



## CUSTODIAN OF NATION'S WATCH DOG - AG'S TERM REPORT

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(25 DECEMBER 2005 TO 22 JULY 2015)

PREPARING RAA TOWARDS CONSTITUTIONAL DEMOCRACY  
In delivery of mandates and meeting the societal expectation







## **Custodian of Nation's Watch Dog – AG's Term Report**

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**(25 December 2006 to 22 July 2015)**

**July 2015**

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## Acronyms & Abbreviation

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AG	Auditor General
ACC	Anti-Corruption Commission
AAS	Annual Audit Schedule
AAR	Annual Audit Report
AFD	Administration & Finance Division
APEMS	Audit Performance Evaluation Management System
ARMS	Audit Resources Management System
ASOSAI	Asian Association of Supreme Audit Institutions
BBS	Bhutan Broadcasting Service Corporation
CSO	Civil Society Organisation
CAATs	Computer Assisted Auditing Techniques
DYT	Dzongkhag Yargay Tshogdue
DFRHRM	Department of Follow-up, Regions & Human Resources Management
ECB	Election Commission of Bhutan
FYP	Five Year Plan
GYT	Gewog Yargay Tshogdue
GRL	Government Reserve Land
HQ	Head Quarter
IDEA	Interactive Data Extraction & Analysis
INCOSAI	International Congress of Supreme Audit Institutions
INTOSAI	International Organisation of Supreme Audit Institutions
IDI	INTOSAI Development Initiative
ICT	Information Communication Technology
IT	Information Technology
ISSAI	International Standards of Supreme Audit Institutions
OAG	Office of the Attorney General
PAC	Public Account Committee
PPCM	Policy Planning & Coordination Meeting
PPD	Policy and Planning Division
RGOB	Royal Government of Bhutan
RCSC	Royal Civil Service Commission
RSTA	Road Safety & Transport Authority
SAI	Supreme Audit Institution
SAI-PMF	Supreme Audit Institution Performance Measurement Framework
VFM	Value-for-Money Audit
VTI	Vocational Training Institute

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## CHAPTER 1: INTRODUCTION

As my term comes to an end, I would like to offer my personal account of how I have attempted to provide leadership to the auditing institution, the Royal Audit Authority in preparation towards and transition into constitutional democracy. Last nine and half years had been the moment of my life and honor to be the Auditor General of Bhutan.

I pay my humble gratitude to His Majesty the Fourth Druk Gyalpo and His Majesty the King for placing trust and confidence in me to provide leadership to this august institution. It has always been the vision of our kings to have strong auditing institution to oversee management of public resources and promote principles of good governance through independent review of accounts and operations of the public entities. I pay my tribute to the noble Vision of Their Majesties to promote a society that upholds the values of integrity, transparency and accountability in public operations. May Their blessings and benovolent guidance lead RAA to newer heights and grow from strength to strength in fulfilling the wishes of our kings and the aspirations of the people.

My first appointment as the Auditor General during the interim period coincided with the preparation for the constitutional democracy. Wishes of His Majesty to strengthen the RAA to shoulder the responsibilities under the Constitution became my priorities during the interim period. With the overall government systems gearing towards a historic change, it was the need of the hour to ensure preparedness of the RAA to deliver its auditing responsibilities and promote transparency and accountability in the use of public resources. Various reforms were initiated to strengthen capabilities of the institution and bring about transformational changes in the institutional framework, organizational systems and professional development of the RAA. These reform initiatives were primarily aimed at enhancing professional capability of the RAA to play an important role in the constitutional democracy.

My appointment for the second term through a Royal Kasho came at a time when Bhutan was already two years into Constitutional Democracy. Once again, it was the rarest of opportunities for me to have been bestowed with another opportunity to serve this institution. It was a life time honour for me to fulfil the Wishes of Their Majesties and the aspirations of the society at large.

### First three Constitutional posts announced

BY KINLEY DORJI

TAKING A significant step forward in the process towards a Democratic Constitutional Monarchy initiated by His Majesty the King, the appointments to the first three Constitutional posts were announced by royal decree on December 31.

The Auditor General, DASHO Kunzang Wangdi, has been transferred and appointed as the Chief Election Commissioner. The Foreign Secretary, Neten Zangmo, has been transferred as the Chairperson of the Anti-Corruption Commission. The Director of the National Pension and Provident Fund, Ugyen Chhewang, has been appointed as the new Auditor General. All three are interim appointments made in preparation for the general elections in 2008.

Granting an audience to the three officials this week His Majesty the King advised that they must serve the government and the people with the utmost dedication and loyalty, with complete transparency, without exercising distinction or discrimination, and without being influenced by those in positions of power and influence.

His Majesty said that the office of the Election Commission was imperative for the building of a strong foundation in the process of establishing democratic practices and norms. The Chief Election Commissioner would have to finalise the constituencies for the election of National Assembly members as well as the electoral rolls and election schedules and make full preparations for the general elections in 2008. This office would also conduct training and familiarisation for the people in the electoral process over the next two



**Dasho Kunzang Wangdi:**  
"privilege of a lifetime"



**Neten Zangmo:**  
"not a witch-hunt"



**Ugyen Chhewang:**  
"enhancing professionalism"

CONTINUED PAGE 12

It was natural for me to ensure fruition of all those efforts and initiatives taken in the earlier years. With so much advancements taken in strengthening the institution, the focus was then geared towards actual delivery of audit services. We also continually focussed on strengthening the institution to ensure dynamism of the institution.

It brings me immense joy and great satisfaction to provide this personal account of what I achieved and delivered in fulfilment of Wishes of Their Majesties and the aspirations of the society during the last nine and half years.

The hardwork and commitment of all the RAA members culminated into series of recognitions from the Throne. The conferring of Kabney Patang and Burey Marp to me in 2010 and 2011 and the Institutional Award Druk Thuksey to RAA by His Majesty the King in 2012 symbolized the recognition and the importance attached by His Majesty to the institution of audit and His Noble Vision of creating Bhutan a corrupt free society. However, it is certainly not to boast but to remind ourselves of the importance His Majesty places in the institution of audit. We were humbled by the trust and confidence placed in us. It was an opportune moment for RAA family to re-dedicate ourselves to the service of TSA-WA-SUM and take this institution to greater heights in the times to come.

It had been an immense pleasure and joy to be associated with this august institution and working with all my fellow auditors. It is my sincere prayer to continue the good work with the heightened spirit and zeal.

My sincere gratitudue goes to successive governments, which had always been supportive to this institution in fulfilling its mandates. The zero tolerance approach to corruption by both the governments had indeed added impetus to RAA's effort in promoting good governance practices in the public operations. It is my fervant hope that such trend would continue for posterity, under successive elected governments. Such a trend would certainly be a pointer to the aspirations of Bhutanese people in making our country a corrupt free society.

I also take this opportunity to thank Public Accounts Committee of both the first and second Parliament for the support rendered to RAA. I hope that our reports would have rendered critical basis for their effective decisions in promoting good governance in the system.

I would not forget the peer organizations such as ACC, ECB, RCSC and OAG for having sustained good institutional linkages to complement each other in any of our engagements. And to the audited agencies and stakeholders, I must say that we had fruitful engagements in the spirit of upholding transparency and accountability in the system.

Lastly, I would like to take this opportunity to offer my warmest Trashi Delek to my successor on being appointed to the post of Auditor General and wish many successes to you and the RAA. I would also like to invite your kind attention to some of the my unfulfilled wishes and persisting challenges, should you feel these are relevant, though it is merely my perception.

## CHAPTER 2: STRENGTHENING INSTITUTIONAL CAPACITY OF ROYAL AUDIT AUTHORITY

My appointment as Auditor General in December 2005 came at a time when transformational changes in governance structure of the country were imminent with the introduction of parliamentary democracy. Historic event that took place in 2008 ushered in reinvigoration of overall institutional structures and systems to support the democratic form of governance – which every Bhutanese value it as “*precious gift from the Golden Throne*”. It was unprecedented that democracy which commonly and historically resulted from struggles and bloodsheds, Bhutan witnessed its people receiving it as a gift from the Throne.

*“At a time when we are establishing parliamentary democracy in the country, it is important to promote good governance, increase accountability of civil service and root out corruption at its initial stage. Towards this end, the highest importance must be given to further strengthening the functions and responsibilities of the Royal Audit Authority in keeping with the provisions under the Constitution.”*

— *Excerpt of Royal Kasho (31st December 2005)*

The intent of the Royal Decree of 31st December 2005, was clear and succinct, specifically Commanding that, “*At a time when we are establishing parliamentary democracy in the country, it is important to promote good governance, increase accountability of civil service and root out corruption at its initial stage. Towards this end, the highest importance must be given to further strengthening the functions and responsibilities of the Royal Audit Authority in keeping with the provisions under the Constitution.*”

Going by the letter and spirit of the Royal Kasho, the first and foremost task that lied ahead was to ensure preparedness of the auditing institution to play its roles in promoting good governance and accountability in the new governance system.

Not belittling the roles played by RAA prior to 2006 under the abled leadership of my predecessors, it was a need of the hour to re-align auditing institutions to render enhanced capabilities to shoulder the responsibilities that were in store for us in the democratic set up. The RAA in the pre-2006 had lived with dignity and reputations worthy of confidence and trust as an oversight body. Solid foundations of the institution that had culminated from its existence for more than three decades and perseverance of those worked in it was a big plus point to start with. The institutional experiences along with capable and dedicated army of professional auditors and staff was another strength that boosted my confidence. These people never faltered in their convictions and faith in me as their leader throughout my two time tenures. Thanks to the existence of these important pre-conditions, my journey of providing leadership had been smooth and fulfilling to my inner self. And hopefully, the goals I pursued during nine and half years in this institution are fulfilled.

When I took office as Auditor General, I had a clear strategy guided by the Royal Kasho, which set out my priorities during the entire term. I present my personal account on providing leadership to this institution basically within the INTOSAI Development Initiative’s (IDI) framework of Capacity Building Model, which integrates three aspects of capacity building to

build development plans of the organization. As I give personal account of developments and initiatives geared towards fulfilling the intents of the Royal Kasho and delivering the mandates of the Constitution and the Audit Act, it would also be my opportunity to share my perspectives on issues that persist and remain as challenge for the institution of RAA.

