with key stakeholders- Fostering collaboration.

RAA Capacity: What Capacity does the RAA need to achieve its goals?	
RAA C 1	Strong leadership and professional culture
RAA C 2	Appropriate institutional framework, organizational structure and systems
RAA C 3	Competent and motivated team

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