



ཀྲུལ་གཞུང་ཕྱི་མ་ཞིབ་དབང་འཛིན།



ROYAL AUDIT AUTHORITY

**AUDITOR GENERAL'S TERM REPORT**  
**2015 - 2020**



© 2020 Royal Audit Authority

ISBN 978-99936-18-90-4

**Royal Audit Authority**  
**P.O. Box 191**  
**Peling Lam**  
**Kawajangsa**  
**Thimphu – 11001**  
**BHUTAN**  
**Tel: +975 2 322111/324961/328729/328730**  
**Fax: +975 2 323491/325859/334426**  
**[www.bhutanaudit.gov.bt](http://www.bhutanaudit.gov.bt)**



AIMS	:	Audit Information Management System
APEMS	:	Audit Performance Evaluation & Monitoring System
ARMS	:	Audit Resource Management System
ASOSAI	:	Asian Organization of Supreme Audit Institution
CAATs	:	Computer Assisted Auditing Tools
CDB	:	Construction Development Board
CPDP	:	Continuing Professional Development Policy
ECB	:	Election Commission of Bhutan
IDEA	:	Interactive Data Extraction and Analysis
IDI	:	INTOSAI Development Initiative
INTOSAI	:	International Organization of Supreme Audit Institution
ISSAIs	:	International Standards of Supreme Audit Institutions
IWP	:	Individual Work Plan
OAG	:	Office of Attorney General
RAA	:	Royal Audit Authority
RQAD	:	Research & Quality Assurance Division
SAI	:	Supreme Audit Institution
SAI PMF	:	SAI Performance Management Framework
SDG	:	Sustainable Development Goals
SOC	:	Statement of Commitment





## Table of Contents

Introduction.....	1
<b>Sustaining Capacity of Royal Audit Authority.....</b>	<b>5</b>
Institutional Foundations .....	5
Organizational systems and processes.....	6
Human Resource Management.....	13
Professional Development Centre at Tsirang.....	14
Welfare.....	15
Discourses on Values and Ethics .....	16
Performance Management .....	17
Stakeholders Relations .....	18
<b>IDI's Support to Capacity Development Programmes.....</b>	<b>20</b>
ISSAI Implementation Initiative.....	20
SAI Young Leaders Programme .....	20
Enhancing eLearning Capacity Programme.....	21
Greater audit impact through enhanced through stakeholder engagement.....	21
Auditing Sustainable Development Goal.....	22
<b>Sensitization and awareness programmes.....</b>	<b>23</b>
Reinforcing Accountability Mechanism.....	24
<b>Delivering Results .....</b>	<b>25</b>
Financial Audits .....	25
Reporting on some of the significant irregularities noted in financial audits .....	26
Performance Audits.....	29
Public Administration .....	31
Public Finance .....	34
National Economic Development .....	36
Financial/Banking Sector .....	39
Infrastructure sector .....	42
Public Sector Reforms.....	44
Education, health, agriculture sector and labour/employment .....	45
Compliance Audits.....	48
Other specific reviews .....	49
Audit Recoveries.....	51
<b>Challenges.....</b>	<b>53</b>
<b>Conclusion.....</b>	<b>56</b>





Looking at the recent trend of development, the RAA had already entered the era of delivery. After having ensured its foundational framework of the institution, it needed to show its existence through delivery of organizational result. Besides, it also need to sustain capabilities of organizational systems and human resources. I have always accorded high priority to further strengthening systems and processes of work and sustaining the overall capacity of the institution.

“  
*First, I have to understand the new system although I have worked here before. Today, I had feedback sessions with the colleagues, which I will slowly work on. Things are systematic and planned already in the new office, which I don't have to worry much about. However, I have to meet all the staff and see what can be done for the way forward.*

Excerpt of interview with Kuensel Aug 8, 2015

Host of manual and guidelines were either developed or revised to provide guidance to our auditors in keeping pace with the changes taking place in the auditing practices. The other notable stride that had taken during the period was development of Strategic Plan 2015-20. Under this plan, we had articulated strategic intents of the RAA in fulfilling its constitutional mandates and meeting the expectations of stakeholders. It basically reflected our strategies to respond to the mandates of the Constitution and Audit Act and also to the expectations of our stakeholders. It was an attempt to forge renewed directions and provide basis for rendering performance accountability of RAA for using public resources for its operations. For whole of the period, our efforts were directed in pursuing all those strategies.

To augment the existing legal framework for independent functioning of the RAA, the Audit Act of Bhutan 2006 was amended in 2018. The new Act provides more clarity on the process of enhancing accountability, internal governance and process of resolving audit issues and delineating responsibilities to audited agencies.

To lead by example, we have always been conscious of how we govern ourselves. To set the tone, I began my office with series of meetings with all levels of staff. I have been able to discern wide range of issues, expectations and challenges in governing the organization. These had rendered basis for augmenting governance systems within the RAA. As an organization which propounds transparency and accountability in the public sector, it is only apt that we manifest good governance ourselves first. Starting from formation of various committees to dissemination of decisions of meetings to all employees to regular consultative meetings with all levels, I made it clear to everyone that we must be guided by the principles of transparency and accountability in all administrative functions.

Training and development programmes have been a continuous process both for audit and non-audit staff. We have been able to obtain funds for these activities both from the Royal Government of Bhutan as well as international donors as well as from the Royal Government of Bhutan. During the last five years, 304 employees availed ex-country trainings, 432 employees availed in-country trainings and 1126 employees were trained in-house. In order to support the continuing professional development of RAA, we have been able to complete the construction of Professional Development Centre at Tsirang in 2018. The RAA has also been able to cater to the needs of other agencies in organizing trainings/workshops/conferences.

In delivery of audit services, we have come a long way in separating the audits into three types – financial, performance and compliance audits after the adoption of ISSAIs in 2017. This was necessitated due to different audit objectives that are pursued through different audits. The financial audits concern about certifying the financial statements of the audited agencies and reporting on material misstatements if any. During the period July 2015-June 2020, we have completed 2936 audits and issued 2813 financial audit reports. Through the financial audits, the RAA intends to strengthen financial accountability in the public sector. As an immediate impact of financial audits, the RAA has been able to make cost savings of Nu. 551.731 million in the form of Audit Recoveries. Besides, we have seen improvements in the systems and controls within the audited agencies based on our recommendations.

As an immediate impact of financial audits, the RAA has been able to make cost savings of Nu. 551.731 million in the form of Audit Recoveries

Performance audits concerns about evaluating economy, efficiency and effectiveness of government plans and programmes as well as operation and management of audited agencies. During the period, we have been able to conduct and issue 36 performance audit reports and other thematic reports.

The Compliance Audits as separate type of audit was introduced after the adoption of ISSAIs in 2017. As a modest attempt to internalize the practice of conducting separate compliance audits, we had planned only a handful of compliance audits for specific entities and themes. During the period, we have been able to conduct and issue 335 compliance audit reports. Compliance audit intends to see compliances to authorities governing the subject matter and to contribute to better compliances to laws, rules, regulations etc.

The audit reports of financial and compliance audits were submitted to the Parliament through its Annual Audit Reports. The performance audit reports were submitted separately to the Parliament. We have seen that those reports generated passionate deliberations in the Parliament and have resulted in numerous resolutions based on RAA's recommendations. Hopefully, these processes have added values in terms of enhancing transparency, accountability and performance in the public sector.

Besides the planned audits, the RAA was also involved in undertaking specific reviews based on expectations of our stakeholders. I hope that our reports have been useful for the purpose for which it was sought.

In order for the RAA to be relevant and responsive organization, I have realized that collaborative approaches with relevant institutions play a significant role. From a good working relationship with the Parliament, government and audited agencies within the country to sustaining relationship with professional bodies, peer SAIs, regional and international bodies, collaboration has proved to be effective tool in ensuring overall effectiveness of the institution.

As I reckon from the time I took over the charge, it was a roller-coaster ride for me – confronted tremendous challenge, yet an enjoyable voyage throughout. I believe that whatever efforts we put in have come to fruition albeit growing expectations of our stakeholders.



I take this opportunity to thank the Parliament and government for their unstinted support and guidance provided to the RAA. We could have ensured the effectiveness of our audit without the support.

I also thank former Auditors General for laying strong foundations for the RAA and bringing the institution to the level at which it was capacitated to shoulder its constitutional mandates. I believe, we have been able to live upto their expectations and sustain its capability throughout.

Lastly, if not for our dedicated and committed colleagues, we could not have come thus far. I would urge everyone of our colleagues to maintain the spirit and zeal to better your service to the nation.

I briefly present the personal account of progress we made in reinforcing the overall capacity of RAA in terms of institutional, organizational and professional capacities. It is also aimed to provide account of works performed and how we intended to deliver value and benefits through our work of auditing and reporting. It also attempts to highlight some of the challenges and issues persisting that potentially impede advancement of overall goals and objectives. I hope these would provide further insights for my successor in forging renewed directions and articulating strategic intents in fulfilling its constitutional mandates. I offer my humble prayers for the new leadership to take this institution to the greater heights and make it more worthy of trust and confidence of our stakeholders and citizens at large.



## SUSTAINING CAPACITY OF ROYAL AUDIT AUTHORITY

Building and sustaining capability of the institution to deliver its core mandates has always been accorded high priority. I have always been keen on rendering enhanced capacity in areas encompassing institutional foundations, organizational systems and human resources of the organization in order to be able to deliver intended results effectively. We attempted to reinforce our strategies to strengthen overall capacity through our Strategic Plan 2015-2020.

### **Institutional Foundations**

The institutional foundation is a prerequisite to independent functioning of the Supreme Audit Institutions. The INTOSAI propounds that the foundation of SAIs existence must be recognized in the State's legal framework, and independence of the SAIs must be guaranteed in the Constitution itself to be able to act independently without the real or perceived risk of being influenced by the Executive or other entities. Further, it propounds that the SAI needs to be sufficiently empowered by a legal framework establishing its role and clearly describing the public financial operations it is responsible for auditing.

The RAA meets the prerequisites in regards to having proper and strong mandates and independence guaranteed in the Constitution and the Audit Act. However, the SAI PMF assessment done in 2014 highlighted gaps in actual human resource and financial independence. The financial independence was assessed to be limited based on the current practice of appropriating RAA's budget following the similar process prescribed for other budgetary agencies. Similarly, since the employees of RAA is governed by the Bhutan Civil Service, it was perceived to limit the required independence.

However, RAA stills maintains the argument that given the mandates for RAA in the Constitution itself and reinforced by the Audit Act, and that so long as current arrangements of providing financial resources and governing of its employees do not infringe upon independent functioning of the institution or its employees, independence in actual sense is not undermined. Besides, as one of the public institutions, I believe, we should be bound by over-all national policies. Bhutan Civil Service aspires to maintain "small, compact and efficient" civil service and given our own country context of being small in size, the fragmentation of public/civil service may not be in the interest of the nation. And similarly for the financial independence, there had been no past experiences of limiting RAA's budget that hampered the service delivery and the functioning of the RAA.

During my term, to reinforce the provisions of the Constitution on independence of the RAA and bring more clarity on certain issues, I have proposed for amendment of the Audit Act. Though the existing Audit Act had proved to be effective, limitations arising from inadequacies of certain provisions were found to impede effective functioning of the RAA. The principal objective of the Act was promotion of accountability, transparency, integrity and value for money in public operations. The Act proposed to confer adequate powers necessary to carry out the audits without fear, favour or prejudice. The Audit Act 2006 was amended and enacted as Audit Act 2018. It addresses the inadequacies in the old law and

reinforces the independence of RAA to audit and report on economy, efficiency and effectiveness in the use of public resources.

### **Organizational systems and processes**

The organizational capacity involves systems, structures and processes designed to facilitate conduct of business. RAA had undergone series of re-structuring since it was declared as Constitutional Office in 2005 to align its functions to fulfil the mandates of the Constitution and the Audit Act. The processes and systems of functioning need continuous reinforcement to ensure that outputs sought conform to the desired quality. During the last five years, I have always accorded priority in reinforcing and reinvigorating processes and systems to render more responsive to deliver ultimate results. Some of the initiatives undertaken under the organizational capacity development were as follows:

#### **Organizational Structure**

The RAA's organizational structure has undergone series of changes in order to adapt and respond to the changing demands. Though numerous changes were made in the structures and systems within RAA, the most significant change was creation of Department of Directorate Services to oversee secretarial and support functions, basically of policy and planning, administration and finance and Human Resource.

With the expansionary trend of government and public sector operations, the demand for value added audit services also grows. In order to ensure overall organizational capacity of catering audit services to growing demands, I have proposed for upgrading the existing regional office into Directorate Offices headed by Deputy Auditors General. However, we have not been successful in obtaining the approval from the RCSC. Nonetheless, the urgency of upgradation will continue to remain and I hope in few years down the line, it will definitely merit for favourable consideration of the RCSC. I believe that the approval of the same would not only ensure strong organizational structure to deliver quality audit results but also opens up career opportunities for our young leaders in future. This would also go a long way in attracting potential employees as well as retaining existing talents.

#### **Audit Methodologies and Standards**

Based on the recommendations of SAI PMF assessment conducted by the Office of the Auditor General, Norway in collaboration with the INTOSAI Development Initiatives (IDI) in 2014, the RAA prioritized ISSAI implementation as a part of its strategy for 2015-20. The report indicated the need to further strengthen the audit processes and documentations of audit work performed.

In 2017, the Royal Audit Authority adopted International Standards of Supreme Audit Institutions (ISSAIs) as its authoritative auditing standards to further enhance the quality of auditing and reporting. ISSAI is developed by the International Organization of Supreme Audit Institutions (INTOSAI) and it represents benchmark for Audit Institutions for public sector audit.

The RAA was already poised to embrace best international practices in auditing and reporting. The preliminary readiness of RAA had been assessed in terms of its overall capacity. The previous management had already paved way for collaboration with INTOSAI professional

body to assist the RAA in adoption of international auditing standards. The International Standard of Supreme Audit Institutions (ISSAIs), are the authoritative international standards on public sector auditing aimed at ensuring quality, credibility and professionalism of audit works. It is based on the basic set of concepts and principles that defines public sector auditing and the different types of engagements supported by the ISSAIs. Though RAA already had its own Auditing Standards, we consciously decided to adopt ISSAIs as our authoritative standards to reinvigorate overall auditing systems to render enhanced efficiency and effectiveness and more precisely to embrace international auditing practices to bolster RAA's quality, credibility and professionalism.



Though RAA already had its own Auditing Standards, we consciously decided to adopt ISSAIs as our authoritative standards to reinvigorate overall auditing systems to render enhanced efficiency and effectiveness and more precisely to embrace international auditing practices to bolster RAA's quality, credibility and professionalism.

We signed the Statement of Commitments (SoC) with IDI for implementation of the ISSAIs. The SoC contained commitments of both RAA and IDI in terms of imparting trainings, mapping of practices, piloting of ISSAI based audits, mentoring and guidance and review and experience sharing. With the assistance from IDI, the RAA was able to train its auditors on conducting ISSAI based audits, develop specific auditing guidelines and manuals, and complete pilot audits with the help of experts from IDI. All obligations under the SOC were successfully completed and since 2018-19, the RAA had started to conduct ISSAI compliant audits for all types – financial, performance and compliance audits.

Prior to the adoption of ISSAI, the RAA had developed numerous specific audit areas based on areas of audits. These were intended to guide the auditors in formulating audit procedures while carrying out specific audits. With bifurcation of audits into three types after adoption of ISSAIs, the RAA started using three overarching guidelines for each stream. While the Compliance Audit Guidelines are in the process of finalization, the Guidelines for Financial and Performance were approved after review by the experts from peer SAIs. The specific audit guidelines which were developed prior to adoption of ISSAIs are being harmonised and used as subordinate guidelines in designing specific audit procedures in performing all types of audits.

Besides the guidance in auditing, we have also developed guidelines for other functions of RAA to guide the auditors in conducting the assigned responsibilities. These include Guidelines on Follow Up of Audit Reports, Report Writing Style Guides, Guidelines on Maintenance Audit Recoveries Account Guidelines etc.

### Quality Management

RAA's quest for credibility and reputation has always demanded putting quality of its output centre stage. With adoption of ISSAIs, the compliance requirements of key management functions and producing quality results has put even greater pressure to revamp and strengthen existing system of quality control and quality assurance. The specific auditing guidelines provide process and procedures to be complied with in audit process, we have a separate Handbook on Quality Assurance reviews delineating process and procedure in reviewing quality.

The Quality Management System of RAA prescribes systems and processes relating to certain key institutional management functions that are specifically critical to effective functioning of SAI.

If each of these elements are functioning effectively and delivering the desired results, it can be reasonably assumed that the RAA as a whole will deliver products and services of high quality. The assessment of whether these elements are functioning effectively or otherwise can be carried out through QA process comprising of Planning, Execution, Reporting and Follow-up.