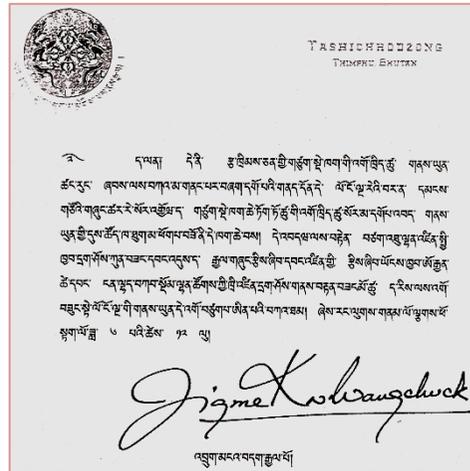
During the first phase of my tenure from 1st January 2006 to 30th June 2010, I have mainly focused on strengthening the institution and organizational capacity in keeping with the provisions of the draft Constitution and the Audit Act of Bhutan 2006. The reorientation process basically focussed on three broad aspects of institutional, organizational and professional development. This was also within the Capacity Building Framework propounded by IDI which were adopted by most SAIs around the world. This was done keeping in mind the RAA’s mandate as the Supreme Audit Institution to enhance its capability to effectively deliver key audit results which are critical to promotion of good governance in public operations.

My second term provided extended opportunities to further strengthening the institution and also to put to test the transformational initiatives undertaken during the interim period. We desired to materialize the impact and feel the efficacies of our efforts put in during the interim period. It was also timely to reorient our focus from revamping of processes and capabilities to actual deliveries in playing the role of the Supreme Audit Institution. Indeed, it was a great fortune for me to have the opportunity to realize the dreams we shared and reap the fruits of seeds we had sown together. We had always tried to remain responsive to changing dynamics and strived for continuous improvement and sustained professional capabilities. The RAA which aspires to be professional and credible body, we were never complacent in areas of refining our processes for the sake of producing immediate results. Therefore, my second term also saw the continuance of the streamlining of processes, procedures and capability building along with enhanced focus on delivery of RAA’s core mandates.

At the end of my two tenures, I feel quite satisfied as I look back and account on how RAA fared in terms of building and sustaining its capabilities and delivering its core mandates. I shall also be morally obliged to be candid to highlight some of the unfulfilled wishes that the future leadership may be keen to keep it alive and pursue solely on the basis of its merits.

### 2.1. INSTITUTIONAL DEVELOPMENT

The institutional capacity is a basic precondition for the existence of auditing authority which dicleanates necessary mandates and independence to the auditing authorities to carry out the



audit. Since its establishment as a committee of Accounts and Audit in 1961, the RAA had undergone a series of changes with successive Royal Decrees which reiterated its auditing mandates and independence. The RAA having conferred constitutional status in 2005 with the appointment of Auditor General through a

*"There shall be a Royal Audit Authority to audit and report on the economy, efficiency, and effectiveness in the use of public resources"*

— Article 25.1 of the Constitution

Royal Kasho, set out to function in accordance with the provisions of the draft Constitution. In further progressing towards firming up its mandates and independence, specific mandates enshrined in the Constitution of the Kingdom of Bhutan and Audit Act of the Kingdom of Bhutan bestowed necessary mandates to the RAA. These were the most notable strides towards enhancing institutional capacity of the Royal Audit Authority.

### 2.1.1. MANDATES

It is a world wide practice amongst the auditing fraternity around the world to have clear legal mandates for the auditing institution to take up the role of oversight body to ensure accountability of those charged with the responsibility of utilizing public resources. Further, the independence of audit institution is a desirable condition to work objectively without fear, favour or prejudice. The draft Constitution contained specific provision for establishment of Royal Audit Authority to audit and report on the economy, efficiency and effectiveness in the use of public resources.

The Constitution also envisaged the need for a separate legislation in the form of Audit Act to function. At the time when I took over the office, the RAA was in initial stage of drafting the Audit Act. The Audit Act of Bhutan 2006 was enacted by the 85<sup>th</sup> Session of the National Assembly on 30 June 2006.

The provisions of the Constitution as well as the Audit Act of Bhutan 2006 provided fundamental legal basis for RAA's existence and independence to conduct audit without fear, favour or prejudice. The Act also provided detailed delineation of responsibilities to the institution, terms of appointment of Auditor General, defined audit jurisdictions and other necessary legal frameworks for its operations.

### 2.1.2. INDEPENDENCE

One of the important aspects of institutional capacity is the independence of the auditing institution to render capability of providing independent opinion on the performances and compliances of the audited agencies.

The independence of the RAA and the head of the institution is guaranteed by the Article 25.2 of the Constitution which explicitly states that, *"The Royal Audit Authority shall be an independent authority headed by the Auditor General who shall be appointed by the Druk*

***Gyalpo from a list of eminent persons recommended jointly by the Prime Minister, the Chief Justice of Bhutan, the Speaker, the Chairperson of the National Council and the Leader of the Opposition Party.*** Further, Sections 15 and 16 of the Audit Act of Bhutan 2006 grants organizational and functional independence to the RAA specifically stipulating that, ***“the authority shall enjoy full organizational and functional independence including programming, investigative and reporting”*** and ***“the Authority shall have full authority to determine and administer its organizational structure, budgetary and personnel requirement.”***

However, the interpretation of ***“independence”*** is still debated. Sections of society hold the view that the RAA is yet to obtain full independence especially in terms of administering its human resources. The main contention is that employees of RAA are regulated by the Bhutan Civil Service Act which is administered by another institution. It is argued that such arrangement will impinge upon required independence of the RAA. I have had opportunity of making a case for human resource independence to Good Governance Committee of the Parliament along with heads of other constitutional bodies. The constitutional bodies had sought complete independence in order to obtain full autonomy in administering its human resources. However, the issue still remains inconclusive. Further we have also written to the Ministry of Foreign Affairs seeking support for the implementation of the UN resolution on SAI Independence which was called for during the XXI INCOSAI held in October 2013.

Nevertheless, with clear mandates and functional independence guaranteed by the Constitution and the Audit Act, RAA's precondition to having legislative and institutional framework had become comprehensive, and comparable to any advanced SAI worldwide. Until now, we have not encountered any problems that infringed our capability of exercising professionalism. However, only time will tell if it would affect the RAA's ability to perform the work objectively in future.

## **2.2. ORGANIZATIONAL SYSTEMS DEVELOPMENT**

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With the necessary institutional framework in place, the next priority was to look at the way we worked as a organization. The organisational systems capacity include the processes and structures within the organisation to enable a more effective and efficient achievement of the desired objectives. These include systems in the core business area of an SAI – audit – as well as overall governance and support systems e.g. setting up IT audit unit, establishing a human resource management system, developing audit manuals, and developing a management information system.

While the necessary components of organizational systems existed, major reforms were needed to render more effective and efficient working systems. With a major transformation of governance structures and huge mandates bestowed by the Constitution and the Audit Act, I was skeptical of the capability of the existing systems to function in accordance with the provisions of the Constitution and the Audit Act. Besides, in a democracy, people have the voice and fulfilling their expectations assumes a centre stage. Therefore, it was critical at the very beginning that we took opportunity to review the existing systems to see scope for

reinvigoration of organizational systems through the process of structural changes and re-engineering of organization. These were basically to render the organizational structures more relevant and responsive to the emerging needs.

As a first step towards revamping organizational systems, independent external review of the overall systems was felt necessary to mirror the present status. The RAA subjected itself to two external and independent reviews to determine its status and formulate strategies to move forward in delivery of its mandates.

### 2.2.1 ORGANIZATIONAL DEVELOPMENT EXERCISE

Subjecting ourselves to external reviews to identify the gaps between the existing and desirable state of affairs, the RAA volunteered to be one of the first organisations to undergo the Government initiated Organisational Development Exercise in 2007. The transformation in the governance structure and the ensuing changes in the socio-economic development paradigms had spurred the need for the RAA to review its mandates, assess its capabilities, and forge a renewed direction in delivering its mandates.



*RAA OD Team during their preparatory work*

My hunch was to transcend from counting the twigs and branches to looking at the whole forest to have futuristic outlook in terms of delivering the mandates. Even in hindsight, this exercise was worthwhile and had more than served the purpose. The RAA could identify four strategic thrust areas on the basis of needs discerned from various legislations and stakeholders, both external and internal. To accommodate the aspirations of the RAA, the vision, mission and set of core values in discharge of audit responsibilities were formulated to provide strategic directions.

#### Vision

*"A premier audit institution that promotes economy, efficiency and effectiveness in the use of public resources and contribute towards good governance"*

#### Mission

*"To audit without fear, favour or prejudice in the prudent and effective use of public resources and report to the parliament and stakeholders."*

### 2.2.2 CAPACITY BUILDING NEEDS ASSESSMENT

Shortly after the organizational development exercise, the RAA underwent a Capacity Building Needs Assessment in 2007 conducted by the IDI. The review was carried out by IDI experts and identified gaps in various elements of RAA's capacity building framework and recommended various measures to be initiated to build and sustain capacity of RAA as a Supreme Audit Institution.

The recommendations of the Peer Review Report also rendered critical inputs for formulation of successive Strategic Plans of the Royal Audit Authority. I reckoned on such independent reviews and suggestions for improvement in the overall capacity building of the RAA.

### **2.3. PROGRESSIVE DEVELOPMENTS**

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With determination of strategic thrust areas, the RAA was rendered with certainty of its purpose and directions to which it needed to gear towards. It had become clearer on areas which needed more focus to be able to shoulder the responsibilities. The period had been a watershed for RAA as it had resulted in many progressive developments in terms of re-development and re-engineering of organization to enhance the professionalism and delivery of audit services.

#### **2.3.1 ENSURING GOOD INTERNAL GOVERNANCE**

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First and foremost, I have always believed that unless those who propound good governance exemplify it in their own actions and deeds, they have no moral authority to preach it to others in whatsoever authority. Therefore, my will was always to first manifest it within ourselves and then propagate to others. The RAA as a watchdog of the public in the use of resources, it was only prudent to champion good governance within ourselves through embracing best practices in its internal governance. And for our own benefits, these changes were necessary to enhance efficiency and effectiveness of our overall operations.

To project RAA as a model organization in promoting good governance, its organizational structures must be positioned and organized to function economically, efficiently and effectively. We attempted numerous initiatives to organize ourselves to deliver high quality and effective audit work and reports.

