

## SUMMARY OF CHAPTER 5

### “AUDIT REPORT ON GOVERNMENT PAYROLL AND PROVIDENT FUND”

The chapter reflects issues noted during the specific review of the Pay and Allowances vis-à-vis Government Provident Fund (GPF) remittances made to the National Pension and Provident Fund (NPPF) in respect of budgetary agencies. The review was undertaken as a follow-up audit on the discrepancies in the remittances of GPF noted during the audit of Annual Financial Statements of the Royal Government of Bhutan for the financial year ended 30<sup>th</sup> June 2013 and the NPPF. The review revealed huge discrepancies apparently emanating from control weaknesses in the Public Expenditure Management System (PEMS) in fixing and disbursing the personnel emoluments during transfer, training, extraordinary leave and separation of employees. Further, there were also cases of erroneous fixation of pay and remittances being made in contravention to the extant rules as a result of inadequacies and failure of controls in the PEMS.

## SUMMARY OF CHAPTER 6

### “REVIEW OF 10<sup>TH</sup> FIVE YEAR PLAN”

The chapter highlights the areas of concern pertaining to the review of 10<sup>th</sup> Five Year Plan activities of agencies included in the Annual Audit Schedules 2014-15. It was aimed at gauging achievements as well as identifying issues and bottlenecks experienced by the implementing agencies.

The review exercise carried out on implementation by Dzongkhags showed some common issues rendering more objective basis for synthesis and comparisons as follows:

- ◆ Non-execution of planned activities;
- ◆ Delays and deferment of planned activities;
- ◆ Wasteful, underutilization of facilities and infrastructure; and
- ◆ Change of locations for development works.

The RAA has attempted to synthesize the issues based on the nature and provide generic recommendations to improve the implementation of plans and programmes by the Dzongkhags.

*The Royal Audit Authority (RAA) derives its mandates from the Article 25.1 of Constitution of the Kingdom of Bhutan which states that, “There shall be a Royal Audit Authority to audit and report on the economy, efficiency and effectiveness in the use of public resources.”*

## THE ROYAL AUDIT AUTHORITY

Dating back to 1961, the 16<sup>th</sup> National Assembly proposed the establishment of an audit system in the country. The evolution of the accountability system began when the Government issued the first edition of the Financial Manual in 1963. Then, the Audit and Accounts Organisation under the Development Wing maintained the books of accounts, conducted budgetary controls of revenues and expenditures and undertook periodic audit and inspections of accounts and records.

The 31<sup>st</sup> Session of the National Assembly voted in October 1969 for the appointment of the Royal Auditors to conduct the audit of accounts and records of the Royal Government.



Consequently, four Royal Auditors were appointed on April 16, 1970 under a Royal Kasho (decree). In 1974, the financial management system was restructured and the Royal Audit Department was placed under the Ministry of Finance. In 1985, the audit service was reconstituted as an autonomous entity and named it as Royal Audit Authority (RAA).



*Taking audit services closer to the organisations and people via our four Regional Offices around the country.*

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Total agencies under audit: 167

## HIGHLIGHTS OF THE ANNUAL AUDIT REPORT 2014



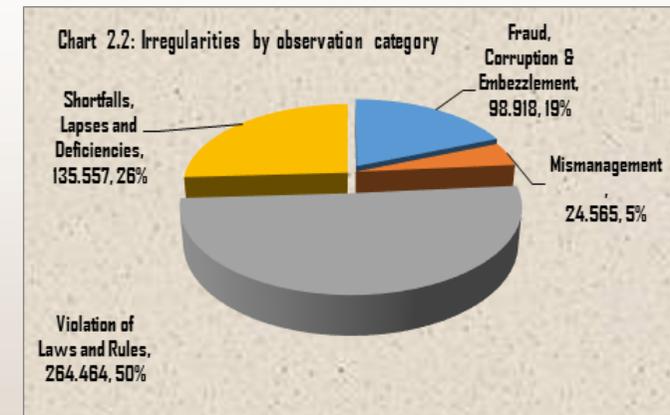
**TOTAL AMOUNT OF UNRESOLVED IRREGULARITIES IN AAR 2014**

**NU. 634.313 MILLION**

**TOTAL AUDIT RECOVERIES IN 2014**

**NU. 115.628 MILLION**

### IRREGULARITIES BY CATEGORIES



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## THE ACCOMPLISHMENTS OF THE RAA