As for the auditing and reporting process, the quality control measures are embedded through various compliance requirements and responsibilities delegated to every level. Every individual at all levels (members, team leaders, supervisors (AAGs), Executive Members, Technical Committee, Advisory Group comprising of AG and DAGs) have specific responsibilities in ensuring quality aspects of the products.

The quality control measures are embedded through various compliance requirements and responsibilities delegated to every individual at all levels.

In re-aligning the focus of quality management, the Research and Quality Assurance Functions (RQAD) has been pulled back from taking up the responsibilities of quality control functions. The quality control functions are the responsibility of the specific Departments, Divisions and Teams and RQAD will focus on independent assessment through regular reviews. I believe that with distinct functions separated between the quality control and quality assurance reviews, and given that the responsibilities are taken up in letter and spirit, the quality of RAA's outputs will be enhanced drastically.

### **Strategic and Operational Planning**

The RAA had already instituted a system of strategic planning to demonstrate long term intent in delivery of its mandates. The RAA had just completed the implementation of Strategic Plan 2010-2015 and was in the process of developing SP 2015-2020. We have been fortunate that the support of the IDI was instrumental in the finalization of SP 2015-2020 and the Operational Plan 2015-2020. It was aligned to my tenure of five years. The strategic intents we developed were in line with the timeless vision and mission. I believe that whatever we ventured into during the five years had yielded results we desired.

In 2019, to further strengthen the capacity of RAA in strategic management for stronger performance, the RAA decided to participate in Performance Measurement and Reporting (SPMR) programme initiated by the IDI. The SPMR programme is aimed at addressing institutional capacity development and supporting SAIs in assessing holistic performance through SAI Performance Measurement Framework (SAI PMF), in establishing high-quality strategic and operational planning processes and in setting up integrated mechanisms of monitoring and reporting on performance. The nominated officials have attended series of workshops on SAI PMF and Strategic Planning. The SAI PMF report is in finalization stage and the team is in the process of developing new Strategic Plan 2020-2025 which is expected to be approved with the appointment of the new Auditor General.

I believe on completion of remaining workshops on this programme and finalization of the outputs, the RAA would be further strengthened in its capacity in strategic management. The RAA would be geared up to attain higher performances in the times to come.

### Internal Communications

I have always attached importance to communication within the organization to strengthen decision making process, promote transparency and motivate people for shared responsibility. The formation of committees such as Advisory Committees, Human Resource and Governance Committee (HRGC), Audit Committee, Follow Up Committee, Procurement Committee and AAR Technical Committee are some of the initiatives to delegating responsibilities and dispensing appropriate decisions.



These committees record the proceedings and the decisions are disseminated through official emails which is allotted to every staff of the RAA. I believe that such communication not only promotes transparency but also foster the culture of inspiring employees to take greater responsibilities.



*Team leaders' conference July 2017*

Besides these, we also have Annual Audit Conferences and Mid Term Review Meeting to provide platforms to our staff to discuss range of issues relating to core auditing works and other related matters. We use this forum to take stock of work progress, new strategies, sharing knowledge and experiences, issues relating to management and administration, etc.

### Accountability

Our work as Supreme Audit Institution charged with the primary responsibility of seeking accountability of the public officials and institutions further places moral obligations to demonstrate accountability ourselves first. Like any other public institution, the RAA functions based on resources provided by the Parliament and thus, it is only imperative that we account for the use of public resources to the citizens. It is incumbent upon RAA as oversight body to exemplify in holding itself to account for public resources used. In line with the Audit Act of Bhutan 2018, the RAA's accounts are subjected to external audits appointed by the Parliament or the Public Accounts Committee. The RAA also conducts internal audit of accounts of the HQ and its regional offices on annual basis.

Besides, in order to ensure that the RAA observes compliance to standard practices in its operations and management, the RAA may engage peer SAIs or professional bodies to evaluate and assess its overall operations and performance. As part of SPMR Programme of

the IDI, the RAA has volunteered to for assessment of its performance under SAI PMF in 2019. The SAI PFM examines holistically both the SAI's audit and non-audit functions in relation to its legal foundation and environment identifying interdependences between different aspects and root causes of SAI performance.

The RAA was assessed under SAI Independence Assessment Study conducted by a four member review team, three from Austria and one from Japan in February 2016. The review focussed on assessment of the implementation of the eight principles of independence of the RAA as well as providing recommendations for action for promoting the reviewed SAI's independence.



A team from SAI UAE conducted review of compliance of RAA's financial audit to the ISSAIs in 2018. The review was performed to review and assess the design and implementation of RAA's financial audit methodology that was designed to meet the requirements of the financial audit ISSAIs. The team had identified an important strategic need for dialogue with RAA's key stakeholders including the Ministry of Finance and donors.

The reports of these assessment will help the RAA in gauging its standings in terms of performance and compliances of its processes and procedures in comparison with best international practices and standards. I believe that the results of reviews and assessment provide useful input for furtherance of RAA's performance as a Supreme Audit Institution.

One of the means of ensuring accountability of SAI is implementing a system of performance measurement and reporting on its performance to external stakeholders. While this had been core of my heart since the beginning of my term, we have not been able to do so due to inability to develop performance indicators for our goals. Nevertheless, on a regular basis we have reported activities and initiatives undertaken in the Annual Audit Report under a separate chapter. There is an opportunity to consider latent skills of performance measurement in development of the new strategic plan.

### **Code of Ethics and Conduct**

The RAA has already put in place appropriate safeguards to ensure high standards of behaviour in course of their work and their relationship with the staff of the audited entities. The Code of Good Conduct, Ethics and Secrecy outlines acceptable behaviours to be demonstrated by every staff. It contains 16 principles broadly similar to ones identified by the INTOSAI Code of Ethics. Any new employee joining RAA is administered oath and expected to be bound by it throughout one's service in the RAA.

The AG's Standing Instruction also contains specific elements of general conduct, behaviour and ethics and guidance on how to deal with in the process of engaging with the audited entities. These are basically do's and don'ts and the recourse auditors can seek if confronted with such situations. However, these are limited to few scenario based on past experiences of the RAA.

In a more formalized way, the mechanism to reinforce code of conduct is well embedded in the audit process itself. In the process of engagement, the auditors are required to declare conflict of interest and also declare ethical threats (arising from multiple sources). These are required to be documented as a part of audit process.

Code of Good Conduct, Ethics and Secrecy outlines acceptable behaviours and 16 principles. Any new employee joining RAA is administered oath and expected to be bound throughout one's service in the RAA.

Notwithstanding these, as the ethics and professional conduct of its staff is central to ensuring credibility and reputation of the RAA, I have always made a point to reiterate its importance time and again. Besides instructing senior officials to ensure appropriate safeguards, I have made a point to even contact individual auditors to the extent possible and urged them to observe acceptable behaviours at all times. I firmly believe that reiteration and reminders have proved to be one effective way of creating deterrence.

Even on other fronts, I have always wanted to make officials of the audited entities to be conscious about auditors' ethical and behavioural requirements. So, whenever I interacted with officials of audited agencies during awareness and sensitizing programmes, I always urged them to refrain from creating an environment that may result in unethical or undesirable behaviours.

In demonstrating management's zero tolerance and also creating deterrence towards dysfunctional behaviours by our auditors, I have also initiated prompt action of investigating cases of allegations received by RAA. It was fortunate that none could be proved. However, I have never taken this for granted and as far as possible, we have ensured appropriate preventive measures through transfer policy and placement of certain staff in divisions and regions.

Code of Good Conduct, Ethics and Secrecy outlines acceptable behaviours to be demonstrated by every staff. It contains 16 principles broadly similar to ones identified by the INTOSAI Code of Ethics. Any new employee joining RAA is administered oath and expected to be bound throughout one's service in the RAA.

### **Internal controls**

The foundation of the internal controls as in any organization is the organization structure. The organizational structure was designed to align its functions with the mandates of the Constitution and the Audit Act. There had been changes on regular basis to ensure that it is responsive to the changing environment as well as to better the performance of the organization. The existing organization structure was realigned recently to align its functions to the new Audit Act which was enacted in 2018. The most significant change is the creation of Department of Directorate Services in addition to existing three departments besides other structural changes within the organization.

As one of the public institutions which follows the same rules and regulations in managing its finances, the basic framework for RAA's internal control systems for Financial Management is broadly guided by the National Internal Control Framework developed by the

Ministry of Finance. This also relates to administration of procurement and management of public property.

The departments, divisions, sections and units within the RAA is designed to ensure achievement of organizational goals and objectives. These units fall under either of the two categories; core business of RAA and support services. The business processes for each are guided by various manual and guidelines developed for achieving specific purposes. We have range of guidance and authorities in the form of rules, manuals, policies, etc. detailing processes and procedures for conducting specific businesses.



### Physical Infrastructures and facilities

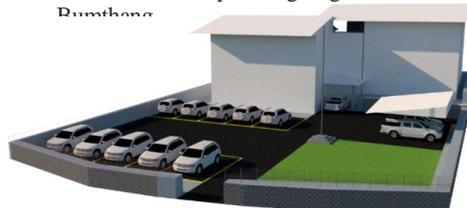
As discussed in the Human Resource Management, attraction of new employees and retention of experienced employees have assumed a challenge for RAA in sustaining its overall human resource capacity. Since the perks and salaries are regulated by the Bhutan Civil Service, the RAA can only resort to creating desirable working conditions by providing congenial working space and facilities.

To ease out congestions and provide congenial working space to the staff, office space was expanded through construction of additional building at the RAA HQ.

Our auditors faced difficulties in finding space to house their working documents and as well as accommodations while on official tour. Those facilities depend on the generosity of audited entities and the availability of guest houses/rooms. Such dependency may come at the risk of compromising independence. Though it is nearly impracticable to be completely independent in terms of using facilities of audited entities, it is advisable to be as independent as possible. The other reason to support own space is to provide personal convenience and create desirable conditions for our auditors to perform their job. Being away from families for significant part of the year, if a decent shelter is not supported, we may only degrade their morale and productivity. Keeping this in mind, I have been exploring ideas to support accommodation facilities at critical places of work where there are concentration of more offices involving high frequency of audit works. We have been supported by the Ministry of Finance to hire private flats as base offices in Gelephu and Mongar. The base office in Trashigang could be housed in government structure generously supported by the Dzongkhag Administration, Trashigang. Keeping in mind the cost involved in leasing out, we have limited the opening of base offices to critical places where there are large number of audited entities to be audited by the RAA. I hope that these facilities have provided limited convenience to our auditors which otherwise would have posed risk of deterring their productivity.

Of the four regional offices, two regional offices of Bumthang and Phuntsholing are being housed in private houses. Keeping in mind the long-term benefits of having our own buildings, I have pursued for land allotment for office

3D View of the upcoming Regional Office in Bumthang



construction. We have been fortunate to be supported by the Dzongkhag Administration, Bumthang and Phuntsholing Thromde in allocating 40 decimal land in Bumthang and 20 decimal land in Phuntsholing. After completing formalities of seeking funds, the construction of office building in Bumthang has begun from May 26, 2020. The Ministry of Finance has recently approved fund for construction of Regional Office Phuntsholing. I hope with the completion of these offices, space constraints in regional offices would be solved and would render good working conditions to our fellow auditors.

### Technology

In this age of information and knowledge, it is not only apt for our auditors to equip themselves with IT tools and techniques for auditing but also important for the RAA to embrace ICT for own governance and administration. These are required to boost our efficiency of our own operations and delivery of audit services.

The oldest IT system Audit Information Management System (AIMS) which was developed in 1998 is still be used as systems to regulate follow up functions and issue of audit clearance certificate. Owing to its very old version, it is currently being upgraded by our own IT personnel with the involvement of local consultants. I hope on completion of the upgradation process, the system will have enhanced features and capabilities to support processing of information.



The other IT system, Audit Resource Management System (ARMS) was developed to automate various functions beyond auditing, reporting and follow up. It was intended to serve to process information relating to Human Resource Management, Property Management, and documentation relating to audit processes, and also for monitoring and evaluation of performance. Though the system development was completed and it is being implemented, the full functionality of the system could not be attained especially in terms of managing HR and property management. The system is web based and auditors use for audit process planning, execution, reporting and documentation. It is also designed for monitoring of audit progress and evaluation of performance of audit teams based on assessment made by supervisors.



In terms of IT auditing tools, most of our auditors are acquainted with the Computer Assisted Auditing Tools (CAATs) such as IDEA (Interactive Data Extraction and Analysis) software. Licenses were procured and distributed to auditors who use the tools. The RAA needs to sustain the skills of using IT tools in auditing and also familiarize with new tools in responding to changing environment which would demand such skills. The new developments taking place in the IT such as Big Data, such IT tools and skills would be required invariably to perform their jobs.

### Human Resource Management

Human Resource being the mainstay of the overall performance of any organization, enhancing capability of the staff has always been a priority of RAA. We focus on attracting

people of diverse disciplines, developing auditing and reporting skills, creating conducive and objective working environment, facilitating academic and career advancement, and instituting performance management. The continuing learning policy we have in place ensures that our people keep abreast of new development of auditing methods and techniques in response to the demands of changing environment. Some of the initiatives under this aspect were:

### Recruitment

The RAA continued to face shortage of staff in delivery of its mandates. The situation was further aggravated by dearth of diversified professionals as most of the auditors were from financial background. The complexity rendered by changing working environment, the RAA felt the need to recruit additional workforce of multidisciplinary professionals. In addition to annual recruitment of graduates who completed Post Graduate Diploma in Financial Management from Royal Institute of Management, we opened up job opportunities to graduates of different disciplines. During the five year period, we have recruited 88 including professionals in engineering, IT and others. The RAA now has total strength of 281 staff comprising of 88 females and 187 males.

### Retention

While RAA succeeded in recruitment of sizeable number of staff during the period, it also lost good number of experienced people by way of superannuation and early retirement. A sizeable number of senior and experienced people had separated from RAA. Since the employees are governed by the Bhutan Civil Service, there is little that RAA could do in terms of retaining the employees. The higher attrition rate are possibly due to better opportunities outside. However, we focus on trying to create attractive working conditions in terms facilities and support structures within the offices especially rendering support of adequate equipment, space and other facilities to work.

### Staff Development

The RAA already had a policy of Continuing Professional Development Policy (CPDP) which requires assessment of training requirements for different groups of staff, and administration of trainings and development programmes. The training and development programmes are initiated on a regular basis. The completion of Professional Development Centre at Tsirang in October 2018, provided added facilities for training and development of our auditors.

### Professional Development Centre at Tsirang

The Professional Development Centre at Tsirang was completed in October 2018 and its inaugural ceremony was conducted on November 1, 2018. The consecration ceremony was presided over by Venerable Dorji Lupon of Zhung Dratshang. It was an immense delight to have our former Auditor General Dasho Ugen Chewang, Chairman, DHI to grace the inaugural ceremony.





The proposal for the establishment of the Centre was approved during the 87th Session of the erstwhile National Assembly in 2007. The construction began in 2014 and completed at the cost of Nu. 225 million under the Government of India (GoI) fund.

### *Vision*

A premier learning center to promote excellence in Public Accountability and Good Governance.

### *Mission*

Enhance professionalism in the fields of auditing, accounting, public administration and good governance through continuous research, innovation and trainings and to create a learning environment that fosters individual growth and highest ethical and professional standards.

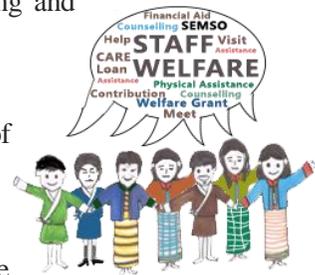
The Center has four main objectives:

- To ensure continuous professional development of auditors through various in-house and in-country trainings, workshops, etc. on topical subjects;
- To train people from external agencies in various streams of Public Accountability and help promote good governance;
- To liaise with other national and international agencies and impart Professional Development Courses on common areas of concern; and
- To cater to training programmes organized by external stakeholders (both national and international).

In order to add Value and Benefits to the citizens, the RAA needs to be remain relevant and responsive to the changing environment and expectations of the stakeholders. It is only relevant that through continuous improvement, the RAA will be able to sustain its professional capacity. The Center will be of great benefit to all employees to upgrade, re-skill and remain dynamic in professional front. It will also provide opportunity to furthering institutional collaborations and research in the field of auditing and accounting.

### **Welfare**

The Audit Staff Welfare Scheme (ASWS) is common pool of fund contributed by RAA staff to ease out financial burden in times of difficulties and exigencies. A good number of employees both past and the present, had benefitted from the scheme. However, at the time I joined as Auditor General, there



had been a significant depletion of fund due to increasing outflow without matching inflow in terms of monthly contribution. In order to ensure sustainability of the fund and also to increase amount of grants to its members, we decided to increase the monthly contribution of Nu. 400 per month. We also increased the SEMSO grant to Nu. 50,000 from Nu. 20,000. I believe that this scheme provides financial relief and little sense of security of the members in times of difficulties. Besides, we have been able to render support to various religious activities to accumulate merits for ourselves.