##### **i) CONSTITUTION OF COMMITTEES**

To render objective work environment and to be seen efficient, effective and transparent, delegation of authority to various subordinate committees was seen to be very vital. It was obvious that the head of the organization cannot perform all tasks or ensure participation in every activity of the organization. A substantial portion of the organization's work needed to be delegated to achieve effective results. We reconstituted the existing committees as well as formed new committees to facilitate transparent and objective decision makings.

I constituted various permanent committees and non permanent committees. The permanent committees were those formed for decision making in regular business or affairs of the organization. The non permanent committees included working or core groups formed for specific task through an Executive Order from the Auditor General.

The highest level committee was the institution of the Executive Committee, which is mandated with the highest executive authority to advise the Auditor General in discharge of

his duties under the Constitution and the Audit Act. An Executive Committee of senior management headed by the Auditor General was formed for balanced and responsible implementation of the powers and responsibilities provided in the Audit Act of Bhutan 2006. All the Deputy Auditors General are members of the Executive Committee. One Division Chief is appointed as Member Secretary to the Committee for the tenure of two years.

The formation of various independent committees was found essential to support the top level Executive Committee in providing decisions on various issues through coordinated approach. The subordinate committees included;

- a) Audit Committee
- b) Disciplinary Committee
- c) Technical Committee
- d) Follow up Committee
- e) Procurement Committee
- f) Human Resource Committee

With Terms of Reference defined for each committee, the constitution of the committee was to assist the Auditor General as the Head of the organization in meeting the responsibilities and to support the strategic objectives of RAA through coordinated and transparent approach in decision making.

## ii) STRATEGIC AND OPERATIONAL PLANNING

### STRATEGIC PLAN 2008-13

In order to realize the vision and mission, the RAA formulated its first Strategic Plan 2008-13. It was prepared in line with the over all 10<sup>th</sup> Five Year Plan of the Government and also on the basis of recommendations offered through independent external reviews. The Strategic Plan focussed mainly on five major objectives:

- a) Align RAA's functions with the overall constitutional direction and as per the requirement of the Audit Act of Bhutan 2006;
- b) To conduct 3,402 audits with all the audit reports depicting a major shift from traditional compliance or regulatory audit to performance audit;
- c) Improve Quality and Timely Delivery of Audit Services;
- d) Develop Audit Standards and Manuals; and
- e) Enhance Professional Development.

The achievement of the Strategic Plan was ensured through Annual Audit Plans. The Annual Audit Plan is the consolidation of the annual operational plans of the each functional divisions/units. The performance targets for the year were set out for every detailed activity to be carried out during the year. The Annual Audit Schedule which includes list of agencies to be audited within the specified timeframe is the major component of the Annual Audit Plan.

The Policy, Planning & Annual Audit Report Division (PP&AARD) is entrusted to ensure that the annual commitments are in line with the Strategic Plans.

### **STRATEGIC PLAN 2010-15**

The appointment of Auditor General under the Constitution in 2010 necessitated realigning strategic focus to the term of Auditor General. The implementation of the Strategic Plan 2008-13 was in full swing. With fresh appointment of Auditor General under the Constitution, the strategic focus and strategies of the current strategic plan needed to be re-prioritized to render more vigor. The premise was also to render framework to ensure accountability of the Auditor General in fulfillment of his role during the term. Thus, the strategic plan was supposed to be the vision document and a blueprint of Auditor General and a roadmap for RAA to achieve its mandates during the next five years.

The preparation of the Strategic Plan 2010-15 underwent a complete review of existing situations to identify its strengths, weaknesses, opportunities and threats in achievement of its organizational goals and objectives. This exercise had rendered us a realistic basis for formulating appropriate strategies to capitalize on our strengths, take advantage of the opportunities and confronting threats and addressing weaknesses. We formulated two basic strategic objectives to be pursued during the period.

- a) To create positive impact of audit services in enhancing accountability and achieving value for money in the public operations; and
- b) To contribute towards positive changes in the government accountability and effectiveness of public services and provide sustainable and demonstrable coherence, consistent and efficient audit services to the Parliament and other stakeholders.

The adoption of the Strategic Plan 2010-15 paved way for further strengthening the institutional and organizational capacity besides, committing itself to achieving goals in auditing and reporting during the five years. It became the collective aspirations and commitments of all auditors of RAA to be pursued during the five years. All of us were passionate and demonstrated strong convictions to pursue and deliver our individual annual plans. With regular monitoring of the plans, we feel that we have been able to achieve most of the targets and goals envisaged in the Plan.

As we review the implementation of the Strategic Plan 2010-15, we have overall achievement of over 80% in terms of number of activities completed. However, if we consider the relative importance of the activities we pursued, I am confident that we have achieved more. Only few activities remain unaccomplished which have impacted the implementation of the other related activities. However, these unaccomplished activities are considered while formulating the new Strategic Plan 2015-20.

### **COMPACT AGREEMENT**

In line with the government initiatives, we also adopted a system of signing compact agreements by the Division Chiefs with the Auditor General to ensure implementation of

specific responsibilities delineated to the Divisions. This further provided accountability framework to the Divisions to deliver their commitments made in the Strategic Plans.

### iii) OVERSIGHT AND ACCOUNTABILITY

The question, *"Who audits the audit?"* was found often repeated in various media whenever the RAA was discussed. The RAA's credibility was received with scepticism. While RAA strived to propagate accountability in the public sector, it was also necessary for the RAA to be seen accountable for its performances. We could not afford to remain oblivious to what the society perceived about us. The credibility of the institution was the key to gain public confidence in our work.

The accountability of the Royal Audit Authority is ensured through enforcement of Sections 82 to 86 of the Audit Act which require the RAA to subject to external audits and reviews. During the years, we have subjected ourselves to periodic external audits and peer reviews. Besides, we also ensured regular reviews through internal audits.

#### EXTERNAL AUDIT OF ROYAL AUDIT AUTHORITY

Section 83 of the Audit Act requires external audit of the RAA to ensure its accountability. It stipulates that, *"The parliament shall appoint independent auditors drawn from professional firms or bodies not within the audit jurisdiction of the Authority for auditing the annual accounts of the Royal Audit Authority."*

The Annual Accounts and operations of the RAA were audited annually by professional accountants appointed by the Parliament. Every year the RAA has obtained clean report, which had confirmed conformance and compliances and consistent propriety in operations and management of funds. The auditor's reports were further disseminated to the stakeholders at large through incorporating it in the Annual Audit Reports, which were submitted to the Parliament.

#### PEER REVIEW

Section 86 of the Audit Act also stipulates that, *"The Authority may undertake a peer review by a member of peer organizations or other professional bodies from time to time to ensure consistency and high standard of auditing"*. The peer review is required to be carried out by a member peer organisations or other professional bodies from time to time to ensure consistency and high standard of auditing.

The RAA had adopted three pronged approaches in enhancing transparency, accountability and professionalism through conducting internal audit, external audit and peer review exercise. While internal and external audits were expected to ensure transparency and accountability to the public of the RAA's overall management of the public resources, the peer review exercise was to inculcate professional approaches to auditing to ensure delivery of demonstrable, coherent and consistent quality audit services to the public.

Peer reviews were conducted in 2005 and 2010 by the SAI, India. In view of the importance of such reviews for improvement in overall working systems of the organization, we decided that such review shall be undertaken once in every five years. The team had reviewed the adequacy of auditing standards and manuals, reporting processes and systems of maintaining quality report, organisation and management practices and use of auditing techniques. The team also reviewed the implementation status of the recommendations of the earlier peer review reports.

### **INTERNAL AUDIT**

Besides the external audits and reviews, the RAA also continued the system of internal audit of RAA Headquarters and Regional offices by our own auditors on an annual basis. The auditors from Regional Offices are appointed alternatively to audit of HQs and similarly, auditors from Divisions at HQs conduct internal audit of our regional offices. The appointment and terms of reference are drawn and approved by the Audit Committee. This is a part of our internal control systems to periodically appraise on overall operations of the office at Headquarters as well as regions and to ensure appropriate safeguards in the overall management and administration of our offices.

### **ASSESSMENT PERFORMANCE OF RAA UNDER SAI PERFORMANCE MEASUREMENT FRAMEWORK**

A four member delegates from IDI Secretariat and the Office of the Auditor General of Norway carried out the assessment of RAA's performance in May 2014. The scope of the assessment was guided by the SAI PMF methodology. It included RAA's financial, compliance and performance audit, organizational structures and procedures as well as the current legal and institutional framework.

The purposes of the assessment were basically:

- a) To provide RAA with information about its strengths and weaknesses as compared to the ISSAIs and thereby identify opportunities to strengthen SAI performance;
- b) To establish a baseline against which future progress can be measured; and
- c) To support the process of developing the SAI PMF as a global tool for assessment and monitoring of the performance of SAIs against their mandates and against the International Standards of Supreme Audit Institutions (ISSAIs).

The SAI PMF review provide holistic review of the RAA as an Supreme Audit Institution. The findings will provide critical inputs for formulation of the new Strategic Plan 2015-20.

### **2.3.2 RESTRUCTURING OF ORGANIZATION**

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One of the aligning processes was re-orienting the organization structures to suit the emerging needs and facilitate achievement of its goals and objectives. The restructuring of the organizational structure was proposed based on the strategic thrust areas and Strategic

Plan 2008-13 and Strategic Plan 2010-15. Amongst others, the proposal included creation of new departments and divisions.

**i) DEPARTMENT OF FOLLOW-UP, REGIONS & HUMAN RESOURCE MANAGEMENT (DFRHRM)**

In addition to two existing departments, the Department of Follow-up, Regions and Human Resource Management was proposed and set up for centralized follow-up activities, administrative supervision of regional offices, human resource management and international affairs.

**ii) PERFORMANCE & SYSTEM AUDIT DIVISION**

The erstwhile Performance & Thematic Audit Division was renamed as Performance & System Audit Division to conduct the Value for Money (VFM)/Performance Audit and System Based Audit extending across all agencies/sectors.

**iii) THEMATIC AUDIT DIVISION**

The erstwhile Technical Audit Support Division was renamed as Thematic Audit Division after bifurcating it from Performance & System Audit Division. This Division was created to conduct IT and Environmental Audits besides also other topical and theme based audits.