### Some of our significant achievements are briefly highlighted below:

- ▶ The RAA completed 616 audits comprising of 509 financial audits, 100 compliance audits, two performance audits and six special audits under special directives of the Auditor General and stakeholders.
- ▶ The RAA issued 686 Audit Reports comprising of 600 financial audit reports, 84 compliance audit reports, and two performance audit reports. Besides, 27 statutory audit reports for audit of corporations were also issued.
- ▶ The RAA also carried out micro assessments of three Implementing Partners (IPs) under the *UNDAF : Bhutan One Programme (2014-18)*.
- ▶ The RAA also issued 508 follow-up reports of the prior audit reports which were mainly taken up along with the routine audits.
- ▶ The RAA issued 14,529 audit clearances for various purposes.
- ▶ During the period, the RAA endorsed 12 audit reports containing 22 cases which indicated existence of fraud and corruption to ACC.
- ▶ The RAA recovered a sum of Nu.115.628 million on account of Audit Recoveries, lesser by 0.24% as compared to the recoveries in 2013.
- ▶ The RAA launched the 'Policy on Outsourcing of Audit Services' in February 2015. The Policy is one of the 22 audit manuals and two policy documents being developed with funding from the Austrian Development Cooperation and with support of the INTOSAI Development Initiatives (IDI).
- ▶ The web-enabled Audit Resource Management System (ARMS) was launched in July 2014. and is being pilot run for the current Annual Audit Plan. The project was funded by ADB and developed by a team of in-house IT professionals with professional guidance of an external consultant.
- ▶ The RAA published and implemented the Audit Performance Evaluation Management System (APEMS) for measuring performance of auditors & to enhance overall system.
- ▶ The RAA published the 'List of Agencies under the jurisdiction of RAA for 2014-15. The List categorises agencies on the basis of priority for audit as well as their size and complexities, with maximum man days required for audit. The List is the basis for preparing Annual Audit Plans and Annual Audit Schedules for Divisions and Regional Offices of the RAA.
- ▶ 8 in-house trainings for 198 auditors & staff were conducted on various topics.
- ▶ 30 officials availed short term ex-country trainings and five officials sent for long term studies including two for Indian Accounts & Audit Service .
- ▶ The contract for construction of the Professional Development Center of RAA at Tsirang was awarded in October 2014 in two packages. The project is estimated to cost around Nu. 193 million and is funded by the GoI.
- ▶ The RAA signed a cooperative agreement with the INTOSAI Development Initiative (IDI) focused on the IDI Global Programme on Specialised Audits like Public Debt Audit of Lending and Borrowing Frameworks.
- ▶ Four senior officials were awarded with the International Standards of Supreme Audit Institutions (ISSAI) Facilitator Certificates in Performance Auditing, Financial Auditing and Compliance Auditing. They will support ISSAI implementation at national, regional and international levels.
- ▶ The RAA hosted the visit of the Comptroller & Auditor General of India. During the visit the MoU was signed and renewed between the Office of the C&AG and RAA for collaborations in areas of mutual interests and benefits.
- ▶ A 3 member delegation attended the 16<sup>th</sup> INTOSAI-WEGA held in Philippines.
- ▶ A six member delegation visited the State Audit Office of Vietnam.
- ▶ The accounts and operations of RAA for the Fiscal Year ended 30th June 2014 was audited by M/s S. Ghose & Co. India..