About 227 staff members are members of Civil Service Welfare Scheme.

### Discourses on Values and Ethics

In the profession of auditing, all of us are bound by certain principles and morals and every one of us tries to live by it. Even more so, as Bhutanese, we are obliged by our culture and tradition to manifest truth and goodness at all times. To render better perspective to these virtues, I had the privilege of inviting eminent personalities to share their wisdoms and thoughts on values and ethics to our auditors. I hope these had reinforced their faith and convictions towards bettering and conducting oneself in professional as well as in personal life.

We had the honour of inviting His Eminence, the 9th Neyphug Trulku Ngawang Sherdrup Chokyi Nyima Rinpoche to give sessions on Spirituality, Mindfulness, Human Values and Buddhism on 12th July 2018. H.E the Neytrul Rinpoche’s “Know it Better” discourse touched upon four immeasurable minds i.e boundless love, boundless compassion, boundless joy and equanimity, the historical evolution of Buddhism and impermanence of life. Rinpoche also talked on five poisons – ignorance, anger, ego, desire and jealousy – which are the root causes of sufferings, the concept of karma, its origins, and samsara besides ethics and attitude among many other related topics. Over a hundred auditors and staff of RAA attended the sessions, received Sangay Menlha Lung for spiritual healing and blessings.

#### ETHICS VERSUS VALUES

Set of moral principles, especially ones relating to or affirming a specified group, field, or form of conduct	Principles or standards of behavior
Professional	Personal
Influenced by different professions, organization, institute, etc.	Influenced by family background, culture, religion, community, etc.
Can vary according to professions	Can vary according to individuals

IPediaa.com

Lyonpo Sonam Tobgye, former Chief Justice of Bhutan graciously consented to our invitation to give talk on “Human Values & Bhutanese Etiquette” to our auditors on 29th July 2017. The talk held at Democracy House of Election Commission of Bhutan touched upon the origins of the Bhutanese etiquette, the need for preserving this unique and important part of Bhutanese culture and traditions. He also talked on human values. The talk elaborated on the vital qualities, essential for a person that makes one a good subordinate and a better superior. Also stressed on how one must think, behave and act to ensure harmony in an organization and to strive for success, and warned the audience of the dangers of too much familiarity breeding contempt.

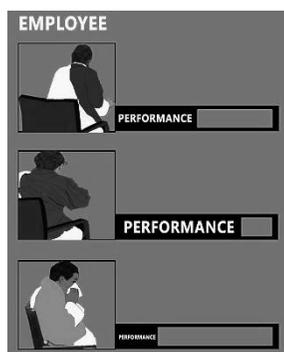
Besides the two above, I had the privilege of inviting prominent religious figures and personalities to bless our auditors with Wangs and Lungs. Further, in a bid to sustain the basic knowledge of Driglam Namzha, trainings for support staff were organized on a continuous basis. I hope this small step was found useful by all in appreciating the overall values, demonstrating goodness and upholding good virtues throughout their lives.

### Performance Management

Since the individual performance is key to overall organizational performance, we have multifaceted performance evaluation system to maximise the individual potential of our staff. Since the employees are governed by Government Civil Service, all employees have to fulfil the requirement of performance appraisal prescribed by the Royal Civil Service Commission. The cycle of one year performance management starts with development of Individual Work Plan (IWP) of individual at the beginning of the year, revision of IWP after six months and evaluation and rating at the end of the year. There are done through online system administered by the RCSC. Every individual's performance is rated as per the target set and feedbacks are provided for every employee.

In order to ensure that individuals in leadership positions are equipped with right competencies, the RCSC has also developed Leadership Capability Framework (LCF) on which his/her subordinates and colleagues rate the individual.

Besides RCSC's performance management framework, the RAA also has a separate evaluation and appraisal system to monitor and evaluate performance of individual auditors. This is done through a system called Audit Performance Evaluation Management System (APEMS) designed to rate the quality of work performed and timeliness of assignments completed. These systems have facilitated easy monitoring of the progress of the Annual Audit Schedules and have cut down administrative process of obtaining approvals for changes in the Annual Audit Schedules.



The RAA also has a system of recognizing best reports and significant observations under each audit stream. On an annual basis, best reports and significant observations from each division are evaluated by an independent committee. The final three best reports under each category and three significant audit observations are selected and the team are awarded Auditor General's Assurance Award comprising of cash prizes and certificates. I believe that continued and more objective system of recognizing performers will go a long way in boosting the morale of employees and enhancing the overall performance of the RAA.

I also take pride in the career progression of our employees. During my period, four senior officials have been promoted to the post of Deputy Auditors General and seven officers to the post of Assistant Auditors General who were all selected through open competitions conducted jointly by RCSC and RAA. This sets more broadened career path for younger generation of employees and I hope this would be gigantic step taken in creating opportunity within the organization.

In addition to the specific awards to recognize the performance, we also instituted a system of recognizing performance of employees in different categories. Besides the performance, we used other qualitative parameters such as ability to add quality to work process, maintain personal relations and ability to inspire others. This is first implemented in 2018 and five officials received the awards.

## Stakeholders Relations

The RAA realizes that sustained relationships with stakeholders is vital for ensuring desired impacts of RAA's work and drawing synergy for the common goal of promoting good governance. This basically refers to collaborative mechanisms with our primary stakeholders, peer and professional organizations both within and outside the country, media for dissemination of audit results and others who have interest or have influence or are influenced by RAA's work. Besides the audited entities, some of the most important stakeholders include the following:



### Parliament

The Parliament is the main stakeholder of the RAA. It is through their will, expectations and the guidance of the Parliament that RAA strives to fulfil its role as public sector auditor. The audit results in the form of Annual Audit Reports and other specific reports such as performance and compliance audit reports are submitted to the Parliament. It has always been satisfying for RAA to see passionate discussions of our reports and we are being able to render critical inputs for various decision makings at the national level. There have been many instances where our reports and recommendations led to numerous parliamentary directives aimed at strengthening public sector performance and infusing sense of accountability amongst those charged with the responsibility for use of public resources and the delivery of public service.

The PAC as the working committee of the Parliament has been very instrumental in causing discussions and deliberations of our reports in the Parliament. Besides, it reinforces the accountability mechanism through their dedicated efforts in organizing public hearings on unresolved audit issues and recommendations of the RAA. The number of public hearings conducted by PAC has resolved significant number audit issues and have resulted in desired actions of those responsible based on audit reports and recommendations.

### Anti-Corruption Commission

Driven by the shared goal of promoting good governance and corrupt free society, RAA and ACC have recognized a common approach of collaborating with each other. The system of sharing information and rendering assistance was established long time back and have proved to be effective way of fighting corruption. In order to reinforce the existing collaboration, *“the protocol of mutual assistance and information sharing”* was agreed between the two institutions in 2015.

In line with this protocol, numerous consultative and coordination meetings were held between the two and as of now the RAA has shared 94 cases for further investigation by the ACC. The RAA also receives cases for review during the regular audit based on the complaints received by the ACC.

### **Media**

The RAA recognizes the roles that media play in disseminating information regarding audit results to the citizens. In turn, citizens demand accountability from the elected representatives based on the information they receive. Thus, the accountability cycle is incomplete without the role of the media.

Realizing the importance of the role of the media in good governance, we have established a system of engaging with media in making our audit reports public through a platform of “**Meet Your Auditors**”. As soon as the report is tabled, the RAA issues press releases of the reports to the media and holds press meeting to share RAA’s opinions on the contents of the reports issued.

### **Peer SAIs and professional bodies**

As a member of INTOSAI and ASOSAI, the RAA continuously engage in collaboration with international and regional bodies for various purposes of capacity development and experience sharing. Various programmes initiated by different working units under auspices of these bodies have benefited RAA and its officials. Most visibly, RAA is able to participate in most of the capacity building initiatives of the IDI. Being an active partners in both the organizations, we have also successfully hosted handful of multilateral events in our country.

At bilateral level, the RAA has renewed Memorandum of Understanding (MoU) with the Office of Comptroller and Auditor General of India (CAG), signed new MoUs for cooperation with the Office of the Auditor General of the Kingdom of Thailand in August 2016, the State Audit Institution of United Arab Emirates in March 2018, audit institutions of Finland and Vietnam. Through such MoU, we aspire to further improve our working methodologies and exchange experiences in the field of public sector auditing.

The Office of the Comptroller and Auditor General of India continues to be a significant partner in reinforcing RAA’s HR capacity. The RAA signed MoU with CAG first in 2001 and being renewed on regular basis for training of our officers in their premier training institute National Academy of Accounts and Audit (NAAA) for Indian Accounts and Audit Service (IA&AS) probationers. During last four years, six officials successfully completed the course and two officers are currently undergoing the course. Further, one round of Indo Bhutan Trainings on ‘Big Data & Data Analytics’ was conducted in 2019 as a part of the MoU.

The RAA received grant assistance from Bhutan Trust Fund for Environmental Conservation, Austrian Development Agency and World Bank to implement our capacity development initiatives. Various trainings and related activities were completed under these funds.

The Government Accountability Office of the United States of America has also supported the RAA by inviting our officers to attend International Auditor Fellowship Program. During my term, five officials have already completed this fellowship program.

## IDI'S SUPPORT TO CAPACITY DEVELOPMENT PROGRAMMES



The RAA benefitted immensely from various Capacity Development Programmes of IDI. The IDI supports SAIs around the world through a client-centred facilitation approach, in their efforts to sustainably enhance their performance, professionalism and independence and thereby contribute to SAIs making a difference in the quality of public sector governance and public service for the benefit of their citizens. Realizing the capacity gaps in many fronts, we have participated in most of the programmes facilitated by the IDI.

### ISSAI Implementation Initiative

The SAI PMF 2014 assessment conducted by the Office of the Auditor General, Norway in collaboration with IDI showed various gaps in the audit methodologies used by the RAA. In order to further strengthen the audit process and documentation of audit work and to ensure that the audits conducted by the RAA meet the requirements of ISSAIs, the RAA prioritized the implementation of ISSAIs in its Strategic Plan 2015-2020.



The IDI agreed to provide technical support and guidance for ISSAI implementation through a 3i Phase ii pilot. The cooperation agreement was signed on 28th April 2016 between the RAA and SAI Norway under the funding programme supported by the World Bank. Six mentors, two for each stream were identified and trained to facilitate IDI experts for imparting trainings to auditors. In total we have 206 auditors who had availed ISSAI trainings. We have also developed and revised three audit manuals for financial, compliance and performance audits. Six pilot audits (2 for each stream) were carried out under supervision of subject matter experts and underwent Quality Assurance Review. The RAA initiated 638 audits using draft ISSAI based audit methodologies.

With ISSAI implementation in full swing, I believe we have rendered strong foundation in terms of required capacity. As a resource intensive initiatives, the implementation must be continued with stronger management convictions to ensure sustainability through continuous trainings and refresher courses with scaled up quality management process.

### SAI Young Leaders Programme

In 2015, the IDI launched the SAI Young Leaders Programme with the Global Leadership Symposium as a kick-off. The first class of SAI Young Leaders was expected to come together for a six-month full-time full programme in 2017 and eventually graduate in 2018. The objective of the programme was, *“changed SAI young leader contributing to positive change in SAI’s.”*



The RAA had nominated two officers to undergo two rounds of selection. They were included in the final 25 officials who were selected out of participants from SAIs of 91 countries. It

was really a moment of pride for RAA to have competed in the international arena and in being successful.

The proposals for strategy documents for bringing change included “*strengthening follow process*” and “*Quality Management Process*”. The strategies and action plans were developed and presented to the management. This had resulted in revision of Follow Up Guidelines. The implementation of Quality Management process is being pursued by the RQAD.

Such programmes provide platform for our young officers to pursue interest in leadership and I hope the continuity of this will immensely benefit in terms of nurturing our young minds in initiating change and strategic management.

### **Enhancing eLearning Capacity Programme**

The IDI’s programme on e-learning capacity programme aims at supporting blended learning solutions and focuses on developing IDI’s in-house capacity for eLearning, facilitating the development of regional and SAI capacity, creating pools of Learning Management Systems Administrators, eLearning specialists, blended learning specialists, and documenting eLearning methodology in an eLearning handbook, supporting SAIs and Regions in eLearning development and delivery as well as creation of an eclectic eLearning portfolio for the IDI over a period of time. The resource pools created is to be engaged in design and delivery of all other programmes in the IDI, besides being used by the regions and SAIs.



Four officials from the RAA, SAI of Bhutan have successfully completed the eight-weeks long eLearning Specialist competency based certification programme of the IDI-ASOSAI. Upon successful completion, the participants were conferred the ‘eLearning Specialist’ certificates based on their demonstration of adequate competencies as eLearning Specialists, which have been assessed through IDI’s evaluation process.

The programme aims to create a pool of eLearning Specialist who can analyse training needs of a SAI; design, develop, deliver and evaluate the trainings conducted by SAIs. The RAA can immensely benefit from creation of pool of eLearning specialists within ourselves in delivery of our own trainings as well as participate in regional and international trainings.

### **Greater audit impact through enhanced through stakeholder engagement**

Based on the importance of stakeholder engagement in bringing greater audit impact, and in delivering value and benefits of SAIs, the IDI supports the SAIs in strengthening its engagement with stakeholders not only as a part of audit process but also as a part of efforts to gain greater independence.

**Greater audit impact  
through enhanced  
stakeholder engagement**

The IDI has supported the RAA in development of its stakeholders engagement strategy through series of workshops and review of exercise carried out by the officials nominated for development of workshop. This document contain process of identifying stakeholders based on influence and interest and formulating strategies and process of engaging them on a sustained way. I believe that the strategies we formulated are

sustained and implemented in order to ensure value added engagement and increasing impact of our audits.

### **Auditing Sustainable Development Goal**

The Sustainable Development Goals (SDGs), which the United Nations Members States jointly committed to in September 2015, provides an ambitious and long-term agenda on a broad range of vital issues.



The UN Members State declaration on the SDGs,

*“Transforming Our World: The 2030 Agenda For Sustainable Development,” noted that “Our Governments have the primary responsibility for follow-up and review, at the national, regional and global levels, in relation to the progress made in implementing the goals and targets over the coming fifteen years.”*

SAIs can, through their audits and consistent with their mandates and priorities, make valuable contributions to national efforts to track progress, monitor implementation and identify improvement opportunities across the full set of the SDGs. As a contribution to the INTOSAI and SAI efforts in supporting the implementation of SDGs, the IDI, in cooperation with INTOSAI Knowledge Sharing Committee (KSC), launched a capacity development programme on ‘*Auditing Sustainable Development Goals*’

The IDI has supported RAA in terms of building capacity to audit and review the implementation of the SDGs. As a start, the RAA carried out the performance audit on “*Preparedness of implementation of SDGs by the Royal Government of Bhutan*” with support of the IDI.

## SENSITIZATION AND AWARENESS PROGRAMMES

The RAA conducted Audit Advocacy and Awareness programs extensively for all Ministries, Dzongkhags & Gewogs Administration, Corporations, Financial Institutions, Thromdes, Dratshangs, Armed Forces, Judiciary, Autonomous Agencies and schools to continuously promote awareness amongst RAA's stakeholders on accountability framework in the overall governance system and to sensitize on common audit issues.

The main agenda of this programme is to instil the sense of accountability and transparency in the minds of those vested with responsibility of governance. It is to stress importance on values of integrity and ethical conduct of every individual in positions.



With the government policy of decentralization (*Wangtse Chirphel*) in empowering the local government by allocating resources and responsibilities the grassroot levels, we felt the need to sensitize our local leaders on exercising prudence in spending the public resources. Besides, it was also necessary to nurture sense of community ownership of infrastructures and facilities created through public funds. The sensitization and awareness programmes in the Gewogs served dual purpose of creating awareness for both Gewog officials and people. Gewogs as service provider have the responsibility to ensure good governance in their operations and the citizens need to know their rights and duties in receiving the services. I believe we have been able to sensitize Gewogs on importance of achieving economy, efficiency and effectiveness in the use of public resources and citizens, on their rights to demand quality services/infrastructure as well as their duties to safeguard and nurture sense of ownership of



common facilities and infrastructure. The other reason for targeting Chiwogs was to create awareness on Citizens' Participatory Audits - a new approach RAA plans to operationalize in order to enhance quality of audit results by involving citizens/beneficiaries in the audit process.

As for the schools and institutions, I believe that as a potential bearer of responsibilities in near future, they must be sensitized about the auditing and accountability system in the public sector. The future leaders need to know what role they could play in creating a corrupt free society in future and also build questioning mind to demand accountability from those charged with governance.

I believe that RAA needs to continue with such programmes of sensitize and create awareness amongst range of stakeholders in order to understand the whole system of accountability with the government and public sector. This would go a long way in promoting transparency and accountability and building trust on overall public operations.