**iv) OFFICE OF ASSISTANT AUDITOR GENERAL (WEST)**

In addition to the existing three regional offices in Samdrup Jongkhar, Bumthang and Tsirang, one new regional office was opened in Phuentsholing. The additional regional office was felt necessary in order to take auditing services closer to audited agencies located in Dzongkhags falling within the jurisdiction of the regional office.

**v) RESEARCH & QUALITY ASSURANCE DIVISION**

Besides, creation of divisions and regional offices to undertake audit, the need for a dedicated Research and Quality Assurance Unit was felt long time to ensure the quality of audit processes and outputs. The RAA opened a dedicated unit for ensuring appropriate checks and reviews on the audit processes and outputs. It was later upgraded to full fledged division in view of the importance of its functions.

Besides the quality review of audits being conducted, the division is also expected to conduct research on special audit methods, techniques and systems and develop specific audit methods and techniques.

### **2.3.3 ENHANCING PROFESSIONALISM**

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Professionalism encompasses overall conduct of the Royal Audit Authority and auditors in complying with highest standards of auditing and reporting processes and its capabilities to deliver its core business. Professionalism not only improves efficiency of audit but also enhances credibility of the institution. As an SAI, the RAA must be seen to conduct itself with high professionalism and objectivity to be able to gain credibility and reputation. It is through exhibition of professionalism that boosts trust and confidence of our stakeholders.

Looking at the processes we followed and reports we issued, I became somewhat skeptical of the value we provided to the society through our work. The RAA never expressed audit opinions in the reports it issued. The fundamental duty of the auditor is to express opinion on the true and fair view of assertions made in the financial statements. But the very basic requirement seemed to have remained in oblivion. It had been a matter of concern that required complete review of the whole processes. There was a need to connect RAA's existence to its basic purpose.

The state of professionalism of RAA at that point of time needed drastic upliftment. This gave us reasons to channel most of our energies towards building competencies through trainings and institutionalizing processes of auditing and reporting through development of various audit manuals, guidelines and toolkits which have had far reaching impact in enhancing professionalism of RAA few years down the line. The development was gradual but efficacious.

The following are some of the initiatives undertaken to institutionalize systems and process of auditing and reporting as well as building and sustaining capabilities of auditors to render high professionalism in the work.

#### **i) REVAMPING OF CORE AUDIT PROCESS AND APPROACHES**

Audit Planning in the past was narrowly understood as no actual planning of audit preceded the review of actual accounts and operations of the audited entity. Planning merely involved scheduling of audits of agencies to be audited during the year by respective Divisions. The RAA used to rely only on execution or direct review or collection of evidences rather than detailed planning and programming of the audits. No time was spent on planning of the audit. The process of auditing therefore, was seen adhoc which provided no opportunities for auditors to follow due process of auditing. It seemed that whatever findings auditors came across were mere coincidences rather than the results of audit objectives. As a result, the system of maintaining audit working files were totally chaotic. The whole process of auditing therefore, lacked professionalism possibly affecting the effectiveness and efficiency of auditing. The process rendered semblance of a ship drifting in the middle of ocean having no purpose or direction.

The existing system of undertaking audit was a great concern for me. The risk associated was not being able to provide value to our stakeholders and losing the credibility of the RAA. It

urgently needed major overhaul to embrace best practices and render focussed approach through instituting proper audit planning process and also to introduce maintainance of appropriate audit working files to document the whole process of auditing. I believe that the reform in this areas was critical to provide credible process of auditing in conformity to best practices and also to enhance its effectiveness.

#### **a) DETAILED AUDIT PLANNING & PROGRAMMING**

The RAA for the first time started a system of detailed audit planning and programming as well as risk profiling. This was intended to facilitate auditors to subscribe to the best practices and enhance professionalism in their approaches. We made every effort to familiarize our auditors to the new system. To make it simple for the auditors to understand, planning and programming templates were designed and issued. Besides, several training programmes were organized at all levels. Over the years, we could see certain improvements through our transitions into a new system. I had always tried to emphasize the importance of planning and repeatedly urged to devote enough time to carry out planning before actually going to the field to conduct the review and collect the audit evidences. To start with, it provided me with a great sense of satisfaction to see that all these developments were gearing towards desired direction in enhancing professionalism. This development was a significant step taken to render firm foundation of all remaining processes of auditing and reporting.

Further, with the adoption of AG's Standing Instructions and Financial Audit Manual in the later years have further improved the way we conducted audit as well as reporting. These documents provided detailed instructions on whole process of auditing encompassing planning, execution and reporting. The Financial Audit Manual provided detailed guidance on every technical aspects of auditing through prescribing all necessary procedures, forms and formats to be used in auditing and reporting as well as maintaining audit working files. The manual is the basic document which is followed by auditors in conducting the financial audits and the whole process was rendered simpler.

#### **b) RISK BASED AUDITING**

Concurrent to institutionalization of system of audit planning and programming, some efforts were also made to familiarize auditors on the concept of risk based auditing. The RAA was mandated with large number of agencies to be audited and we were faced with daunting challenges of ensuring adequate audit coverage. We did not have luxury of time and resources. We could not afford to continue with the traditional auditing or comprehensive auditing which entailed 100% checks. It was neither desirable as in most cases it proved to be a waste of time and resources. We needed to focus on areas where it really needed our attention. This could be done only through systematic approach in identifying risks and prioritizing areas for focus based on some kind of analytical approach. The concept of risk based auditing was then introduced in a very subtle form as it took some time for our auditors to really grasp the concept and techniques. We attempted to apply the risk based approach

while carrying out the audit planning and programming. We decided not to go for 100% reviews but to concentrate only on certain areas based on perceived risks. We could reduce amount of time allotted to a certain agencies. However, I must confess that during the first phase of my tenure, we were not able to embrace a full fledged risk based auditing as we would have actually desired.

With the compounding growth of audited agencies as well as expansionary trend of its size and operations, I felt greater importance to adopt a full fledged risk based auditing concept and the need to train our auditors and provide hands-on trainings in applying the concept. We envisaged trainings and attachments of our officers to professional accounting firms based in Kolkota and also to undertake pilot audits under their supervision in our Strategic Plan 2010-15. We were able to train team leaders and also carryout three pilot audits using risk based auditing concept. Besides, the Division Chiefs had also availed trainings to be able to review the process of risk based auditing. I believe these experiences will go a long way in further enhancing the system of risk based auditing and enhancing the effectiveness and efficiency of our audits in due course of time. The Risk Based Audit concept came as solution to perennial problem of not being able to cover the agencies with limited human resource strength. However, the capacity building in this area needs continuous focus to fully embrace risk based auditing approach at the organizational level.

#### **c) CERTIFICATION OF ACCOUNTS**

While RAA assumed primary role of auditing ever since its inception, RAA had never certified the accounts until then. Though lapses and deficiencies pertaining to accounts and operations of audited agencies were reported, the fundamental elements or requirement to certify the accounts and expressing appropriate audit opinions in the right forms and formats was not practised. The RAA was seen lured by incidents of exceptions and specific irregularities rather than expressing its holistic opinion on operations or accounts of the audited agencies. I realized that such practice was unconventional and did not conform to any best practices.

The RAA started certifying the letter of credit accounts and current deposit account of the agencies from July 2006. This had been a drastic change brought about in the audit reports wherein appropriate audit opinions are expressed on the assertions made in financial statements.

#### **d) INTEGRATING PERFORMANCE AUDITING**

The RAA's resources were mainly diverted for financial and compliance audits of agencies under its audit jurisdiction. Performance auditing was an emerging concept. While very subtle form of performance audit was carried out in the past years, the RAA was not able to go for a larger scale due to dearth of expertise in this field. A dedicated unit was established for Value For Money Audit in the earlier years.

In view of the good prospect of performance audit through which RAA could provide value to the society, I was very eager to internalize the concept of performance auditing and embark on undertaking such audits on a larger scale. However, the lack of trained professional in this area posed a daunting challenge to venture into new area. The need was to firstly train few people and provide hands-on experiences in conducting such audits. Besides, it was very essential to sensitize all auditors on the new emerging concept.

The RAA chose the theme *"Inroads to Performance Auditing"* for the 9<sup>th</sup> Annual Audit Conference held in July 2006 to further operationalize and institutionalize the emerging concept of performance auditing. The conference saw fruitful discussions on concepts, opportunities and challenges, and formal adoption of strategies in integrating performance auditing. Besides conducting full-fledged performance auditing through a dedicated division, the idea was to spread the concept and encourage all auditors to take up topical issues along with the financial audits.

#### e) BALANCED REPORTING

One of the common grievances shared by stakeholders and users of our reports through social forums and other media was that RAA's reports contained only the negative and deficiencies of their operations. They criticised that their achievements do not find appropriate mention in the audit reports. In the process, the RAA was perceived as *"fault finder"* rather than an *"aid"* to the management. This had probably put a big dent on the credibility and reputation of the RAA and alienated auditors even to provide constructive and positive suggestions for improvement.

To obliterate such negative feelings and also to increase acceptance of audit reports amongst the audited agencies, the RAA needed to take on board their opinions and institutionalize the system of reporting achievements and contributions along with the deficiencies and lapses. To forge a way forward through appropriate strategies and sensitize our auditors, we adopted the theme, *"RAA's approach towards Balanced Reporting"* for the 12<sup>th</sup> Annual Audit Conference held in August 2009. The Conference adopted a number of strategies to implement the concept of balanced reporting. Not only the report contained lapses and deficiencies but it also needed to recognize successes and achievements of the audited agencies.

#### ii) DEVELOPMENT OF AUDITING STANDARDS, MANUALS, GUIDELINES

In order for the Royal Audit Authority to subscribe to the highest standards in auditing and reporting, it was imperative to have its own auditing standards broadly adapted, where applicable, from the international standards and best practices. This would ensure that practices of RAA to be consistent with the acceptable norms and practices. Development of audit methodologies, procedures, processes were required to increase and sustain the level of competency to undertake audit in four strategic thrust areas. We ventured into developing

auditing standards and manuals to serve as yardsticks and guidelines in carrying out audits of different agencies.

The salient fact about the standards, manuals and guidelines was that our own people developed them. Of course, their works had undergone expert reviews. Everyone entrusted with the responsibilities had risen to the challenges and delivered, which I feel is more important.