## THE SUMMARY OF AUDIT FINDINGS

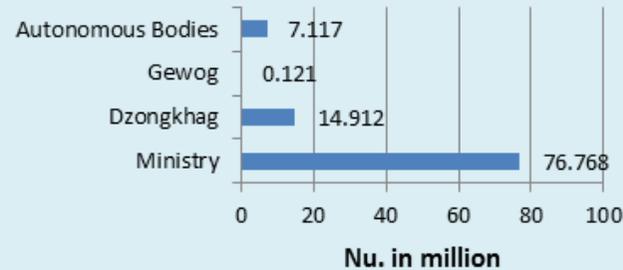
The AAR 2014 was compiled from 692 audit reports issued during the year. Highlights of the audit findings are given below:

- ▶ The total unresolved issues reported in the Annual Audit Report 2014 amounted to Nu. 634.313 million.

### I. FRAUD, CORRUPTION AND EMBEZZLEMENT

Under Fraud, Corruption & Embezzlement, there were lapses involving Nu. 98.918 million with Ministries representing highest proportion of 78% with Nu. 76.768 million of the total followed by Dzongkhags with Nu. 14.912 million representing 15%.

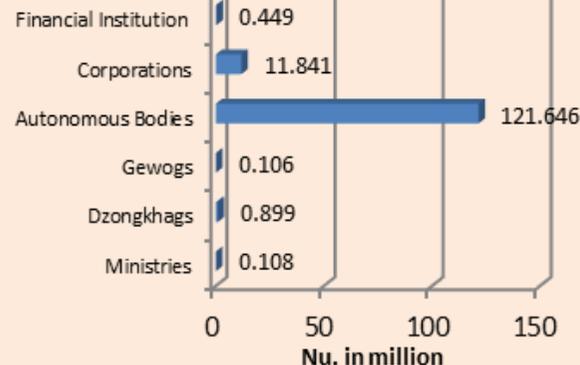
**Chart 2.3: Cases of possible elements of fraud, corruption & embezzlement**



### II. MISMANAGEMENT

Under Mismanagement there were lapses of Nu. 135.049 million of which 90.10% is represented by the Autonomous Agencies with irregularities of Nu. 121.646 million.

**Chart 2.5: Cases of mismanagement by agencies**



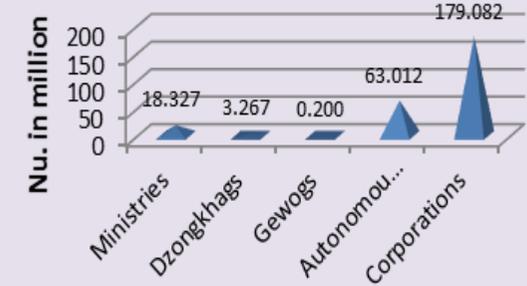
## THE SUMMARY OF AUDIT FINDINGS

- ▶ The report contains unresolved issues pertaining to 7 Ministries, 13 Dzongkhags, 12 Gewogs of 7 Dzongkhags, 8 Autonomous Bodies, 7 Corporations, 5 Financial Institution and 1 Political Party.

### III. VIOLATION OF LAWS AND RULES

Under Violation of Laws and Rules, the total lapses amounted to Nu. 263.888 million of which Corporations represent 67.86% with Nu. 179.082 million followed by Autonomous Bodies with Nu. 63.012 million and Ministries by Nu. 18.327 million.

**Chart 2.6: Cases of violation of laws and rules by agencies**



### IV. SHORTFALLS, LAPSES AND DEFICIENCIES

Under Shortfalls, Lapses and Deficiencies amounted to Nu.136.458 million. The Autonomous Bodies had the highest amount of irregularities with Nu. 47.716 million followed by Ministries with Nu. 36.599 and Financial Institutions with Nu. 30.227 million.

**Chart 2.7: Cases of shortfalls, lapses and deficiencies by agencies**