### Reinforcing Accountability Mechanism

As a public sector auditor, RAA recognized the importance of strengthening the system of accountability in promoting ethical values in the public sector. This was reflected as one of its strategic intents in SP 2015-20. The system of fixing accountability for lapses existed since long time. However, it was limited to only government and public officials. There was a need to extend it to private individuals who partner with the government in delivering goods and services based on contracts. The existing system did not oblige the private parties to be accountable for lapses committed by them. Especially in the works contracts executed by the private contractors, significant portion of lapses could be attributed to actions or inactions of those contractors but there was no system of holding them accountable. And hence, very often defaulters went scot free.



Instituted a system of holding private contractors accountable for lapse attributable to them in execution of public works.

We pursued dialogue with the Construction Development Board (CDB) to institute a system of holding private contractors accountable for lapse attributable to them in execution of public works. After rounds of consultations and meetings with the CDB and the representatives of registered private contractors, we signed MoU with the Construction Development Board in June 2018 to establish

a system of fixing accountabilities against the contractors and consultants on audit issues arising from their works. Under this arrangement, the private contractors and consultants are now required to clear the audit observations against them for renewal of their licenses. I am confident that this was a significant milestone for RAA in making the culture of accountability permeate into private sector of the country.

Further, system of fixing accountability was applicable for lapses noted in the financial audits. The need to extend this requirement to performance audits was also deliberated in the Parliament and the RAA was directed to institute similar system for performance audits. The rationale was to delineate responsibilities of addressing audit recommendations to specific officials. With the system in place, we experienced improved actions being taken on audit recommendations. I hope this would also go a long way in enhancing adherence to audit recommendations and bringing improvement of the overall public sector operations.

## DELIVERING RESULTS

Audit Reports are the main results of RAA through which it seeks to promote accountability and transparency in the government and public sector. As per SAI Strategic Management Framework, SAI's overall capacity in terms of institutional, organization systems and professional staff are preconditions to delivering outputs. All those initiatives that were undertaken to strengthen RAA's capacity as described in the previous sections were aimed at producing desired quality of outputs. The Strategic Plan recognized the capacity gaps and the strategies formulated during the period thus, were anticipated to culminate into desired results.

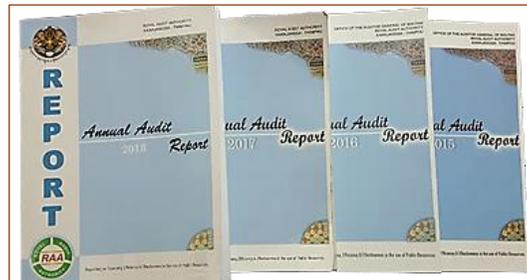
The achievement of results is not the end but the means to attain higher outcomes which are basically adding value and benefits to the lives of citizens. The RAA does not have direct control over the outcomes and impacts. Its strategic intents are in response to what is expected of auditing institutions in creating positive impact in society.

I believe that whatever activities and initiatives we pursued during the period have culminated into results we envisaged and hopefully delivered intended impacts. I take this opportunity to account the results of our works in terms of auditing and reporting during the last five years.

### Financial Audits

During the period, the RAA had conducted 2936 financial audits and issued 2813 reports. The financial audits concern certification of financial statements of the audited agencies. As per the Audit Universe updated in 2019, RAA has 816 agencies having 1014 accounts to be audited. Besides there are also 157 agencies which comprises of CSOs and Religious Organizations which are outsourced to private auditing firms. There are 44 entities comprising of government corporations and financial institutions which are audited by the statutory auditors empanelled by RAA. These audits are conducted under the supervision of the RAA.

Considering the vast audit universe for financial audits, the RAA continuously faced challenges of ensuring 100% coverage with the given manpower. In order to ensure that audit resources are diverted to areas where there is a real need, we continued with the strategy of categorizing agencies based on priorities and risks perceived.



The financial audit reports which are issued at agency level are consolidated into Annual Audit Report which is submitted to Druk Gyalpo and the Parliament. The AAR also contains Auditor General's certification on the Annual Consolidated Accounts of the Royal Government of Bhutan.

The first RAA's Outcome of the Strategic Plan 2015-2020 was to contribute towards ensuring *“Greater audit impact leading to improved accountability, transparency and ethical behaviour in the public sector in Bhutan”*. Through the financial audit, the RAA planned to focus on enhancing audit coverage to ensure timeliness of audit and relevance of audit

recommendations. This outcome was envisaged on the premise that if those charged with governance accept and act on the recommendations of RAA, financial statements of the audited entities will reflect a true and fair view their financial state of affairs (through unmodified audit opinion and thus, promoting financial accountability and transparency (improvement in the financial management system).

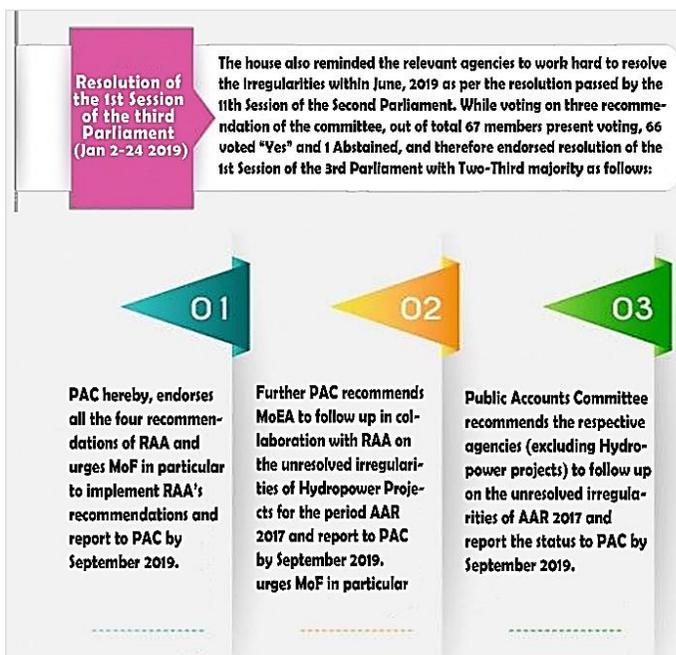
The primary purpose of financial audit is to express opinion on whether the financial statements are prepared in all material respect, in accordance with a financial reporting framework. Along with the opinions on the financial statement of the entity, we report cases of non-compliances or irregularities based on review of accounts and operations of audited agencies. These irregularities form significant part of the Annual Audit Reports. The irregularities and recommendations of the AAR are deliberated in the

Parliament and our past experiences showed that numerous parliamentary directives were passed for compliance by the government/public entities or officials. I believe that is a very effective practice of rendering basis for Parliament to hold the public officials accountable for their actions.

### Reporting on some of the significant irregularities noted in financial audits

The AARs report on total irregularities detected during the year. The RAA has the practice of classifying irregularities into fraud, embezzlement and misappropriation based on the established intention of the perpetrators. We share those issues with Anti-Corruption Commission for investigation. I believe it is worthwhile to share some such issues so gain insights into existence of such practices in managing the resources of the country.

We reported multiple cases of embezzlement and misappropriation amounting to Nu. 22.603 million in Dungsum Cement Corporation Ltd in the AAR 2015. These were intentional misrepresentations and manipulations committed by finance personnel in managing the funds of the corporation. There were total deficiencies in the controls and oversight in maintenance of accounts and regulating the finances. We noted cases of collusions within the finance division and other divisions. The audit was taken up as special assignment due to lead found during the regular audits. There were need for total overhaul of management and practices that allowed perpetration of frauds and corruption. Besides the cases of fraud and corruption, we also reported on various cases of mismanagement and violations which have had far



reaching impact of eroding the company's fund through various deceptive practices and total governance failure which nearly pushed the company to bankruptcy.

During the year 2015, the RAA unearthed misappropriation and shortages of cash and stock of food grains worth Nu. 7.295 million pertaining to Food Corporation of Bhutan Limited, Nganglam Depot. Further, there were also shortage of Nu. 3.621 million at Food Corporation of Bhutan Limited which was noted by their internal auditor and later reviewed and confirmed by RAA. The shortages were mainly due to non deposit and mis-use of food items. The cases were referred to the Royal Court of Justice and pursued for recovery of the amount embezzled and taking appropriate action on defaulters as per the law of the land.

RAA reported various cases of irregularities classified into fraud, embezzlement & misappropriation based on the established intention of the perpetrators.

The RAA reported embezzlement case involving Nu. 5.545 million pertaining to Jigme Dorji Wangchuk National Referral Hospital, Thimphu during 2014-15. It was established that the office assistant who was acting as Accounts Assistant had resorted to various manipulative practice of misrepresenting revenues collected and misusing it through teeming and lading, delaying the deposits for period ranging from 3 to 271 days. There were total lack of controls and supervision over revenue collection and deposits.

The RAA reported case of forgery and embezzlement amounting to Nu. 5.235 million pertaining to Election Commission of Bhutan. It pertained to postal charges for ordinary letters for the period 2010-2015 which were not supported by receipts and other necessary documents, which the RAA pointed out to be in contravention to the Financial Management Manual. The payments were made based on the summary invoice/bills without records of the details of the ordinary letters such as the receivers' details and number/quantity of such letters. After the RAA pointed out the lapses, the ECB had later confirmed/established as case of forgery and embezzlement committed by the dealing officials.

There was a case of misuse of cash amounting to Nu. 2.171 million committed by an accountant of the Ministry of Information and Communications in 2015. The RAA noted that various disbursement vouchers were approved without supporting documents or approval. There were indiscriminate booking of expenditures under various object codes on the basis of availability of fund balances. The RAA found that accounting records were missing indicating deliberate falsification and manipulations. Later the amount was recovered and the official concerned was terminated from service by the Ministry.

During the year 2015, the RAA reported a case of inadmissible payment of Nu. 3.015 million pertaining to Dzongkag Administration, Dagana. The RAA noted that the amount was paid at inflated rates in the final bill for the construction of multipurpose hall at Gesarling Middle Secondary School.

There was a case of misuse of cash amounting to Nu. 1.700 million in the Department of Culture. The RAA noted that Nu. 1.000 million was misused from the budget approved for construction of Hindu Temple at Thimphu and Nu. 0.700 million from the refundable deposit pertaining to the construction of National Conservation Laboratory. Both cases were perpetrated by the dealing accountants. The amount was later recovered in full and the case was referred to the court of law.

The embezzlement case involving Nu. 1.076 million was reported during 2015 which pertained to Natural Resources Development Corporation Limited, Zhemgang. The case was detected during the revenue audit and later confirmed by the RAA during its audit. The embezzlement was committed by both the incumbent and the former manager. The case was referred to Dungkhag Court, Gelephu and recoveries were made in full from both the officials.

The AAR 2016 reported case of serious misrepresentation of facts regarding insurance claims amounting to Nu. 6.665 million pertaining to construction of Retaining Wall at Minje Middle Secondary School under Lhuntse Dzongkhag. The RAA noted that though the works were documented to be taken over, there were only some remains of the one end of the wall at site. It was further established that retaining wall was washed away by the slide during the execution and it was never reconstructed despite the payment being made. The project management justified that after it was washed away, it was felt not necessary on reorientation of the layout of the football ground. However, RAA confirmed that the contractor had insured the work with Bhutan Insurance Limited. The RAA expressed its doubt on collusion between the project manager and the contractor.

In 2017, the RAA reported a loss of Nu. 6.623 million in the procurement of raw materials and office supplies by the Penden Cement Authority Limited (PCAL). The RAA pointed out total financial implication of Nu. 6.623 million due to systemic flaws in procurement aggravated by laxity of the purchase committee and purchase department in discharging their responsibilities. It was found that rates of items procured were exorbitantly higher than the rates paid in the past years and the existing market rates. The RAA also pointed out indications of bid rigging and other collusive practices in the procurement of the materials.

Several instances of misappropriation of government funds aggregating to Nu. 8.129 million by the dealing accountant were detected in 2018 in Dungkhag Administration, Phuntsholing. The fraud was committed by way of forgery and tampering of documents/records, double, excess and inadmissible booking of pay and allowances, misuse of fund transfer, leave encashment, LTC, irregular booking of advances, inflating contractor's claims etc. There were total lack of internal controls in disbursement of funds. Recognizing the severity and complexities of case, we forwarded the case to the Anti-Corruption Commission for further investigation.

RAA detected series of malpractice and malfeasance in accounts involving around Nu. 7.598 million committed by accounts official of the Dungkhag Administration, Samdrupcholing, Samdrupjongkhar. The malpractices included misappropriation of salaries, leave encashment and Leave Travel Concession (LTC) of employees, stipends of students and submission of false and fictitious bills and claims, misappropriation of rural life insurance and travelling and daily subsistence allowances. The frauds were perpetrated apparently due to lack of controls in sanctioning of expenditures.

Malpractices had occurred mainly due to lack of prudence and due diligence, inadequate supervision, monitoring and internal controls.

These are some of the significant irregularities detected during annual auditing of the agencies. These contained elements of fraud and misappropriation committed by officials in the absence of proper controls in managing the resources of the entity. The basic internal

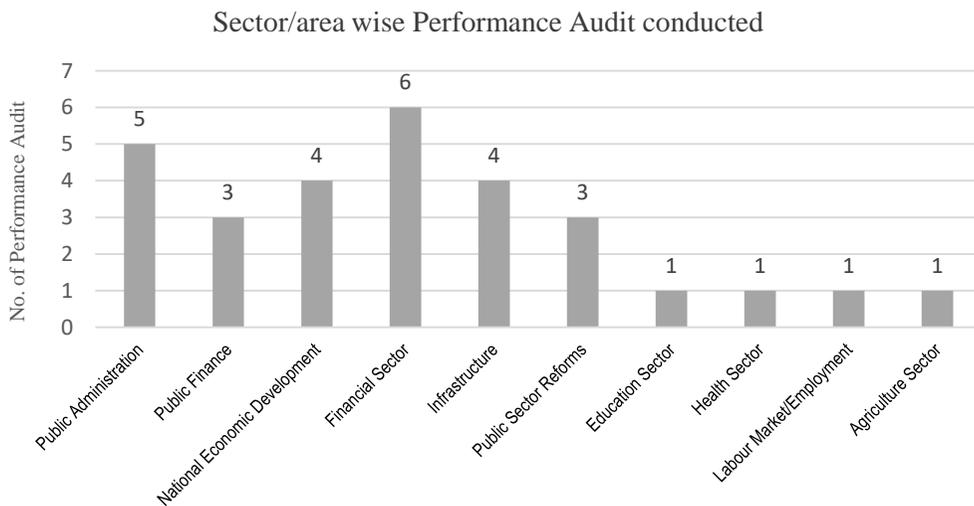
framework for various functions is prescribed by the Ministry of Finance to be followed by the agencies. Looking at the nature of the cases, it had occurred mainly due to lack of prudence and due diligence, inadequate supervision, monitoring and internal controls and lack of probity. It seems that the fraudulent means are generally fuelled by failure to uphold the basic principles of financial management by those entrusted with the responsibilities of managing public resources, and breach of integrity and morality of perpetrators. I hope few years down the line, if official in authority remain alert and ensure that at least basic controls are put in place, such malpractices could be curbed or reduced significantly.

### Performance Audits

During the period, we have completed 29 performance audits covering range of topics based on Performance Audit Guidelines. The guidelines prescribe parameters for selection of topics based on the risks, significance and potential to add value. The RAA has a system of having a separate Strategic Plan for Performance Audits which identifies list of topics/subject matter to be undertaken for review. However, the topics/subject matter is subject to change based on the relevance at the time of undertaking the audit. As a head of the institution, I have also directed some performance audit topics based on my perception of risks and issues and also potential to add value through our recommendations.

As the selection of audit topics undergo vigorous screening and prioritization process, we have been able to ensure adequate coverage of performance in terms of sector/areas. Even during the assessment of RAA's performance audit coverage under SAI PMF, RAA has fared well in terms of ensuring adequacy of its coverage. It is heartening to note that our practices are conforming to international practices and can be considered as one of the indicators of demonstrating our relevance to our stakeholders.

In order to provide some reflections on how we ventured into undertaking performance audits in different sectors/areas, and to highlight some of the issues and recommendations we reported for improvement, let me present sector/area wise performance audits we conducted.