Much efforts were made during the interim period to overhaul and revamp auditing systems and methodologies. Through adoption of various manuals on auditing and administration of continuous trainings on relevant subjects, we have been able to bring about various reforms in the auditing systems that were in practice in the past. We desired to embrace best practices to enhance our professionalism and effectiveness in the delivery of auditing services.

In order to ensure efficacy of the changes brought about in the auditing processes and methodologies, we focussed on ensuring relevance of various manuals and guidelines that were already adopted through constant reviews and revisions. During the period, besides adoption of new manuals and guidelines, we also revised various manuals to provide relevant guidance to our auditors in conducting the specific audits.

#### **a) RAA'S AUDITING STANDARDS**

The audits in the earlier years were carried out in accordance with the General Auditing Rules and Regulations (1989) and the Generally Accepted Auditing Standards. With changing dynamics of governance in the public as well as private sectors, there was a need to have updated auditing standards which would address the need of the time. Feeling the urgency, we embarked on drafting our own auditing standards. Thus, the RAA's Auditing Standards was developed in line with the Audit Act of Bhutan 2006. Further, in order to ensure compliance to the international best practices, it was broadly based on the INTOSAI Auditing Standards. It prescribes the norms of principles and practices, which the auditors are expected to follow in the conduct of audit.

The standard provides minimum guidance to the auditors in determining the extent of auditing steps and procedures that should be applied in the audit and constitute the criteria or yardstick against which the quality of audit results can be evaluated. The standard has become a basis of all other manuals and guidelines developed for different types of audits.

#### **b) FINANCIAL AUDIT MANUAL**

The RAA drafted the Financial Audit Manual in 2010, which is the main manual governing the financial audits carried out by the RAA. The manual contains detailed procedures in conducting financial audits in line with the RAA's Auditing Standards and Generally Accepted Auditing Standards.

### c) PERFORMANCE AUDIT MANUAL

The RAA drafted Performance Audit Manual to provide guidance for the auditors while taking up the performance audits of entities or programmes. This manual was later revised to Performance Audit Guidelines which was issued in 2011.

### d) OTHER AUDIT MANUALS AND GUIDELINES

Aligned to the RAA's Auditing Standards, the RAA has drafted and adopted various audit manuals and guidelines that were intended to guide our auditors in carrying out the audits in various fields. The manuals and guidelines included the following:

- a) Construction Audit Manual
- b) Procurement Audit Manual
- c) Environmental Audit Manual
- d) Capital Asset Acquisitions Audit Manual
- e) Contracting Process Audit Manual
- f) IT audit Manual
- g) Public Utilities Audit Manual
- h) Certification Audit Manual
- i) School Audit Manual
- j) Municipal Audit Manual
- k) Forestry Audit Manual
- l) Dzongkhag Audit Manual
- m) Armed Forces Audit Manual

While various specific audit manuals developed during the interim period had served its purposes in streamlining the audit process, I felt the need to revise some and also add new manuals to the existing list to further boost our capacity. During my second term, we pursued development of 22 specific audit manuals and two policy documents funded by Austrian Development Cooperation. All these documents were developed by our auditors and had undergone series of consultations with relevant stakeholders and being reviewed by panel of experts. I hope with the adoption of these manuals will further boost our professional capacity as well as bring about improved consistency and uniformity in our audit approaches.

### e) DATABANK OF AUDIT CRITERIA AND PROCEDURES

In further guiding our auditors in specific fields, and to provide minimum guidance for the auditors in preparation of audits in different sectors and entities, the RAA embarked on developing databank of audit criteria and procedures for different audits. The RAA intended to create databank of audit criteria and procedures for each audit area determined on the

basis of the budget head of the Royal Government of Bhutan. It was expected to provide minimum auditing steps involved in the conduct of the particular audit.

The comprehensive list of budget heads as per the Finance & Accounts Manual were distributed to the groups of RAA officials who were experienced in the relevant fields. The brainstorming sessions on the assigned topics were held during the Mid Term Review Meeting in February 2010 at Tsirang.

#### **f) QUALITY ASSURANCE HANDBOOK**

A separate Research and Quality Assurance Unit was established and further upgraded to a full fledged division to improve the quality assurance system in auditing and reporting. An agreement was signed with the IDI to strengthen the quality assurance system in the RAA. The IDI had trained some of our officers formed as a core group in the field of quality assurance at both institutional level and individual audit level. The group had also conducted the Quality Assurance Review of the financial audit in the RAA as a part of their training.

Subsequent to the review meeting of the quality assurance training, the core group presented a handbook on quality assurance system. The Handbook was released during the 12<sup>th</sup> Annual Audit Conference in August 2009. The handbook delineates standard procedures in conducting quality assurance review.

#### **g) PUBLIC INFORMATION & DISCLOSURE POLICY**

The RAA also finalized and released a document on Public Information & Disclosure Policy of the RAA. The need of this policy was felt in view of the sensitivity of the audit information and the requirement of the auditing institution to be transparent to the society at large. The Policy regulates sharing of any audit related information on the demand of individual or entity based on the established criteria or sensitivity as determined in the policy to ensure fair and transparent way of providing access to information so sought.

#### **h) HANDBOOK ON AUDIT CRITERIA AND AUDIT WORKING PAPERS**

While financial audit manuals and performance audit manuals prescribe procedures in formulating audit criteria and maintaining audit working files, a separate handbook on it was felt necessary to stress importance of these elements. Since audit criteria provide fundamental basis for expressing audit opinions, the formulation of audit criteria and its source documents needs to be authentic. The audit working papers, being actually log of audit activities need to be well documented in support of assertions made in the audit reports. This stands as proof of work carried out by auditors at all stages of auditing.

In order to improve the quality of audits and ensure proper documentation, the RAA drafted and issued Handbooks on Audit Criteria and Audit Working Papers. The Handbooks were issued to all the auditors of the RAA.

### i) GUIDELINES ON FOLLOW-UP

The follow-up process is necessary to ensure that appropriate actions are taken on the audit reports issued. To provide uniformity in practice of follow-up, specific guidelines on follow-up was felt necessary. It delineates processes and procedures of sending reminders within specified timeframe, verifying action taken on audit issues, responding to action taken reports, settling the matters based on responses and collecting recoveries of cash.

The guidelines also streamlined the system of issuing Audit Clearance Certificates and the operation of Audit Recoveries Account.

### j) SENSITIZATION AND TRAINING ON MANUALS AND GUIDELINES

As the mere existence of manuals and guidelines did not ensure better audit methodology, the RAA had also organized series of sensitization workshops, trainings, conferences and other relevant methods in order to create awareness, enhance capacity and to provide access to these documents. The other measures included instituting control mechanism to check on quality compliances at various stages of planning, execution and reporting. All these procedures were intended to make the auditors use whatever manuals/guidelines being adopted and check its compliances in the process.

The revision and adoption of manuals also accompanied sensitization and trainings for our auditors to equip them with necessary skills for implementation. Since field auditors are the ones who need to be more familiarized with these manuals and guidelines, providing a hands-on experience was of utmost necessity.

In order to hone the skills, our training calenders constantly included trainings on new manuals and guidelines. Besides, the trainings were imparted in the form of sensitization during conferences, mid term reviews, PPCMs and during visit of our inhouse experts to regional offices whenever felt necessary.

### iii) ACQUISITION OF COMPUTER ASSISTED AUDITING TOOLS (CAATs)-WIN IDEA

With the increasing number of agencies going for computerization of its record keeping, it was felt inevitable for the RAA to train its staff in using Computer Assisted Auditing Tools (CAATs) for carrying out the audit of electronic data. After a number of auditors had availed training in the use of IDEA software, the RAA also acquired 20 licenses of the WIN IDEA.



While the use of software is yet to reach the desired stage, the use of WIN IDEA had facilitated complex data analysis during the audit of Road Safety and Transport Authority (RSTA),

Thimphu, Department of Budget and Accounts and Bhutan Power Corporation Limited. The trend of data analysis by using the CAATs has been set and now it only remains to be replicated in other agencies.

#### iv) PILOT AUDITS

In pursuit of strengthening RAA's approach towards risk-based financial audit, three experts from M/s Deloitte Haskins & Sells, Chartered Accountants, Kolkata, India was engaged to assist 15 audit team leaders for carrying out the financial audit of three agencies on a pilot basis in August 2013 using the risk-based audit methodologies. The group of team leaders had undergone two phases of training on risk-based financial audit delivered by M/s Deloitte Haskins & Sells in 2011 and 2012. In the third and the final phase of the project on risk-based financial audit the team leaders were expected to practically apply the knowledge and skills gained from earlier two phases of training programmes.

In the last phase of the project, division chiefs were also familiarized on the concept of risk based auditing. As a reviewer of the audit, the training was expected to further boost the institutionalization of risk based approach in all financial audits undertaken by the respective divisions.

The pilot audit was conducted in line with the Financial Audit Manual of the RAA and the International Standards of Supreme Audit Institutions (ISSAI). The programme was funded by Austrian Development Cooperation under the Project; *"Capacity Development of the RAA."*

#### 2.3.4 DEVELOPMENT OF AUDIT RESOURCES MANAGEMENT SYSTEMS

The RAA has developed Audit Resources Management Systems to integrate all audit functions and processes. It is to ensure effectiveness and efficiency of audits by using the technology in all audit processes. The access to the system being secured through passwords of the auditors, team leaders, Division Chiefs, Department Heads and the Auditor General, the system will render efficient flow of information on the audits being undertaken and provide online access by all levels for appropriate actions such as submissions and approvals. With automated process, there shall be no physical movement of documents.



#### 2.3.5 AUDIT PERFORMANCE EVALUATION MANAGEMENT SYSTEM (APEMS)

Unique to only RAA, the Audit Performance Management System (APEMS) was instituted to manage the performance of the auditors. It is a tool to apprise the performance of auditors in respect of the annual plans.

In order to render objective work environment through recognition and reward, the performers will be recognized by way of incentives, monetary or otherwise. While the non-performers shall be provided with opportunities to improve through guidance and trainings.

APEMS was instituted to render objective system to evaluate as well as in order to ensure that audit processes conform to standards and good practices through continuous monitoring by the Division Chiefs and the Quality Assurance Division and render enhanced effectiveness of audit. Besides, it is also expected to regulate timely coverage of agencies planned during the year.

### 2.3.6 PROFESSIONAL CODE OF CONDUCT

No matter how proficient the auditors are in discharging their duties, if their behaviours and conducts are not ethical or objective, there will always be a dent on the professionalism and the credibility of the institution. Since field auditors are the ones who interact with the audited agencies, it is important that they exemplify values of integrity and honesty.

At that time, credibility of RAA was at its low. As the head of the organization, it was too worrisome for me to find solutions. I intended to test all forms of persuasions through advocacy and advisory, reprimands and warnings at any opportune moments such as conferences, meetings, personal interactions, etc., only to find myself being frowned upon for doubting their conduct and inconveniencing especially those who did not need such advices. While I owe my apology to those who manifested exemplary behaviours and conducts at all times, for having to endure my long lectures, it was only intended for those really needed to be reminded. It was after all for the larger interest of the organization as well as the nation.

Besides all these, the RAA had established various policies and procedures for the auditors. These included:

#### i) CODE OF GOOD CONDUCT, ETHICS AND SECRECY OF AUDITORS

The Royal Audit Authority has laid down comprehensive core values of Code of Good Conduct, Ethics and Secrecy. It explicitly describes the 16 principles that every auditor must strive to uphold while in service with the RAA.

Taking oath and subscribing to the 16 principles of code of Good Conduct, Ethics and Secrecy is mandatory for all the employees of RAA including the Auditor General. The oath is administered for all new comers joining the RAA.

Taking Nachu (*holy water*) and becoming signatory to the 16 principles of good conduct, ethics and secrecy marks the transformation of a person into a true guardian and upholder of these values.



## ii) AG'S STANDING INSTRUCTIONS

Even after series of executive orders issued by the Auditor General directing the auditors to conduct themselves well while in the field, it apparently did not yield desired results as complaints continued to pour in through direct mail or social forums accusing and alleging auditors of unpleasant behaviours and misconducts in the field. I felt it necessary to have laid down instructions/guidelines to spell out distinct *"do's and don'ts"* for the field auditors. The AG's Standing Instructions was drafted and adopted.



A pocket size booklet is an elaborate document which contains specific instructions in the areas of both the personal and professional conduct of the auditors. It ensures accountability of the auditors to exhibit professionalism in their work. To dispel public perception of auditors being treated as VIPs by the audited agencies, we have resorted to the extreme restriction on even accepting a cup of tea from the audited agencies. To remind ourselves of the specific instructions, it was made mandatory to always carry it in our pockets.

## iii) GUIDELINES FOR HOUSE-KEEPING

Having aspired to call our office as Bhutan Integrity House, the core values are even considered indispensable for our housekeeping. Hence, these are found incorporated in the RAA's Guidelines for Housekeeping. Besides, it is also to ensure proper safeguards of the government properties entrusted to us. It delineates routines for cleaning, maintenance and proper custody of the entire building and its accessories.

## 2.3.7 PROFESSIONAL CAPACITY DEVELOPMENT - BRIDGING COMPETENCY GAPS

The organizational systems and processes can be efficacious only if there are adequate and competent human resources to interact and act as catalyst. With ambitious plans envisaged through formulation of Strategic Plan, the human resource gaps needed to be bridged to materialize our aspirations. We prepared HRD Master Plan for the 10th Five Year Plan to build and sustain its human resource capabilities based on the gaps.

Along with the projections of the Master Plan, we embarked on various human resource development initiatives to build and sustain competent workforce in the organization.

## i) CONTINUING PROFESSIONAL DEVELOPMENT POLICY

A unique feature in the human resource development of the RAA was the institution of a Continuing Professional Development Policy. The policy was aimed to regulate development of human resources through trainings and to encourage continuous up-gradation of knowledge and skills of the auditors. It also sets compelling environment for auditors to undergo atleast 40 hours of trainings in a given year. The promotions and other career

advancements of the auditors are entertained only upon fulfilment of this minimum requirement.

I must say that while it is the general tendency of the civil servants to prefer ex-country trainings, we focus on conducting most of the trainings by our own experts and professionals within our office. This not only saves resources of the government but also provides opportunities for our people to share their knowledge and expertise. While I do not pre-empt the government to replicate and introduce policy similar to ours, it may be worthwhile to be conscious of cost-benefits of the existing systems. Through this policy, I can say that we have made best use of available resources and we were able to cater to the training needs of all our auditors, which I am sure would not be possible if training opportunities are awaited outside the country.

#### **ii) ESTABLISHMENT OF PROFESSIONAL DEVELOPMENT CENTRE**

The RAA proposed establishment of an Professional Development Centre at Tsirang which was endorsed by the 87<sup>th</sup> National Assembly. The RAA envisaged to start the construction in the 10<sup>th</sup> FYP but had to defer it to 11<sup>th</sup> FYP.

The construction of the training centre had already started in 2014. It is expected to be functional by 2017-18. With the commencement of the training centre, the RAA will be hosting international and regional trainings catering to the needs of peer SAIs around the world. I am very hopeful that such kind of arrangements will provide avenues for RAA to further strengthening the professional capacity through integration with other audit institutions.

#### **iii) MANPOWER RATIONALIZATION EXERCISE**

With increasing number of agencies to be audited by the RAA, we faced serious challenges of man power shortages. On the other hand, it was also not justifiable to attribute our inability to ensure adequate audit coverage to constraints of human resources without any scientific reviews being conducted. It needed to be backed by objective and independent studies. We desired to carry out objective analysis of the actual requirement based on the number of agencies under its jurisdiction vis-à-vis existing strength of human resources to know whether the problem of shortage actually existed. We engaged independent consultant for the task in 2013.

The report of the consultant pointed out huge gaps between the actual requirement and the existing strength. The Report of Manpower Rationalization Exercise was used as a basis for requisitioning additional manpower to the Royal Civil Service Commission during the 11<sup>th</sup> Five Year Plan.

### **2.3.8 SUSTAINING RELATIONS WITH STAKEHOLDERS**

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Establishing and sustaining effective working relationships with external stakeholders had always been integral to RAA's effort in ensuring impact of its reports and other products and services. Sustained relationships with the external stakeholders are critical for attaining RAA's vision of promoting accountability, economy, efficiency and effectiveness in the functioning of public sectors. Responsibilities of promoting good governance do not rest solely on institutions like ACC and RAA. It is a collective responsibility of all players in the system. Our reports and recommendations will be rendered efficacious only when it is accepted and acted upon by stakeholders like Parliament, government and audited agencies. Therefore, sustaining relationships and close co-operations is a necessity to render our work effective.

#### **i) AUDIT AWARENESS AND ADVOCACY PROGRAMMES**

The Audit Awareness Programmes had proved to be an effective strategy to disseminate information on the roles and responsibilities of the Royal Audit Authority. To take advantage of the large audience, awareness programmes were usually conducted at the Dzongkhag Levels, Annual Conferences of the Ministries, professional groups like Health Conference, Engineering Conference, Education Conference, Financial Management Workshop, Dzongdas' Conference, DYT and GYT Chairmen Conferences, Chief Executive Officers of Corporations and Financial Institutions, etc. Other specific group included Cabinet Ministers, Members of the Parliament and Constitutional Post Holders.

The RAA also prepared a Documentary Film on the inception, roles and responsibilities of the RAA. The Bhutan Broadcasting Service (BBS) aired the documentary film twice. The copies of the documentary film were distributed to various Dzongkhags and institutions in the country for creating greater awareness.

#### **ii) CHANGE IN THE SYSTEM OF FIXING ACCOUNTABILITY**

In a move to gain better appreciation of its role, the RAA has discarded the system of auditors indicating names of those responsible for the audit paras which was in practice then. This process seemed vindictive in the eyes of public. As such, the RAA chose to confine itself to its role of auditing and reporting and made it mandatory for the auditee management to fix the accountability on their officials. The system of citing names in the reports is now based on decisions taken by the management.

Thus, this development has apparently given impetus to amicable relations existing with the audited agencies. This development is seen to promote collective responsibility between the RAA and the audited agencies.

**iii) BALANCED REPORTING**

It is a common phenomenon that the audit reports are least read. The audit reports are perceived to contain only those findings of shortcomings and lapses. The RAA realized this as a serious setback in getting attention to its reports. To attract interest of the reader and to make it user friendly, the RAA adopted the approach of balanced reporting. It is requirement that the RAA will not only report the shortcomings and lapses but also report what has been done along with their milestone achievements.

Audit reports must be first read to be acted upon. The reports which remain shelved are only papers serving no purpose at all. This is seen as one of the confidence building measures having positive impacts in gaining confidence in our reports.

**iv) RAA'S SERVICE DELIVERY STANDARDS**

For better information to the clients to avail the services rendered by the RAA, the RAA has developed standards for its deliveries. The standards are put in the RAA's website to be accessed by the people at large. The standards contain the kinds of services rendered, procedures of accessing and availing, timeframe within which the services can be obtained and the key personnel to be contacted. This in general is a guide for clients to avail services of the RAA at the minimum time and binds the officials responsible to deliver as per the standards. The standards also provide redressal mechanism in case the services are not delivered as per the standards.

**v) RELATIONS WITH PUBLIC ACCOUNTS COMMITTEE**

The RAA has a good institutional linkage with the Public Accounts Committee. The reports produced by the RAA are further reviewed by the PAC and the public hearings on the audit reports are conducted for the agencies concerned. The PAC presents the audit reports in the Parliament sessions on behalf of the RAA.

**vi) RELATIONS WITH ANTI-CORRUPTION COMMISSION**

In dealing with the cases of fraud and corruption, the RAA had established common understanding on sharing information and reports with the Anti-Corruption Commission. Any cases of fraud and corruption that are unearthed in course of audit are shared with ACC for further investigations. This system of linkage with ACC enables the two institutions to synergistically work for common cause of creating a corrupt-free society. To further institutionalise this process, a Protocol of Mutual Assistance and Information sharing in preventing and combating corruption had been signed by the RAA and the ACC. The Protocol *inter-alia* clearly delineate the processes and procedures in making referrals between the RAA and the ACC.