1

**Public Administration**



IT Audit on efficiency effectiveness in public service delivery through G2C Platform

PA on Government Vehicles and Foreign Vehicles Quota System

PA on Urban Planning Development in Thimphu

2

**Public Finance**



Review of In-country Travel

PA on Business Income Tax Administration

Effectiveness of Controls in Public Expenditure Management System

3

**National Economic Development**



Review of Implementation of 11 Five Year Plan

PA on Gewog Development Grant

PA on Tourism Sector

PA on Preparedness for Implementation of SDGs

4

**Financial Sector**



IT Audit on Core Banking Solution of BoBL

PA on Microfinancing

PA on Business Opportunity Information Centre

PA on Revenue Collection and Management of Thimphu Thromde

IT Audit of RMA System

IT Audit of Core Banking System in BDBL

5

**Infrastructure**



PA on Housing Development Adequacy and Affordability

PA on Drinking Water in Thimphu Thromde

Joint PA of PHPA - I

PA of Road maintenance Works

6

**Public Sector Reforms**



PA Review of FCBL

Review of Judiciary System and Practices

PA of BCCI

7

**Agriculture/Education Health and labour**



PA on Food Self Sufficiency and Security

PA on School Feeding Programme

PA on Provision of Patient Meal

PA on Employment Generation and Promotion Initiatives

## 1. Public Administration

Public Administration assumes a central role in translating will of the Parliament/citizens through implementation of government policies. Besides the responsibility of spending the funds allocated by the Parliament, they have a significant role in planning, organizing and controlling of government operations. While the regularity of fund utilization is reviewed during the annual financial audits of audited agencies, performance audit specifically focus on performance and delivery of services. The general objective of performance audit in this area is to review deficiencies in implementation of the specific programmes/service delivery, identify impediments and provide insights into what improvement can be made in the form audit recommendations. The RAA during the last five years have selected five areas for performance audit which are discussed briefly as below:

### IT Audit Report on the Efficiency and Effectiveness in Public Service Delivery through G2C platform

The RAA conducted the audit basically to assess the efficiency and effectiveness in the public service delivery through G2c platform specific to online service delivery of issuing passports and service delivery related to rural timber permit under Department of Forest and Park Services. It mainly focussed on review of governance and management structure of the G2C system, efficiency and effectiveness of operations and controls and security of the IT systems.

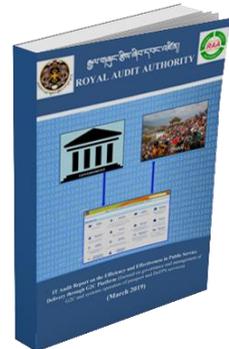
The RAA noted positive achievements such as creation of PM's desk for the effective monitoring of the public service delivery, launching of feature called eKaaSel which is used for raising grievances related to online services and its immediate redressal mechanism, launching of mobile apps and online payment system.

The deficiencies noted were mainly of development process of IT systems where proper documentations of prioritization of services for online services were not maintained. There had been transfer of knowledge taken place and training provided to the system users was found to be inadequate. The RAA also found inadequacy in the controls in processing online passports. The management of back up for both these services were also found to be inadequate exposing to the risk of losing data in times of disaster.

The RAA offered nine recommendations which are aimed at overall governance system of G2C services relating to passport and rural timber services.

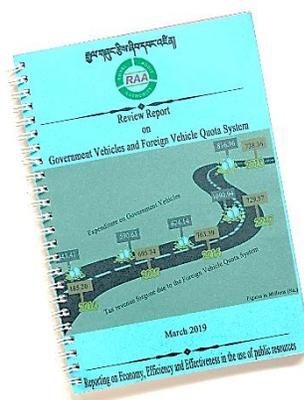
### Performance Audit Report on Government Vehicles and Foreign Vehicles Quota System

The government vehicle system in put in place since 1960's to improve public service delivery by the government machineries. The allotment and management of government vehicles were guided by extant rules issued by the Ministry of Finance from time to time. The RAA saw that a significant portion of government funds were spent on procurement and maintenance of government vehicles. As per the information from the Public Expenditure Management System (PEMS) of the Ministry of Finance showed that total cost of acquisition, maintenance and rental of vehicles accounted for Nu. 3,620.00 million from 2013-14 to 2017-18.



Since the acquisition and maintenance cost constituted significant portion of government expenditure, the RAA intended to review the existing practices of allotting pool vehicles and adequacies of controls in administration to ensure economic use, and compliances to the extant rules governing the management of pool vehicles along with the review of cost implication of allotting foreign vehicle quota.

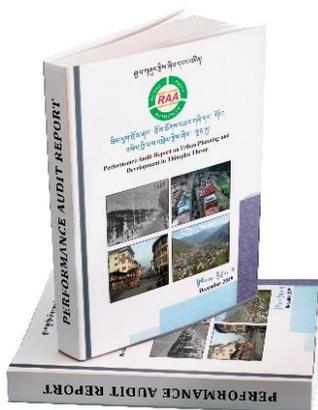
The RAA noted various deficiencies in overall strategies and rules and regulations for administration and management of pool vehicles as well as allotment of vehicle import quotas. We offered 11 recommendations to be addressed by appropriate authorities to ensure better management.



I believe that our recommendations are acted upon and the better management practices are facilitated through appropriate interventions of the authorities. The RAA hopes that the government may be able to curtail excessive spending and mismanagement driven by inadequacies pointed out in the report.

### Performance Audit of Urban Development in Thimphu

The RAA conducted the performance audit of urban development in Thimphu with the overall objective of ascertaining the existence of appropriate institutional framework for effective and efficient urban planning and development, and also to ascertain whether the planning and development initiatives are in compliance to standards and norms.



“Urban Planning” is understood as a form of State intervention in a development process consisting of many stakeholders, dominantly the private sector. It is more about bargaining, negotiation and compromise over the distribution of scarce resources like the ecology and land. The risk in the process is that urban plans could be modified in the interest of stakeholder or even for an agency and potentially can alter the resource distribution that market forces produce, causing some to gain and some to lose besides plaguing the planned development. The RAA intended to review the state of affairs in urban planning and development in responding to growing migrations and provide recommendations for improvement.

We reported on lack of clarity on institutional framework for implementing Thimphu Structural Plan leading to significant deviations in implementations of plans along with disproportionate representations of stakeholders in decision makings. There is issue of carrying capacity and sustainability of Thimphu Throm needing serious attention of authorities. We also reported on concerns with regard to the transportation system, sewerage system, slope analysis and housing affordability in the capital city.

We provided 11 recommendations aimed at not only mitigating current issues with regard to the implementation of the TSP but also aimed at providing a clearer and more transparent framework for urban planning and development activities in the country.

## Performance Audit on Delivery of OPD Services at JDWNRH

The Performance Audit on Delivery of OPD Services at JDWNRH was conducted to assess its efficiency in terms of turnaround time, ascertain optimal utilization of human resource and equipment and assess effectiveness of supervision and monitoring mechanism in delivery of consultations and diagnosis services.

The JDWNRH as an apex referral hospital in the country is mandated to provide highest level of care and treatment. Over the years, the number of patients visiting the hospital has increased manifold. The hospital also receives patients from hospitals from other Dzongkhags. Catering to the increasing demands, the hospital could be hard pressed if not backed by proportionate resources and facilities. As it concerns lives of people, neither it could compromise on the quality of services. In face of such challenges, we thought to be appropriate time for RAA to review the quality of services vis-à-vis allocation of resources both in terms of human and financial and suggest recommendations for further improvement of service delivery of the hospital.

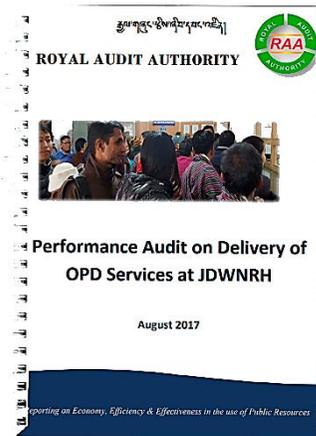
We reported lapses and deficiencies on registration, implementation of Health Information System, monitoring and evaluation, management and maintenance plan of equipment. We also pointed out engagement of doctors on-duty in OPD chambers in other administrative works potentially affecting the delivery of core services. The report included 11 recommendations aimed at improving the delivery of services by the hospital.

## Performance Audit of Disaster Management

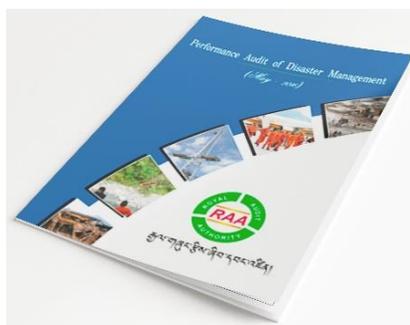
Geo-physically, Bhutan is vulnerable to multiple hazards such as Earthquake, Glacial Lake Outburst Flood (GLOF), Flash Flood, Windstorms, Forest Fire and Landslides that pose varying degrees of threat to lives and livelihood of our people. Disaster threat and reducing vulnerability has always been a concern for a small and vulnerable country like Bhutan. The adverse effects of disaster are many-folds. Besides losing the lives and properties at personal level, the mega-disasters have the potential to push back the entire economy of the country. The existing infrastructure would not only be wasted, but planned socio-economic activities would be de-railed as funds need to be re-appropriated and re-adjusted for rebuilding new infrastructure.

The Parliament enacted the Disaster Management Act in 2013 with an objective to protect the lives and properties of people, ensuring safety and security of public assets and services by reducing and managing risk arising out of disaster. Further, the DMRR 2014 was framed to establish an administrative and regulatory framework for disaster.

We conducted the audit with an overarching objective to ascertain whether the agencies charged with the governance and management of disaster have geared their efforts towards ensuring that the country, in general is safe and resilient against potential disasters facing the country.



We reported inadequacies in institutional framework and lack of strategic focus on disaster management in the country. The hazard zonation and vulnerability mapping, disaster management and contingency plans were yet to be carried out and developed. The government was seen to focus mainly on post disaster relief activities and few initiatives were taken on prevention, preparedness and rehabilitation. There were inadequate considerations for constructions of critical infrastructures, such as Emergency Operation Centers at National and Dzongkhag levels. The DDM, as the nodal agency for disaster management has not played proactive role in managing disaster in the country. Proper coordinations were not seen pursued amongst sectors and agencies for holistic management of disaster within the country. In overall, on the basis of observed deficiencies, it appeared that the disaster institutions were not well positioned to respond to major disasters in the country.



The report contained 11 recommendations to be addressed by the appropriate authorities to ensure better preparedness should there be major disasters in the country.

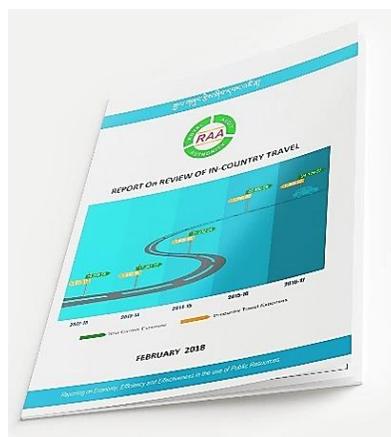
## 2. Public Finance

Public finance includes vast area of managing country’s revenue, expenditure and deficits. The Consolidated Financial Statement of Royal Government of Bhutan, which is certified by the RAA include components of country’s total revenue, expenditure and deficits. The certification is based on annual financial audits of budgetary agencies including revenue collecting agencies which are carried out at entity level. During the period we have ventured into conducting three performance and thematic audits with specific focus on Public Finance Management to recommend measures for improvement in those areas.

### Review of In-Country Travel

The Travel Allowance (TA) and Daily Allowance (DA) are paid to facilitate and compensate civil servants to travel if required by the job. Annually, travel expenditure (In-country travel) forms more than 8% of total current expenditure of the country excluding travel expenditures booked under work charges, both in-country and ex-country trainings and In-country meetings.

Based on the report generated from the Audit Information Management System (AIMS) of the Royal Audit Authority (RAA), for the Financial Years 2012-13 to 2015-16, an amount of Nu.8.5 million has been recorded as financial lapses related to travel claims without performing the tour, irregular/inadmissible payments and travel payments made without adequate supporting documents.



Recognizing that the trend of such pilferages account for substantial amount at the national level, the RAA

intended to carry out specific reviews to identify loopholes and inadequacies in controls at agency level and recommend measures to improve regulating official tours and management travel budget.

We reported anomalies in the governing rules prescribing admissibility, inadequate controls leading to officials making unnecessary tour, bogus claims, early exhaustion of budget etc. We concluded that if no proper controls are in place to regulate official tours, it may have significant burden on government fund. Our report contained 10 recommendations to put in appropriate measures for better administration of travel of officials.

### **Performance Audit of Business Income Tax Administration**

BIT is one of important sources of revenue of the country. In the year 2013, of the total tax revenue, BIT represented 11.02%. During the period from 2009 to 2013, BIT contributed over Nu. 6,590.856 million to the national exchequer. During the same period, the contribution of revenue through BIT as a percentage of GDP on an average was 1.46%.

The Tax as a percentage of GDP has remained consistently around 15% from 2009- 2013. Bhutan's debt to GDP ratio stood at 108 per cent in September 2014 and it was anticipated that the debt to GDP ratio would increase to 121 percent by 2016-17. In such economic conditions the socio-economic development must be complemented through progressive taxation system as tax is the most important source of government revenue.



The importance of internal revenue is further driven by the Article 14.6 of the Constitution of the Kingdom of Bhutan that stipulates “The Government shall ensure that the cost of recurrent expenditures is met from internal resources of the country”.

We took up the audit with the objective of ascertaining economy, efficiency and effectiveness in the administration of BIT with specific focus on reviewing institutional framework, compliance to authorities and implementation of intended objectives of Fiscal Incentives (2010).

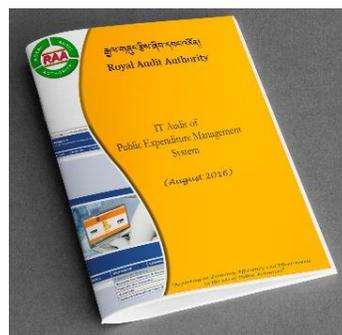
We reported deficiencies of lack of human resource, lack of coordination amongst relevant agencies, absence of mechanism for vigilance for tax frauds and evasions, slack of effective system of assessment, inconsistent data and information etc., which have potential to impede effective administration of BIT. We made 11 recommendations to be acted upon by appropriate authorities to address the observed issues.

### **IT Audit Report on Effectiveness of controls in Public Expenditure Management System**

The Public Expenditure Management System (PEMS) is a web based public financial management system developed and implemented by Department of Public Accounts. It is

basis for budget execution, in-year reporting and annual financial reporting and covers the revenue and expenditure of all government budgetary bodies.

Since PEMS is a critical financial system for budgetary agencies and for that matter the Royal Government, it is imperative to have adequate controls embedded in the system to reduce risks of misrepresentation of financial statements, manipulation, frauds, errors, and other irregularities. Understanding the criticality of PEMS and recognizing the importance of protecting the integrity and availability of financial information in PEMS, the RAA decided to carry out the IT audit of PEMS with a particular emphasis on the effectiveness of controls in relation to financial management.



The RAA conducted the audit with an overall objective of determining the existence, adequacy, and effectiveness of controls in PEMS in relation to financial management. Further, the RAA aimed to identify risks and control weaknesses in PEMS that might open vulnerabilities in the system for manipulations and fraud.

We found numerous lapses and inconsistencies mainly contributed by weak or inadequate input and validation controls, which have resulted in accepting dummy, invalid or junk data. This in turn had led to a host of other problems such as incorrect processing of data and inaccurate information generated by PEMS, ultimately, impacting overall financial statements as well as impeding sound financial management system in the country. We provided 17 recommendations to be addressed by the department before considering government's plans to implement electronic fund transfer (e-payment gateway).

### **Performance Audit of Revenue Collection and Management in Thromdes**

As per the Article 22 of the Constitution of the Kingdom of Bhutan, Thromdes are empowered to levy, collect, and spend the revenues and are provided with additional government grants. Our interest to conduct performance audit of revenue collection and management in Thromdes were basically driven by our past audit reports. Numerous deficiencies and lapses on revenue management were reported repeatedly in the past audit reports. We chose to conduct separate review of the revenue management of four Class A Thromdes basically to render basis for improvement through our recommendations. The overall objective of the audit was to assess the efficiency and effectiveness of revenue collection and management specifically focussing on process of collection and account of revenues.

We reported various weaknesses and deficiencies largely attributable to lack of strategic direction and drive to achieve financial sustainability, lack of institutional capacity, weak internal controls, and inadequate governance. The existence of mismanagement and the consequent leakages and losses of revenues were of serious concern to be tackled by all Thromdes. The report contained 14 recommendations for improvement of processes, systems and management of revenues.

### **3. National Economic Development**

The area of National Economic Development is vast and ranges across all sub-sectors that contribute to country's economic development. The RAA as the public sector auditor, it has

a significant role in contributing to economic development through reviewing of systems, operations and activities of public sector entity involved in pursuit of contributing to economic development to ascertain they are executed or they function within framework of budget, objectives, rules and regulations. We have ventured into conducting four performance audit in areas of development to review their systems, operations and performance.

**Review of Implementation of 11 FYP**

The 11 FYP was based on the Results Based Planning (RBP) framework that articulated the outcomes and outputs needed to be achieved over five years so as to achieve the Plan objective “Self-reliance and Inclusive Green Socio-Economic Development”. The overall expenditure for the 11 FYP was Nu.247,869.89 million. The review was carried out given the substantial amount of resources involved and important economic development programmes.

The review was carried out with an overall objective to ascertain to what extent input deliverables, activities, targets/goals and objectives set in the 11 FYP are achieved. The review focus on the formulation process of targets and indicators at the national and agency levels and to ascertain the extent to which the overall objective of 11 FYP are realized by assessing the achievement of National Key Result Areas (NKRAs) and Sector Key Result Areas (SKRAs).

We intended to provide insights into process of formulation of plans, execution and monitoring of output to render basis for formulation and implementation of future developmental plans.

We reported various issues on process of planning including feasibility studies and identification of programmes and strategies, documentation of baseline data, non-attainment of targets, monitoring and evaluations, validation of data and information, inconsistent data, and performance evaluation at the end of the plan period. We provided three recommendations basically on formulation of performance targets, monitoring and reporting and ensuring data integrity in collaboration with relevant agencies.



**Performance Audit on Gewog Development Grant**

The Gewog Development Grant (GDG) was aimed at strengthening good governance and decentralization process at grass root level which provided allocation of Nu. 2.00 million per annum to each Gewog. The principle of providing GDG was to promote ‘Wangtse Chirphel’ for all Chiwogs with full discretion in using the Grant for its specific local needs and priorities. It was promote people’s participation in the local development process. The Grant is also intended to bridge the resource gap faced by the Gewogs in implementing planned activities within the annual budget, and thus, enable the Gewogs to achieve their plan target and also help in facilitating quicker public service delivery.

The RAA conducted the audit with an overall objective to ascertain and report on the economy, efficiency and effectiveness in the use of GDG and the achievement of the Grant’s intended objective. The RAA specifically focused on ascertaining the adequacy and

compliance to authorities governing grant, reviewing the system of allocation of Grants within the Chiwogs/Gewogs and monitoring and reporting systems of implementation.

We noted issues of inconsistencies in the GDG Guidelines, non-compliances to guidelines in implementation, poor quality of infrastructure, lack of monitoring mechanism, distribution of grant no based on population, poverty incidence, and level of development, and lack of ownership for infrastructure created. Based on the deficiencies noted, we provided nine recommendations to address the issues.

### Performance Audit Report on the Preparedness for Implementation of SDGs

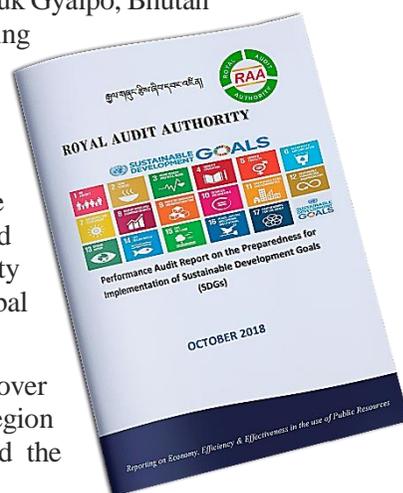
The SDGs are a universal set of goals that are applicable to everyone, and to which all must contribute. They are comprehensive and holistic: Goals 1 to 6 covers the social dimension, Goals 7 to 11 covers the economic dimension, and Goals 13 to 15 covers the environmental dimension. Goal 16 deals with the issue of peace and security, and Goal 17 deals with the Means of Implementation and Global Partnerships. 2.2 Philosophy of Gross National Happiness (GNH) and Sustainable Development Goals (SDGs).

Under the visionary leadership of His Majesty, the fourth Druk Gyalpo, Bhutan propounded Gross National Happiness (GNH) as its guiding development philosophy since 1970s. With the principle of sustainable development embedded at the core of the GNH, Bhutan has been pursuing sustainable development for more than four decades. As both Gross National Happiness and 2030 Agenda aspires to pursue a sustainable socioeconomic development path, Bhutan swiftly welcomed the 2030 Agenda in pursuit of achieving peace and prosperity for the wellbeing of people and planet through global partnerships.

During the 70th UNGA, Bhutan was identified as an early mover country (SDG priority country) in the Asia Pacific region amongst other countries like India, China, Indonesia and the Philippines for the implementation of SDGs.

In line with the Constitutional responsibility and the RAA's Strategic Plan, the RAA expressed its interest and commitment to participate in the Cooperative Performance Audit on the 'Preparedness on the implementation of Sustainable Development Goals (SDGs)' initiated by the KSC-IDI (INTOSAI Knowledge Sharing Committee – INTOSAI Development Initiative). Accordingly, the Performance Audit on the 'Preparedness for the Implementation of the SDGs' was conducted by the RAA. The RAA focussed on ascertaining adaption of 2030 agenda and evaluate whether there is adequate mechanism to monitor, follow-up, review and report on progress of implementation of the 2030 Agenda.

We noted that the Royal Government had already undertaken many important initiatives to implement SDGs and was identified as early mover country in Asia Pacific Region. Notwithstanding positive developments, we found the need for a clear policy directives and extensive mapping of SDGs activities and targets with five year plans. There was also need



for collaborating with stakeholders including non governmental, marginalized and other groups in implementing SDGs.

### **Performance Audit of Tourism Sector**

The Government had identified tourism sector as one of the five economic jewels of the country besides Hydropower, Agriculture, Cottage & Small Industries, and Mining. After hydropower, tourism sector was a major driver of economic growth and development in Bhutan. The Sector had not only contributed significantly to the national revenue and foreign exchange reserve but has also been a major source of employment to the Bhutanese people, particularly to the youth. Additionally, the Sector also creates spin-offs to various other business, including small and micro enterprises. The contribution from tourism sector towards economy was significant, especially in terms of generating hard currency. Gross earnings from tourism increased from USD 47.68 million in 2011 to USD 71.05 million in 2015. Similarly, jobs in various sectors such as guides, hotels, restaurants, the national airlines and handicrafts has increased from 18,778 in 2011 to 26,508 in 2015.

The RAA conducted the performance audit of tourism sector with an overall objective to ascertain and report on the economy, efficiency and effectiveness in the operation and management of tourism in the country. We specifically focussed on reviewing adequacy of legal and policy framework, assessing the effectiveness of internal controls in preventing or checking the occurrences of undesirable practices such as, undercutting of applicable tariff, reviewing the adequacy of monitoring and coordination mechanism and evaluating the achievement of targets and objectives of the Sector.

We reported the issues of lack of institutional framework in terms of Tourism Act or Tourism Policy, inconsistency in application of rules and regulations, influx of regional tourist without proportionate increase in revenues, some operational issues in the system of assessment and accreditation of hotels, coordination with relevant agencies and non-achievement of plan objectives. The report contained seven recommendations for further improvement.

## **4. Financial/Banking Sector**

We conducted five performance and thematic audits of specific areas/topics for banking sector in the country. The topics or areas chosen for review were basically operations of IT Systems and government programmes in extending credits through specific banks.

### **Performance Audit of Microfinancing**

The concept of microcredit began in the 1970's when pioneers such as Grameen Bank started providing tiny loans to groups of women to start small businesses. In Bhutan, Micro financial services were being provided before 1998 by Bank of Bhutan, Royal Monetary Authority and Food Corporation of Bhutan.

Later in 2016, the Royal Monetary Authority came up with rules and regulations for deposit taking and non-deposit taking micro finance institutions (MFI's). As of today there are five MFI's namely REDCL, RENEW Microfinance, BAOWE and Bhutan Care Credit including BDBL for its microfinance operations. Even after decades of introduction of microfinance services, there is still high rates of poverty, increase in food imports and rise in unemployment. In this backdrop, RAA embarked on the Performance Audit of the

microfinance with the main objective to ascertain the efficiency and effectiveness of microfinancing services in terms of agricultural development, poverty alleviation, women empowerment and entrepreneurship. The RAA also aimed to ascertain whether there are clear strategic focus, appropriate systems of appraisal, approval and follow-up mechanisms for microcredit.

It was revealed that there are no policy objectives although there is rules and regulations governing operations of MFI's. There was no clear linkage between microcredit distribution and poverty incidences. Only about 5% of total loans were devoted to agricultural development. It was found that the NPL of the microfinance is higher than the overall NPL in the banking industry. The operations of BDBL and REDCL had issues pertaining to sustainable operations. BDBL sustained overall losses in past five years and REDCL absorbed much higher losses leading to questions of going concern issues. There are issues of inadequate appraisal of loan projects leading to failure of projects. There are cases of project failures due to non-monitoring of the projects. In fact project monitoring was not undertaken for most of the loan projects. Non-monitoring is one of the main reasons for failure of loan projects. It also revealed that there are undesirable socio-economic impact of microfinancing on rural people. BDBL had large number of litigation issues across the country. Similarly, there were instances loss of land and property due to loan delinquency in relation to loans in BDBL. RAA observed issues of incorrect application of interest rates on loans. It was also observed that the REDCL loans were focused on agricultural projects and the disbursements were inconsistent with the cropping patterns and seasonal requirements. RAA made six recommendations with the aim of mitigating the aforementioned issues and aimed at long term development of microfinance in the country.



### IT Audit of Core Banking Solutions in BoBL

BoBL had made huge investments in IT solutions and infrastructures and had procured off-the-shelf Core Banking Solutions (CBS) which was implemented since April 2016. It was intended to reap the benefits of IT in business operations in providing secure, reliable and efficient value-added services to customers and to automate its banking processes. The objectives of the audit was to review change management and migration, adequacies and effectiveness of controls and business process are conducted in compliance to applicable rules, regulations, guidelines and standards.



Notwithstanding the positive changes brought in through introduction of CBS, the RAA observed few lapses which would potentially impede its efficiency of operations and delivery of services. The lapses pertained to input validation and access controls that are critical to ensuring integrity of data and also prevention of undesirable acts of perpetrators. We provided five recommendations that are intended to enhance controls and related aspects in TCS BaNCS in order to meet the business objectives through efficient application of technology in banking.

## Performance Audit of Business Opportunity and Information Center (BoIC)

The BOIC was established as an autonomous agency to take the lead role in implementing the projects for financing under the revolving funds with an independent governance structure. The revolving funds are part of the grant support for the implementation of the Economic Stimulus Plan (Dec 2013). The operation of BOIC was funded from the revolving funds, to be adjusted in the future, from the gross interest earned over the period of 10 years, from the deployed ESP Fund of Nu. 4,000 million. Later in May 2016, the BOIC was dissolved by the Government and it was decided to redeploy the revolving funds through a Special ESP MSME Financing window in BDBL as an interim measure while the RMA issues a non-banking financial institution license to the newly formed, state owned enterprise, REDCL, after which both the Revolving funds will be managed by the REDCL.

The RAA had taken up the performance audit with the objectives verifying adequacy of policy and institutional framework, review utilization of fund allocations and monitoring system instituted. We suggested 12 recommendations for improvement of its operations.

## IT Audit of System of Royal Monetary Authority

The RMA had requested for IT audit of various IT systems of Integrated Central Banking System (ICBS), Indian Rupee and Online Convertible Currency (INR/CC) and Authorized Money Changer (AMC) as per the recommendation of its statutory auditors. Recognising the role and mandate of RMA to ensure monetary stability in the country and the significance of IT systems in achieving this mandate and enhancing its operational efficiency, the RAA has carried out the IT audit of covering the period 01 January 2018 to 31 December 2018.

The RAA observed several shortcomings and deficiencies that require further improvements. In particular, the system objectives were not achieved as the IT systems were either not optimally utilised or did not cater the needs of the users, in other words they do not adequately support RMA's business operations. Apart from this, there were inadequate IT controls in the selected IT systems. These lapses were largely caused by the IT systems and policies being in its early stage of implementation. The RAA has provided four recommendations to address the weaknesses and implement strong controls in order to render the IT systems effective and credible.

## IT Audit of Core Banking System in BDBL

With the increased use of IT in Banks and with the aim to bring operational efficiencies, transform as a bank, and overcome the limitations of the legacy system, the Bhutan Development Bank Ltd. (BDBL) in 2017 implemented Finacle Core Banking Solution (CBS) with a "big-bang" implementation strategy. The IT Audit on Core Banking Solution in BDBL was carried out with the objectives of assessing the effectiveness of system migration including accuracy and completeness, incorporation of compliance requirements, adequacy and effectiveness of IT controls in Finacle CBS.



Notwithstanding the positive effects of Finacle CBS, the RAA observed several shortcomings and deficiencies that require further improvements. These lapses were largely caused due to inadequate control over system migration and inadequacy of supervisory and monitoring controls. These had had resulted in numerous non-compliances to RMA requirements.

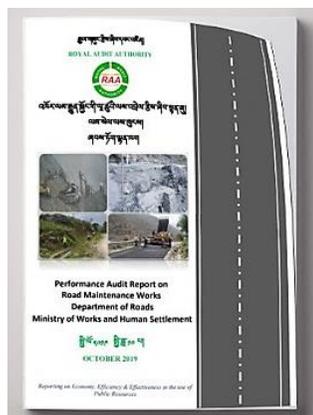
We suggested four recommendations in bringing out improvements in the system, design and controls to ensure efficient and effective business operations of the bank.

## 5. Infrastructure sector

The areas of infrastructure include creation of physical assets such as power, roads, bridges and other amenities on which the government spend substantial amount of funds yearly. Infrastructure being the basis for propelling socio-economic development, it is imperative that government derives value for money in its investment. While the regularity of expenditure is reviewed through the regular financial audits, the thematic reviews through performance audit are basically to carry out holistic assessment of these areas as to its overall management and systems and their operational efficiencies. We have covered four areas of infrastructure development for performance audit during the year.

### Performance Audit of Road Maintenance Works

Investment in road sector is one of the top development priorities of the government. During the period 2013-14 to 2017-18, the budget of Department of Roads including nine Regional Offices was Nu. 29,323.77 million constituting 83.28% of the total budget of the Ministry. The expenditure incurred on road maintenance works amounted to Nu. 2,666.54 million constituting 9% of DoR's budget.



The RAA conducted the Performance Audit on Road Maintenance Works with the overall audit objective to ascertain economy, efficiency and effectiveness of management of road maintenance works.

We reported several operational deficiencies that are apparently inhibiting effective delivery of services. These included inadequacy of maintenance plan, inventory of assets created, lack of coordination amongst relevant agencies etc. along with challenges relating to budget and manpower. The report contained eight recommendations that the department could consider for ensuring safe, efficient and reliable road network in the country.

### Performance Audit of Housing Development – Adequacy and Affordability

Although there had been significant investments in housing development by mandated institutions such as NHDCL, NPPF, private real estate developers and private individuals, the problems of shortage of affordable housing continue to be faced in the urban centers.

We conducted the audit with the objective of ascertaining effectiveness of national housing development activity including home ownership programmes in providing affordable and livable housing in urban centers.

We noted numerous issues related to policy directions, increasing migration, affordability, saturation of carrying capacity of Thromde forcing out people to beyond borders and informal settlements characterized by substandard living conditions and sanitation, and escalating cost of constructions. We noted that housing development issues are traced to a number of causes such as population, land, finance, construction materials and legal & policy inadequacies. Scarcity and high land prices were pushing the cost of housing construction. High cost of financing and a lack of dedicated housing financial institution also acts as a hurdle for housing development. We have suggested six broad recommendations to be considered for improvement in housing development in the country.

### **Performance Audit of Drinking Water in Thimphu Thromde**

We conducted the audit with the objective of ascertaining efficiency and effectiveness of providing safe, adequate, reliable and equitable drinking water by the Thimphu Thromde. We focussed on reviewing adequacy of existing sources to meet the demands, and how safety of drinking water is ensured.

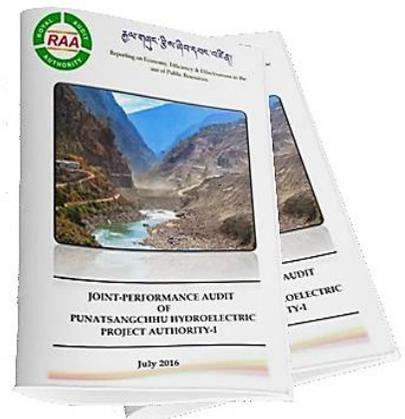
We reported on issues of shortages, inequality in distribution, unregulated illegal sourcing by individuals, pilferage in the water network leading to loss of revenues, non conduct of regular quality testing, and other related operational issues. Based on the audit findings, we provided 15 recommendations may help Thimphu Thromde formulate appropriate strategies, and institute systems and processes to provide safe, adequate, reliable and equitable drinking water to its residents.

### **Joint Performance Audit of Punatsangchhu Hydroelectric Project Authority-I**

In the back drop of cost overrun of PHPA I Nu. 35,147.85 million to Nu. 93,755.83 million and anticipated time overrun of more than three years, the RAA intended to review the administration of project with specific focus on planning, execution and monitoring aspect of the project. The audit was carried out jointly with the Office of the Director General of audit (Central), Kolkota on behalf of CAG, India. The national concerns of this magnitude warranted the reporting the factual position through our audit report.