## vii) RELATIONS WITH ATTORNEY GENERAL'S OFFICE

In the matters related to prosecution based on the audit reports, RAA is required by the Audit Act of Bhutan 2006 to testify before the Judiciary. The Office of the Attorney General is responsible for prosecution on behalf of the Royal Government and the RAA is required to testify the audit issues that had caused OAG to prosecute in the court of law. Thus, RAA has well defined and established institutional linkages with the OAG as required by the Audit Act.

## viii) AUDITED AGENCIES

The RAA maintains the good and continued relationship with the audited agencies through the process of auditing and follow up of audit reports. Sufficient time is given to the agencies to respond/justify both before and after the issue of audit reports. If the audit matters continue to remain, the Follow-up Division is responsible to remind and call on agencies to act on the audit reports and submit the action taken report regularly. Where necessary, the meetings are fixed with the agencies and RAA is represented by appropriate officials to resolve the outstanding issues.

## ix) MEDIA

Media plays a vital role in disseminating audit reports to the public at large. Press Releases issued in concurrent to the release of Annual Audit Reports are transmitted to all the media organizations for coverage in their papers and broadcast. The performance audit reports and other thematic audits on Information Technology and Environment which are released individually were also shared with the media. Our past experience was that those reports were adequately reported in different news media.



Besides, the media have been very active in highlighting scams and irregularities that are reported in the individual audit reports. The public at large were sensitized about the corrupt and fraudulent practices or gross violations in the operations of public entities and management of public funds. Such practices, I believe is a healthier trend if not blown out of proportion to keep public trustees on toes in discharge of their duties.

Further, realizing the importance of creating awareness of auditing system and its recent developments, and also to validate the information on reported audit issues, the RAA has appointed two spokespersons to collaborate with the media for information dissemination.

## x) INTERNAL AUDITORS

The RAA had always been supportive of capacity building of internal auditors of various government agencies. The RAA extends the participation of Internal Auditors in its training

program and annual audit conferences which has fostered in establishment of good working relationship. Further to advise the government to strengthen internal audit units, I have issued AG's advisory series on internal controls highlighting issues and challenges, also providing rationale for instituting internal audit units in the central agencies and the Dzongkhags.

**xi) RELATIONS WITH INTERNATIONAL PEER ORGANIZATION**

I have always believed that as the institution aspiring to be professional, it must conform its overall conduct to the best international standards and practices of auditing. To embrace evolving concept and knowledge in auditing field, integration into international arena has assumed a paramount importance especially at this time of rapid change and development of concept and knowledge in auditing. The RAA continuously engages with SAIs around the world through different forums. The areas for bilateral and multilateral cooperation with other SAIs are being continuously explored and sustained through active participation in seminars, conferences and other forms of audit congregations organized by regional and international auditing bodies. The engagement through sustained cooperations is seen to add impetus in enhancing and furtherance of our capabilities and professionalism.

The RAA has been active in associating itself with the international and regional associations such as INTOSAI and ASOSAI. The RAA is a member of the INTOSAI and ASOSAI. We have been able to derive enormous benefits through participations in various conferences, workshops and trainings conducted under the auspices of these organizations.

We have also sustained institutional linkages with various individual SAIs. The bilateral relationships have provided opportunities to foster mutual interests in exchange of professional knowledge and experiences. Amongst others, the close relationship with SAI, India have stood the test of time and reinforced through continued engagements. The successive MoUs signed with SAI, India have benefited RAA in enhancing professional development of the staff. I have had opportunities to make bilateral visit to various SAIs and I believe RAA must continue to explore areas for further cooperation with the peer SAIs.

One of our strategies to integrate with international practices and sharing experiences with international auditing community included transregional audits – which is a common assignment carried out along with peer organizations on a given theme. Although we aspired to undertake as many of such audits, we have been able to undertake only in one assignment



on, “National Forest Inventory”. The engagement of our auditors in such assignment exposed them to international expertise and professionalism. For RAA, it had been a new experience to get hands-on experiences on conducting audits as per international experiences which are critical to enhancing professionalism.

The engagement in such international assignments have potential to provide ample opportunities to enhance our human resource capability besides exposing to good practices and methodologies. Therefore, the trans-regional audit is one opportunity the RAA cannot afford to lose especially in view of our aspirations to attain high level of professionalism.

### CHAPTER 3: DELIVERY OF AUDIT RESULTS

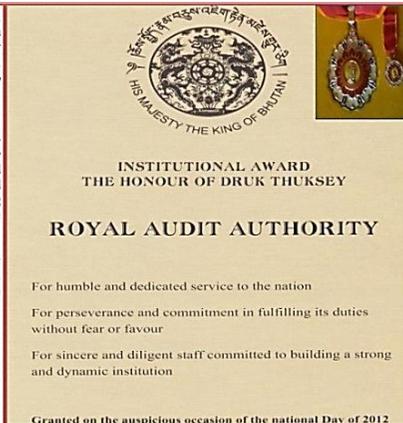
The efforts put in during interim period in institutionalizing and re-engineering its structures and processes to adapt to the provision of the Constitution and the Audit Act were to render capability of the RAA in delivering its mandates more effectively and efficiently. I have been privileged to provide continued leadership in deriving the fruits of leadership I provided during the first phase. With so much resources and energies devoted to revamping and re-engineering processes to attain desired level of capability, it was a real test for us to see the efficacy in the actual delivery.

The RAA contributes to promotion of good governance through its reports and recommendations. It is through its audit reports, the RAA provides independent assurance on public financial management. It is to see whether RAA had met its mandates, produced reports of required quantity and quality and provided value to the stakeholders.

His Majesty awarded Druk Thuksey Medal to the Royal Audit Authority on the auspicious and joyous occasion of 105<sup>th</sup> National Day Celebration on 17<sup>th</sup> December 2012 at Changlimithang. The medal was conferred as an institutional award in recognition of RAA's service to the Nation.

His Majesty said that "the individuals working in RAA has put in every possible effort in shouldering the responsibilities which had culminated in commendable results within a short span of time". His Majesty said that Bhutan being a 'land locked country' is constrained by wealth and resources, the responsibility of ensuring best use of available resources for the welfare of the people and the country is entrusted with the RAA.

'Druk Thuksey' The Royal Order of Bhutan, literally means "Son of the Heart of the Thunder Dragon" was instituted by His Majesty the Third Druk Gyalpo Jigme Dorji Wangchuck in 1966.



With the formulation of Strategic Plans 2008-13 and 2010-15, we had the sense of purpose and guided our efforts in achieving goals envisaged in the plans. The RAA was privileged to receive the Honor of Institutional Award Druk Thuksey from His Majesty on the auspicious and joyous occasion of 105<sup>th</sup> National Day Celebration on 17 December 2012. The medal was conferred as an institutional award in recognition of RAA's humble service to the Nation. The recognition from the highest authority further boosted and heightened the spirit of RAA family to serve Tsa-Wa-Sum with more zeal and enthusiasm. While it brought about great sense of achievement to everyone in RAA, there was no time for complacency. More importantly, in the midst of jubilations, the sense of greater responsibility prevailed in all of us to move forward to rise to the expectation of our King.

Besides the fundamental duty of RAA to provide assurances on the financial statements and operations of audited entities through financial audits, we have also tried to embark on performance audits on selective themes to render useful basis for decision making to the Parliament and the government on various issues of national interest.

Let me provide an account of some of the achievements of RAA in its pursuit of promoting good governance through its audit and report. I intend to highlight achievements of RAA in delivery of its mandates as a watch dog of the public resources. It would also be an opportunity for me to highlight some of the unaccomplished task along with perceived challenges that need to be overcome in future.

### 3.1 MEETING THE AUDIT MANDATES

The first test is to see whether RAA had been able to meet the mandates enshrined in the Constitution and the Audit Act of Bhutan 2006. The Audit Act mandates a very broad spectrum of audit jurisdiction for the RAA to audit and report on economy, efficiency, and effectiveness in the use of resources.

#### 3.1.1. AUDIT COVERAGE

The litmus test is the audit coverage that the RAA had been able to achieve. With over 1,000 audits to be conducted under the jurisdiction of the RAA, the RAA was able to complete 5,274 financial audits and issued 6,406 financial audit reports during 2006-15:

Year	No. of Audits	No. of Reports Issued
2006-2010	2366	2687
2011-June 2015	2908	3719
Total	5274	6406

Source: Annual Audit Reports

With a limited manpower, it had posed a greater challenges to have adequate audit coverage. However, the consistent audit coverage that we were able to maintain over the period was in itself an achievement. In order to ensure that no agency is left unaudited as well as to rationalize the allocation of time and resources, we have categorized the agencies based on its size and priority. The categorization renders basis for preparing the Annual Audit Schedules by the respective Divisions and allocation of mandays for each audit.

#### 3.1.2. AUDIT PRODUCTS – REPORTS

The audit reports are the final output of the RAA. The RAA basically produces financial audit reports, performance audit reports and compliance audit reports. Our reports must conform to the highest standards and in order to do that the RAA imbibes practices and procedures which shall ensure significance, reliability, objectivity, clarity and timeliness of the reports.

In our efforts to produce quality reports, the RAA continuously strive to imbibe best practices. The RAA’s Auditing Standards and manuals/ guidelines were developed as far as possible in conformity to best practices. Besides, the quality control measures instituted provide adequate check on quality of audit processes and the reports issued. Though external



reviews on quality of reports are yet to be carried out to determine the overall quality, it may be worthwhile to reproduce some of the initiatives undertaken to ensure that quality parameters are met by the RAA. We have reasons to believe that our reports conform to highest standards, though improvements may be desired as we advance our capability.

#### **i) SIGNIFICANCE**

The RAA is mandated with large audit jurisdiction by the Audit Act. Besides, other legislations such as the Companies Act, CSO Act, Religious Organizations Act, etc., require the RAA to undertake annual audit of entities under respective legislations. With limited human resource strength of RAA, it poses daunting challenges and there is no way that RAA could cater to all agencies in a given year.

Hence, RAA has a system of preparing Annual Audit Schedules (AAS) which include agencies to be audited during the year. The selection is based on budget and expenditure outlay, vulnerabilities, perceived risk and other factors. This is to ensure that audit resources are allocated to agencies and activities that are pertinent and have potential to bring greater impacts through audits.

#### **ii) RELIABILITY**

With quality assurance system in place throughout the audit process and also the fact that the independent check of audit reports carried out by the Research & Quality Assurance Division, the reliability of issues and observations contained in the audit reports are sufficiently checked in respect of evidences and supporting documents accompanying it.