We report various shortcomings of preliminary studies in preparation of DPR that led to change in specifications or technology due to long delay in certain items of work which had cascading effect on subsequent stages. We found that around 65% of total estimated cost overrun was attributable to execution of extra/deviated items and around 35% to price escalation over the period. We pointed out notional loss of ranging from Nu. 45,000 million to Nu. 65,000 million due to time and cost overrun.

We made 11 recommendations aimed at addressing issues and instituting corrective measures for ongoing project and to draw lessons for future mega projects involving huge public funds such as this.



## 6. Public Sector Reforms

While every audit is intended to result in improvement of public sector, the three specific audit reports were carried out to bring about significant reforms in its operations. The institutions are expected to be capacitated to be able to deliver its specific mandates and deliver results based on expectations with which they were established. In providing insights into current state of affairs and suggest recommendations for improvement, we conducted performance audits of three institutions.

### Performance Audit Report on Food Corporation of Bhutan Limited

We conducted performance audit of FCBL with the overall objective of ascertaining economy, efficiency and effectiveness in the operation with specific focus on legal and policy framework, corporate governance, operational effectiveness of FCBL. FCBL is a State-Owned-Enterprise established in 1974 and has a social mandate of maintaining National Reserve of food stocks and stability of food prices.

We noted that the Corporation is faced with challenges of funds to deliver its social mandates of maintaining food reserves. It was not able to maintain the National Food Security Reserve and SAARC Food Security Reserve due to constraints of funds. There were overlap in the powers and responsibilities of governing authorities and conflicting provisions in the legislations and guidelines fuelling conflicts of direction and diffusing accountability. There were serious deficiencies in controls creating vulnerabilities in safeguarding assets of the corporation.

We proposed nine several recommendations intended to address shortcomings and improve its internal control to achieve its organizational goals and objectives.

### Performance Audit Report of Bhutan Chamber of Commerce & Industries

The performance audit of Bhutan Chamber of Commerce and Industries (BCCI) was conducted with the overall audit objective to ascertain economy, efficiency and effectiveness of its operations. We specifically focussed on reviewing adequacy of legal and policy framework, strategic focus vis-à-vis its role in private sector development, financial sustainability and human resource strategies of BCCI.

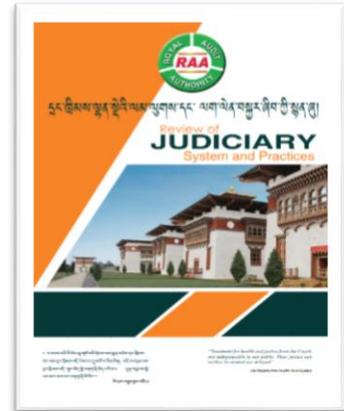
We observed that BCCI lacked clear mandates and its strategic focus in terms of its longterm goals. There were issues and inadequacies related to internal governance. There is a lack of appropriate systems and policies in carrying out its day to day functions. Based on the issues noted, we provided 15 recommendations aimed at strengthening institutional capacity and internal controls in managing its affairs and in fulfilling its organizational goals and objectives. We also reported that there is enormous opportunity to pursue value added partnership with government in fostering private sectors through developing its longterm intents.



## Review of Judiciary System and Practices

Our review of Judiciary System and Practices was aimed at ascertaining efficiency and effectiveness of the Judiciary in delivering fair, just, and equitable justices. It entailed ascertaining the existence and adequacy of legal and institutional framework, efficiency of case management system and practices, timeliness of delivery of justice, and the consistencies of delivery of judicial services.

Over the years, the Judiciary has made considerable progress in strengthening its legal, institutional, professional and technical capabilities in its pursuit to deliver justice and upholding the rule of law. Despite progressive reforms and improvements made, the RAA identified many areas where considerable scope for further improvement exists. Inadequacies persist in legal and institutional framework, human resources, operational areas and case management besides other areas. We offered 18 recommendations for improvement in overall administration of cases, internal governance and delivery of judiciary services.

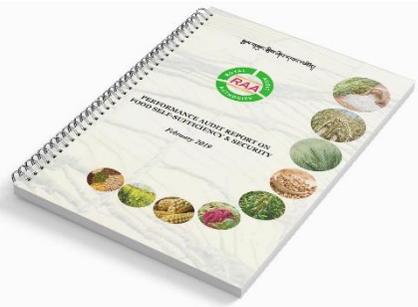


## 7. Education, health, agriculture sector and labour/employment

We conducted one performance audit each for areas in education, health, agriculture and labour/employment. These are specific themes based on programmes developed under these sectors/areas.

### Performance Audit of Food Self Sufficiency and Security

Agriculture is one of the five important jewels for economic development in the country. Food and Nutrition Security (FNS) Policy of the Kingdom of Bhutan, 2014 provides the overall vision, goals and objectives for poverty reduction and addressing food insecurity. As such, guaranteeing food security as basic human rights has been the principle policy objective of the Royal Government of Bhutan (RGoB). Bhutan, despite having adequate legislative tools, policies and earnest efforts to increase food security, the sector's growth had remained insufficient in enhancing food self-sufficiency and security. Although agriculture sector has the highest share of employment with 57.2%, its contribution to Gross Domestic Product (GDP) is 16%. Bhutan's food basket comprises of 151 items (436 varieties) wherein domestic goods and services comprises of 48.01% and 51.99% of imported items. Bhutan is especially vulnerable in terms of food self-sufficiency due to high dependency on cheap imports from neighbouring countries.



In the backdrop of the existing situation, we conducted audit with the objective of ascertaining efficiency and effectiveness of food self sufficiency and security programmes of the government. We reported deficiencies in coordination between agencies for implementation

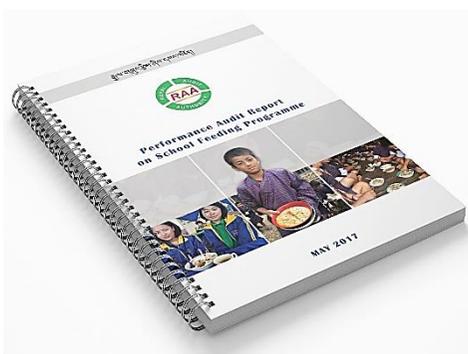
of FNS policy and thereby posing host of challenges related to agriculture production. The increasing fallow land, human wildlife conflict, limited credit facilities, inadequate agricultural infrastructure, etc were some of the are some of the challenges faced by the sector. Based on the inadequacies observed, we made 14 recommendations intended to further enhance performance of agriculture sector in achieving its mandates.

### **Performance Audit of School Feeding Programme (SFP)**

The SFP is a collaborative initiative between the WFP and the RGoB that was started 40 years ago with an aim to increase enrolment and attendance rates and also to improve the short term nutritional status of school going children. Apart from these, the programme also aims to encourage children to attain school education, alleviate short term hunger, and improve the health and learning capacity of the students.

The audit was carried out with an overall objective of ascertaining economy, efficiency, and effectiveness in RGoB fully funded SFP with specific focus on quality and nutritional values of food provided to the students.

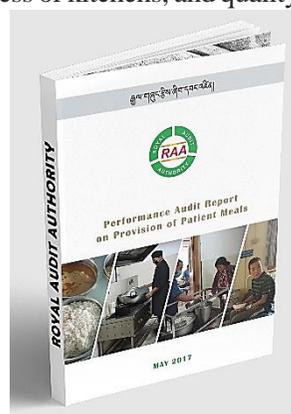
The RAA noted that the Department of School Education had taken initiatives to improve SFP and also to improve the nutritional status of the schoolchildren. Despite positive contributions of SFP and the initiatives of the Ministry of Education, the RAA also observed numerous shortcomings and deficiencies in the management of school feeding. They were lack of standard for dietary requirements prescribed for school going children, lack of monitoring system and lack of storage facilities. We provided 13 recommendations to improve overall management of school feeding programme and also to ensure health of the school going children.



### **Performance Audit Report Provision of Patient Meals**

In order to improve inpatient food services, the Ministry of Health has developed a guideline for inpatient food service system in 2013 and appointed dieticians in hospitals as well as engaged them in menu planning, ensuring food safety, and cleanliness of kitchens, and quality control of patient meals. Good nutrition, particularly provided through hospital meals, plays an important role in patient's recovery and well-being, reducing hospital stay, and minimizing hospital costs. Efficient and effective inpatient food service system has the potential to improve the health outcomes of patients and bring cost-savings to hospitals which in turn can contribute towards reducing a significant burden to the overall healthcare system.

The RAA conducted the audit with an overall objective of ascertaining the value for money in provision of patient meals focusing on nutrition and management of patient meals. In order



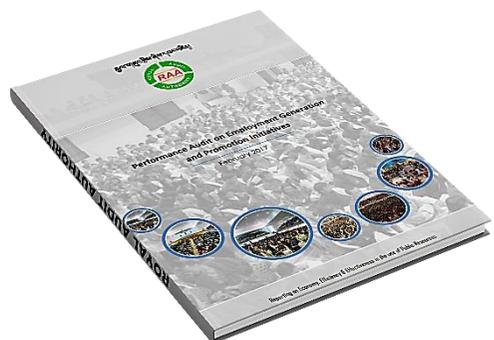
to meet the broad objective, the audit specifically focused on food service system, quality and safety, and physical storage of food items.

We observed that patient meals were not provided based on nutritional conditions of the patients. The food indenting process was inefficient resulting in wastage of resources. Moreover, the daily nutrient intakes as per Ration Scale do not generally meet the WHO Recommended Daily Requirement. Menu planning was found to be ineffective and meal times were not made conducive to encourage patients to increase food intakes. Further, there was poor knowledge of food safety in practice. We provided 10 recommendations for further improvement in inpatient food services.

### **Performance Audit on Employment Generation and Promotion Initiatives**

Creating gainful employment with a focus on quality is a key priority for the Royal Government of Bhutan (RGoB). Unemployment in Bhutan was first witnessed in 1990s which was then 1.4%. The Labour Force Survey Report (LFSR) 2015 reported current unemployment rate as 2.5% thereby achieving the employment target of 97.5%. Yet, youth unemployment still remained a glaring issue which has been reported in all LFSRs. Ministry of Labour and Human Resource (MoLHR), as the lead agency, had initiated various employment facilitation programmes to address employment related issues in the country. The employment facilitation programmes are broadly categorized under Guaranteed Employment Programme (GEP), Internship Programmes and Skills Development Programmes (SDP).

The audit was conducted with the overall objective of ascertaining the economy, efficiency and effectiveness in the employment generation and promotion initiatives specifically focussing on job creation targets of 11th FYP, and employment promotion and facilitation programmes of the government.



Notwithstanding progresses made, we noted inadequacies in collaborating with relevant agencies, inadequate need assessment, and monitoring mechanisms. There were shortcoming in the implementing mechanism which had led to underachievement of targets. The RAA provided nine recommendations for improvement in the implementation of employment creation programmes and achieving the performance targets.

The RAA has encompassing mandates in terms of undertaking audits of government and public sector entities. Particularly for performance and compliance audits, the legal mandate is wide and scope is flexible. We have a system of for selecting audit topics to ensure that topics selected are significant and are likely to have an impact. The topics we have chosen during the period had undergone vigorous process of selection and we have ensured that pertinent areas (atleast covering suggested areas as per international practice as specified as one of the criteria of the SAI PMF) are covered. Further, some of the topics were also based on expectations of stakeholders which we discerned from various sources such as Parliament, social forums, etc. As a head of the institution, I have also suggested some topics based on the perceived opportunity to deliver impacts in the form of enhancing administration, quality

of services and improving efficiencies of sectors or entities. I hope that all these efforts have yielded desired results and addressed the expectations of our stakeholders. I hope the next management would be able to venture into increased number of performance audits and bring out enhanced quality performance audit reports to support our decision makers in improving the overall public sector operations and performance.

## Compliance Audits

Until the bifurcation of audit into three streams with the implementation of ISSAIs, the compliance reviews were conducted along with the financial audits. The compliance audit as a standalone audit new concept for our auditors, we have limited ourselves to few thematic topics and specific entities mainly of those government corporations and Financial Institutions for which the financial audits are conducted by the statutory auditors empanelled by RAA. In order to provide time for our auditors to internalize the concept and methodology, we planned separate compliance audits for smaller offices such as regional, branches and unit offices of corporations and financial institutions. However, with the finalization of the guidelines, there is immense opportunity for RAA to take up impactful compliance audits of selected themes or subject matter. During the period, besides the smaller entity, we have conducted compliance audit of following entities or subject matter.

### **Pilot Compliance audits of land and building management of Thimphu Thromde and Procurement Management of Medical Supplies of Department of Medical Supplies**

The compliance audits of land and building management of Thimphu Thromde and procurement management of medical supplies of Department of Medical Supplies were undertaken as pilot audits under the guidance and supervision of the subject matter expert from the IDI in 2017. The responsibility was entrusted to core teams who availed trainings on compliance audits under the ISSAI implementation Initiatives. The planning of the audit was done during workshops facilitated by the subject matter experts and mentors trained for the compliance audits.

For the compliance audit of Thimphu Thromde, the review focussed on two areas of land administration and building management. The RAA looked into overall compliances to applicable authorities, and rules and regulations governing the land administration and building management by the Thromde. Besides, the team also looked into efficiency and effectiveness of service delivery system in both areas.



The compliance audit of Department of Medical Supplies, the review focussed on all stages of procurement management viz planning, sourcing, managing and conclusion of procurement of medical supplies and equipment. The team basically looked at compliance to Procurement Rules and Regulations and other specific governing rules and regulations applicable to procurement of medical items by the Ministry of Health.

The reports were prepared under the guidance of the expert. The report contained host of issues and lapses in both the audits and proposed recommendations for improvement.

## Prudential Rules and Regulations of Royal Monetary Authority

The RAA conducted the compliance audit of Prudential Rules and Regulations (PRR) of the Royal Monetary Authority, a central bank of the country. The RAA intended to review the compliance to PRR requirements in regulating various financial institutions. The RAA highlighted various issues of non-compliances and systemic deficiencies which impeded effective regulation of the financial institutions. The recommendations provided were aimed at improving systems and compliances to the PRR and any other monetary regulations and policies of the Royal Monetary Authority.

### Compliance Audit of Bhutan Development Bank Limited

The compliance audit of Bhutan Development Bank Limited (BDBL) was carried out to see compliances of bank in appraisal, sanctioning and recovery of various loans to its customers. The RAA noted various non compliances leading to inappropriate appraisal and approval of loans and its recoveries. The reported highlighted possibility of perpetrating frauds in sanctioning loans without fulfilling conditions and also possibility of increasing non performing Loans due to ineffective recovery and follow up with the clients. The recommendations were offered for improving systems and controls in every stage of loan processing and approvals as well as recoveries and follow up.

### Compliance Audit of Government Property Management (Disposal) System

The RAA carried out compliance audit of Government Property Management System to review the compliances to Property Management Manual, Financial Accounting Manual and other applicable Rules and Regulations governing the management of government property by the select government agencies.

We reported various cases of non-compliances to applicable authorities (rules and regulations) pertaining to all phases – acquisition and issue, maintenance and utilization, and the disposal of properties. We provided specific recommendations for improvement in the system of property management and administration to ensure improved compliances by the government agencies.

### Other specific reviews

Besides the regular audits, we carried out specific reviews and audit of certain areas aimed at drawing attention of authorities to initiate improvement in operations and systems

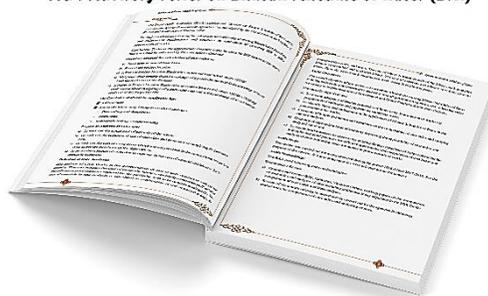
### AG's Advisory Series

The practice of issuing Auditor General's Advisory Series was basically put in place to take up detailed review of specific areas, operations or subject matter relating to public sector administration which the Auditor General deems it pertinent to be reported and seek attention of appropriate authorities or the government for immediate action. This system was very often resorted to by the RAA in the past when there was no established system of having a separate performance and compliance audits. With adoption of ISSAIs in 2017, issues that warrant special reviews are taken care by the performance and compliance audits and hence, only one such review was pursued during the period.

The RAA issued AG's Advisory Series on Bhutan Schedule of Rates (BSR). The BSR which is developed and updated by the Ministry of Works and Human Settlement (MoWHS) is used extensively by the government procuring agencies as reference cost in estimating the cost of

various infrastructures such as buildings, roads, and electrification works. While this document is supposed to be updated regularly and reflective of existing markets, various stakeholders have placed scepticism on its veracity. Some hold the view that estimates prepared based on BSR are too exorbitant and the procuring agencies are not able to obtain value for money as the cost are not reflective of the market prices. Besides, there were reservations on applicability of built up rates for certain items which do not factor in technological advancements in construction industry.

AG's Advisory Series on Bhutan Schedule of Rates (BSR)



The RAA focussed on ascertaining the adequacy and relevance of existing BSR and enforcement mechanisms and practices in application of prevailing BSR in public procurement. This included reviewing flaws and ambiguities in applications, the process of updating the BSR, relevance of cost structures for built up rates and practices of applying cost index across Dzongkhags. The RAA noted various shortcomings that would potentially undermine its correctness and validity as desired. There were inconsistent practices in application of cost index resulting in varying costs for similar projects/works. Based on the issues observed, 12 recommendations were proposed to streamline procedures to in estimating costs of project and cost and achieve economy, efficiency and effectiveness in the project/works undertaken by the procuring agencies.

### **Review of Procurement Rules and Regulations**

The Procurement Rules and Regulations (PRR) is a regulating authority for the public procurement of goods, works and services. The PRR 2009 was published by MoF and was the main document that guided all public procurement processes in Bhutan. Its objectives was to ensure transparency, achieve uniformity in procedure, improve efficiency and ensure fairness in procurement. It had undergone series of amendments before it was revised in 2014.

The review was carried out basically to see inadequacies in the existing PRR as well as practices of the procuring agencies that were potentially seen to impede overall objective of public procurement. The RAA reported on various shortcomings and inconsistencies in the provisions of the PRR as well as implementing practices of procuring agencies. Our review showed that most of the reported issues in the past audits could be attributed to those deficiencies and shortcomings.

We provided list of recommendations for all stages of procurement from planning to sourcing to managing to conclusion of contracts. The Ministry of Finance had revised the PRR as PRR 2019 and acknowledged RAA for providing its recommendations. Though the MoF claimed to have addressed all recommendations proposed by the RAA, the RAA is yet to assess and review the implementation of the recommendations. I hope that changes made in the provisions of PRR will result in positive outcome of improved operation and management of public procurement by all public and government agencies and add impetus to upholding the principles of public procurement.

## Review of surface collection and dredging of Riverbed materials

The review was carried out for surface collections and dredging activities along the southern borders in Phuentsholing, Gomtu and Samtse covering the period from January 2015 to October 2018. The export of riverbed materials that was permitted by the revised Forest and Nature Conservation Rules and Regulations (FCNRR 2017) from 1 January 2017 to 30 October 2018 was also reviewed.

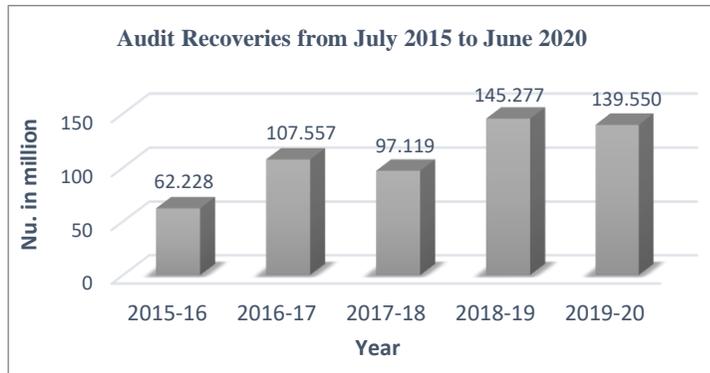
We reported deficiencies which were largely caused by inconsistencies in provisions of Laws, lack of monitoring, supervision and coordination amongst the relevant enforcement agencies resulting into operations without proper compliances to the applicable laws and regulations. Such activities have not only had huge social impact and environmental consequences but also question the sustainability of such activities. Such activities were also seen to benefit only few individuals.

Based on the audit findings, the RAA has provided a total of eleven recommendations for the authorities to address the observed issues and ensure that efficient and effective administration and management of Riverbed Materials considering that there is a huge opportunity of earning good revenue besides creating employment opportunities.

### Audit Recoveries

The RAA has made cost savings of Nu. 551.731 million to the government in terms of audit recoveries from July 2015 to June 2020. This excludes the recoveries made by the corporations, financial institutions and NGOs.

While the audit recoveries are the visible result of the RAA's work, "preventing and deterring" abuses and violations, and irregularities in the management of public funds through regular audits have far reaching impact on creating or promoting ethical culture in the public sector.





## CHALLENGES

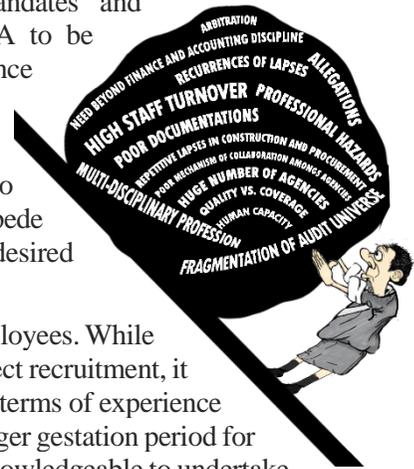
During the last five years, whatever initiatives we had undertaken were solely driven by the interest of producing quality results that may be of use for decision making in the government and the public sector operations. Thus, capacitating the institutional and organizational system, and its human resources had always been accorded priority to ensure that the outputs sought were delivered and achieved. In order for RAA to be playing vital role in public sector performance and accountability, it is equally important for RAA to set its eye on formulating its strategic intents based on its constitutional mandates and expectations of its stakeholders. It would ensure RAA to be relevant and responding to the wider expectations and hence delivering value and benefits to the citizens at large.

In doing so, there are host of challenges that RAA continue to face both within and outside. I would like to point out few such challenges that may potentially impede overall capability in delivering results and creating desired impact in the overall government and public operations.

- 1) RAA continues to face increasing attrition rate of employees. While we could replace some of our employees through direct recruitment, it takes considerable time to fill up the voids created in terms of experience and skills. Auditing being specialized subject, the longer gestation period for our employees to become substantially skilled and knowledgeable to undertake independent assignments affects the current human capacity. The reasons for separation are not specific to RAA but has become a common trend in civil service. Commonly, it is a better career opportunity that makes people opt out of civil service. As I realize, the problem of HR capacity is not only of people who had left but also of those potential leavers that may pose serious constraints on the existing capacity. The time and attention devoted in exploring opportunities while on the current jobs at the cost of current responsibilities may undermine the quality of work being performed.

There is no solution to reverse the trend. However, it may be worthwhile to contemplate on creating conducive working environment and exploring staff welfare initiatives to retain the existing staff as well as attract new ones. The successive governments have been generous to retain the 20% professional allowance which I believe have helped us from aggravating the situation.

- 2) Auditing as a multi-disciplinary profession, we must come out of conventional thought of limiting our HR capacity to only finance and accounting disciplines. In meeting the demands/expectations of the society, our roles have certainly increased and our area of works expands beyond finance and accounting. During the period, realizing the importance of diverse professionals, we have been successful in attracting few people into our organization from professions like engineering, town planners, linguistics and other social disciplines. This trend must be continued in order for RAA to maintain pool



of diversified professionals to deliver results that meet the expectations of our stakeholders.

Our experiences of auditing show that most of the issues arise from investment in capital infrastructure. The construction lapses constitute significant portion of the Annual Audit Report and it is likely that this trend will continue as long as the government continue to invest larger portion of funds for creating infrastructure. Since significant portion of HR is represented by non-technical/engineer, it is a challenge for RAA to conduct construction audits to give reasonable assurances on the quality and expenditure incurred. Thus, diversification of manpower needs a special focus in recruiting new people in the organization.

- 3) The fragmentation of audit universe poses challenges to ensuring adequate financial audit coverage. The agencies are separated based on the Letter of Credit Accounts allotted by the Department of National Budget to each agency. There is no system of consolidation of accounts at Ministry/Department or Central agency level except for Consolidated Financial Statement of the Government at the national level. This arrangement had resulted in huge number of agencies. The existing system of planning audits at LC level tend to duplicate administrative process of audit. There is a need to initiate discussion with the Ministry of Finance on requirement of consolidating accounts based on government administrative functions such as Ministry/Department or Central Level. This may bring improved system for overall control on budget and expenditure by the MoF as well as for implementing government functionaries. The RAA can plan the audit at the central agency level and apply risk assessment methodologies to scope out or in of subsidiary agencies without compulsorily having to review operations of all of them. Even at reporting level, the changed system will provide holistic picture of operations of financial management systems pertaining to specific ministry/department or central agencies.
- 4) With rigorous follow up mechanism in place, the RAA had been successful in resolving significant audit issues based on actions taken and implementation of recommendations by the audited agencies. The initiative of the Public Accounts Committee in conducting public hearings has had positive impact in terms of enforcing accountability in the government and public sector. However, the challenges remain in initiating remedial actions to the letter and spirit of the audit recommendations. If those charged with governance truly enforced improvements and changes required to address observed issues, we would never see the recurrence of similar lapses in our reports. One major challenge is the recurrences of lapses year on year basis. The lapses such as extra payments, inferior quality of infrastructure, poor project management etc. continue to surface repeatedly. There is a need for a systemic study to find the root causes and initiate remedial actions to curb recurrences along with accountability mechanism to hold officials accountable for repeat offenses/lapses.
- 5) There is need for a consolidated approach by those relevant authorities to remedy problems and initiate preventive measures highlighted in our reports. For instance, lapses occurring in construction and procurement management are repeated yearly and forms substantial part of our Annual Audit Reports. Often the recommendations are repeated in our Annual Audit Reports and yet, the lapses do occur. I hope RAA finds appropriate

mechanism of collaboration with relevant authorities to search common solutions to the problems. Efforts of agencies must be focussed on long term solutions rather than to merely get absolved of the individual accountability for the lapses occurred in the past.

- 6) During the period, we have also received series of allegations about our auditors in terms of their professional conduct in the process of audit. As a head of the institution, I have always welcomed complaints on unacceptable conduct and misdemeanours of our auditors. I have always expressed my intolerance to such behaviours. Our auditors must be brought to task if they do not act in the manner desired by the profession.

However, I have personally experienced that on most occasions, allegations are merely made to settle personal scores. When probed, we saw that allegations could not be proved. I have realized that our auditors are put to the receiving end of baseless accusations by the very nature of work they perform. At times, I wonder such professional hazards have a devastating effect on the mental state of our auditors. I believe that our stakeholders need be sensitized more and to be encouraged to be more objective in addressing their grievances against the auditors.

- 7) My past experience has been that most of the issues pertaining to constructions and procurement get resolved through arbitration. We noted that whatever issues raised during the audit are referred to arbitration and sadly, the trend we noted in the past is that the issues get resolved and arbitral award is invariably in favour of third parties (contractors). The agencies which are supposed to protect the interest of the government tend to demonstrate laxity in defending the case. Nor RAA's opinion on issues arising from audits are sought. We have many cases where agencies lost the cases involving millions of Ngultrum. This is a serious concern that authorities need to review the mechanism of arbitration and rationality of their decisions. Most agencies merely represent government merely for the sake of doing it just to get the issues resolved and get rid of hassles of logically concluding the case. If such trend continues, I believe that the accountability mechanism in the government and public sector would be diffused and agencies would be encouraged to invariably resort to arbitration to absolve themselves of the accountability for their actions or inactions.
- 8) While RAA looks for contributing significantly through thematic reviews, our experiences show that poor documentations in the audited agencies covering multiple years thwart thorough and comprehensive reviews. This has implications on the quality of reports and recommendations submitted by the RAA.

---

## CONCLUSION

---

In concluding my report, I take this opportunity once again to express my sincere gratitude to His Majesty the King for the trust and confidence bestowed on me to serve this august institution. It was definitely a life time opportunity to be once again associated with the very institution I had spent my formative years. Guided by the Visions of our successive Monarchs for the institution of audit, the RAA has witnessed a tremendous growth in all respects. It was really a humbling moment for me to provide leadership of this institution.

Hopefully, whatever little we did and ventured into during these years have culminated into desirable results. I have been passed down with a very capable institution and resources. My first priority as I took over the charge was to further strengthen and sustain the overall capacity of the RAA. My hunch was that if capabilities are sustained, it would be easier to achieve our aspired goals. Therefore, throughout my term, besides delivering its core mandates of auditing and reporting, we have invested enormously in professional development of our people as well as reinvigorating systems and process of conducting our business.

In terms of capacity development, the most significant strides that have taken place was to adopt International Standards of Supreme Audit Institutions (ISSAIs). It entailed total transformation of systems and processes of our work. This required repositioning ourselves in terms of organizational systems and enhancing professional skills of auditors. The adoption of international standards was mainly driven by our quest to enhance quality, professionalism and credibility of our work. Overhauling the system could not be planned overnight but as a gradual process taking as long as more than three years. Even as we began the process of change, I became too sceptical about the success. It appeared that we were needlessly and unwisely diverting our attention from our core mandates of producing results. We could have been reproached so rightly. As I look back now, I realize that it took a great deal of courage and boldness to undertake such venture and we have been successful in initiating such change. As of now, we have completely positioned ourselves to undertake quality audits comparable to most advanced SAIs. I owe my gratitude to all our fellow auditors who were enthusiastic about adapting to change. We have been able to undergo tremendous transformation without compromising on regular duty of delivering audit results. I hope that in few years' time, the sacrifices we made in reforming ourselves bear fruits in terms of producing high quality audit results that can be compared to any SAIs. And more importantly, contribute significantly to promoting governance in the public sector and delivering value and benefits to the lives of citizens.

Even in terms of delivering results, we maintained our focus on ensuring adequate coverage in terms of all streams of audits. We have reported numerous issues and irregularities pertaining to Public Financial Management System (PFMS) as results of the financial audit reports. I hope that the issues we highlighted and recommendations we offered through our annual audit reports were useful for dispensing decisions on improving PFMS. We have been able to take up a good number of performance and compliance audits, which I believe have covered major sectors/areas of government and public sector functions. The recommendations we offered through these thematic reviews were aimed at initiating

improvements by relevant authorities. We continued to witness passionate deliberations of our audit reports in the Parliament and on most occasions, our recommendations have resulted in numerous parliamentary directives aimed at triggering change and improvement in relevant sectors/areas of public operations.

I would like to thank the successive Parliaments, and Governments for their unstinting support and guidance provided to us in discharge of our works. I also take this opportunity to thank all stakeholders who were directly or indirectly associated with the RAA in pursuit of building a society that upholds values of integrity, ethics and morality.

For my colleagues who worked with me during the period, I pray for your continued commitment to serve *Tsa-Wa-Sum*. Let our institution continue to be guided by the vision of our King, grow from strength to strength to fulfil the aspirations of our people and live by values and tradition of being critical institution in the country.

\*\*\*\*\*

## Auditor General's Interview with Kuensel



Saturday, August 8, 2015

**Royal Audit Authority's new Auditor General Tshering Kezang joined Office on August 6 and formally took over the charge from the Executive Committee, which was assigned to oversee the daily functions after the former Auditor General Dasho Ugen Chewang completed his term. He shares his views with Kuensel on the way forward for RAA.**

### Excerpts

#### 1. What is your immediate priority for RAA?

First, I have to understand the new system although I have worked here before. Today, I had feedback sessions with the colleagues, which I will slowly work on. Things are systematic and planned already in the new office, which I don't have to worry much about. However, I have to meet all the staff and see what can be done for the way forward.

#### 2. Since you have already worked in RAA before, how does it feel to return to the same institution?

I feel at home here since I know most of the staff and the system of the workplace. I consider it a huge responsibility to be appointed by the throne. So I want to work with dedication to serve the Tsawa-sum.

#### 3. One of the biggest challenges the RAA is facing today is the lack of compliance with the audit memos issued to the agencies and in recovery of funds. How are you planning to address these challenges?

I don't think these are the biggest challenges RAA is facing today. However, to address these issues we need to work together with agencies and look for a way forward. One of the challenges we face today is retaining employees. I am thinking of consulting with the relevant department and ministries. I hope I can address these issues. When we work together, there will be some challenges anyway but it is important to have the right intentions while addressing such issues.

#### 4. Collaborating with agencies and other constitutional offices especially the Anti-Corruption Commission (ACC) is necessary to prevent wastage and issues of performance. How closely do you wish to work with these agencies?

The post holders who worked before me has worked closely with such agencies and it is very important to continue working closely with them especially the ACC to curb corruption. I am looking forward to work very closely with them.

#### 5. There are issues pertaining to audit clearances of politicians and civil servants who are under investigation by other agencies. Would you allow the RAA to issue audit clearances in such situations?

For these issues, the RAA has a system, which I have yet to find out. However, if a person is under RAA's observation or ACC investigation and unless we get in writing from the ACC to hold the clearance, we issue the audit clearances. But we need to find out the facts before going on with the decisions. I have yet to know and learn the system when and not to issue an audit clearance

#### 6. Any other comments

It's an honour to work here and I must say I am learning on the job despite having worked in RAA before. I will try to serve to the best of my ability and fulfil the aspirations of His Majesty The King.



© 2020 Royal Audit Authority

ISBN 978-99936-18-90-4