#### **iii) OBJECTIVITY**

In order to render objectivity of audit reports, the RAA had instituted a system of providing adequate time for responding to initial audit queries and issues.

Immediately upon observations noted by the auditors, the preliminary observations are issued to the management for onward distribution to the responsible officials. The responsible officials are expected to furnish the justifications in writing or through participating in the audit exit meetings.

All issues that have been noted during the audit are supposed to be discussed during the audit exit meeting. Since important decisions are to be taken during the exit meeting, the RAA insists on participation of the senior management and the responsible officials in the audit exit meeting. The RAA is represented either by the Division Chief or Department Heads or the Auditor General along with the audit team depending on the seriousness of the cases. Exit meetings are minuted for future references.

Agencies are given reasonable time to provide justifications for the issues that had remained unresolved during the exit meeting. The audit report is then finalized after incorporating only

the unresolved issues along with the comments/justifications given by the audited agencies and accountability indicated by them. Three months' time is given for the agencies to respond with Action Taken Report.

For the Annual Audit Report which is the compilation of the audit reports issued during the year, draft report is circulated to all the agencies concerned for further responses and justifications. The RAA gives one month to respond to draft audit reports. Thus, the audit observations featuring in the audit report would have undergone all these processes basically to provide opportunity to clarify and render objectivity of the report.

#### **iv) CLARITY**

In order to ensure clarity of the reports, the process of reporting is designed in a way that checks at various levels of hierarchy in the audit management are exercised. Besides, the checks on the phrasal and grammatical errors, it is also done on the technicalities of the reports itself by the Division Chiefs, Quality Assurance, Department Heads and the Auditor General as the case may be. The report structures and templates that are prescribed for every kind of report render consistency within divisions and little room for ambiguities.

#### **v) TIMELINESS**

All audit reports, individual or Annual Audit Reports are issued within reasonable time in due consideration of response time prescribed in the Audit Act. The timing for issue of reports are scheduled in the Annual Audit Schedules and the actual issuance of the reports after the completion of the audit is being continuously monitored.

Besides, the issue of Annual Audit Reports are regulated by the Audit Act of Bhutan. The RAA is required to submit the AAR in the last quarter of the Financial Year. We have been able to submit it within the timeframe stipulated in the Audit Act.

### **3.2 CONTRIBUTION TO GOOD GOVERNANCE & SERVICE DELIVERY**

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Every SAI aspires to contribute to good governance through promotion of accountability and transparency in the use of public resources. The issue of report is not the end. These outputs in the form of audit reports should contribute to this outcome. The RAA intends to achieve this through its timely audit of agencies, submission of reports to appropriate authorities and vigorous follow up actions.

Audit reports contain names of responsible officials against the lapses. The system of issuing Audit Clearance to public officials had proved to be useful tool in promoting accountability of those charged with the responsibilities. Unless the audit issue is resolved through appropriate actions, the audit clearances for particular official indicated in the report is held up. The appropriate actions that needed to be taken on defaulters act as deterrence for perpetration of wrongful acts or lapses.

The RAA's primary responsibility is not to detect fraud and corruption but to provide assurances on the compliance to rules and regulations, examining propriety of money spent, inquiring into the economy, efficiency and effectiveness in the use of resources. However, if in the course of audit, fraudulent and corrupt practices are discovered, it also reports. As required by the Act, RAA is also required to share such reports with the ACC for further investigations. During the period, the RAA had shared 147 reports containing issues that were indicative of corrupt practices for further investigation by the ACC.

The Annual Audit Reports and performance audit reports submitted to the Parliament are thoroughly deliberated. The Public Accounts Committee tables the report to the house and seeks resolutions on proposed actions submitted by it based on the audit findings and recommendations contained in the Annual Audit Reports and performance audit reports. The resolutions passed in the house come as directives to specific authorities to take actions on the issues of the report.

### 3.3 CONTRIBUTION THROUGH FINANCIAL & COMPLIANCE AUDITS

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#### 3.3.1. ANNUAL AUDIT REPORTS

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The annual audit reports which were submitted to His Majesty the King, Parliament and the Prime Minister contained all unresolved significant issues pertaining to all financial and compliance audit reports issued during the year. Besides specific issues that are pointed out in the report, overall recommendations were formulated on the basis of issues contained in the report for corrective action by the central authorities.

Annual Audit Reports, as one of the final outputs of the RAA, the RAA expects to derive enhanced economy in the use of public resources and efficiency and effectiveness of overall financial management through minimizing wastages and ensuring use of funds for intended purposes.

The recommendations contained in the Annual Audit Reports are intended to provide basis for appropriate interventions of the government and authorities through appropriate directives and policy formulations.

#### 3.3.2. FOLLOW UP REPORTS

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One of the methodologies in ensuring effectiveness of audit is follow up of audit reports. Through a regular system of follow up instituted, audit reports were being followed up individually as well as at the level of Annual Audit Report. Besides the regular follow up on the individual level, the follow up were carried out whenever directed by the Parliament. With support from the Parliament through Public Accounts Committee, we have been able to resolve most of the past audit reports.

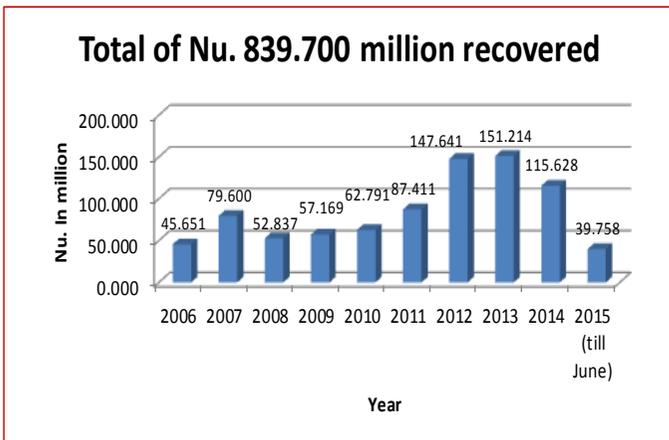
### 3.3.3. AUDIT RECOVERIES

While improvement brought about by the audit reports and recommendations need to be studied separately, the audit recoveries made based on audit reports indicate an apparent impact of audit. During the period, the RAA had recovered the total amount of Nu. 839.700 million on account of audit recoveries as shown below:

The above recoveries exclude those made from corporations, financial institutions, Civil Society Organizations and religious bodies. The recoveries from these agencies are accounted for in their respective accounts and not deposited into Audit Recoveries Accounts maintained by the RAA.

Audit Recoveries	
Year	Nu. in million
2005-2010	298.048
2011-June 2015	541.652
<b>Total</b>	<b>839.700</b>

Source: Annual Audit Reports



While the audit recoveries is the immediate output of the RAA’s audit due to improved audit methodologies, the increasing trend is not what RAA looks for. The trend may be suggestive of recurrence and existence of inadequacies in the system. I believe that such an increasing trend is temporary and we would be able to see decreasing trend of audit recoveries as a result of our work.

### 3.3.4. UNEARTHING OF SCAMS AND CORRUPT PRACTICES

The financial and compliance audit reports provide sole input to the Annual Audit Reports submitted to His Majesty the King, the Prime Minister and the Parliament. The issues contained in the AAR are those contained in the individual audit reports issued to specific audited agencies. However, it contains only the significant unresolved irregularities as on specified date before finalizing the report. While most of the irregularities reported pertained to array of issues arising from mismanagement and deficiencies in internal controls, some of the irregularities were of



fraudulent and corrupt nature, having potential to pervade across sectors and becoming endemic to the system if it remained unchecked. The performance audits are reported on an individual basis.

The irregularities in accounts and operations of audited agencies are basically categorized into five categories based on the seriousness of the lapses. The category of fraud, corruption and embezzlement pertain to those irregularities which had, on the basis of evidences, occurred due to fraudulent intent or wilful misrepresentation of facts to derive undue benefits through unscrupulous means. It is considered as serious crime breaching the trust held for his/her positions. The other categories pertain to unintentional misrepresentations or lapses occurring due to deficiencies in the system. While the implications of the lapses of any category cannot be differentiated, fraud and corrupt practices are social menace. Even the irregularities falling under other categories are not desirable. All of these occur from the lack of or inadequate internal controls in the system and pose greater danger of becoming endemic across public institutions.

Over the years, the RAA had exposed various scams in different agencies involving millions of Ngultrum. The most common modus operandi applied for perpetration of frauds, amongst many were:

- a) Forgery, tampering of documents and resorting to deceitful practices;
- b) Wilful violation of contractual provisions and procurement norms;
- c) Teeming and lading in revenue management;
- d) Improper maintenance of financial records;
- e) Lack of due diligence of officials entrusted with responsibilities;
- f) Collusions with suppliers and contractors; and
- g) Ad-hoc decisions driving circumvention of rules and requirements.

While inadequacy or weak internal control system can be blamed for occurrences of such irregularities, it is the deficit of individuals' morality and conscience that drive their actions. No system will ever be adequate to stop such undesirable practices. The only thing the RAA could do is to resort to zero tolerance approach to such practices if detected. The RAA had insisted that the perpetrators are brought to task through the court of law in most of the detected cases.

Monday  
January 16, 2015  
KUNENDEL **HOME \* 3**

## Accountant sentenced to 18 months prison term

*Besides, the dungkhag court also asked him to retribute whatever money was embezzled from MoLHR within two months*

<p><b>TARI DINA</b> Golephu dungkhag court last week sentenced the former accountant of Serhsong Vocational Training Institute in Gelephu to a year and six-month prison term.</p>	<p>gany Drukpa from Goshi in Dagana was accused of misappropriating about Nu 817,000. He had not kept accounts of cash although the bank statement reflected withdrawal of cash. YTI employees refunded, double booking of expenditure, irregular payment for stitching charges of uniforms, non-booking of advance payments, non-reconciliation of remittance and booking advances against a contractor and two instructors without disbursing the cash.</p>	<p>Labour and human resources ministry officials charged Namgye Drukpa for embezzlement, manipulation of accounts records and not keeping proper accounts of payments made and collected when he was working as an accountant at the training institute.</p> <p>Royal Audit Authority, during their annual audit in 2010, found the misappropriation and the ministry, after studying the audit report, framed the charges against the accountant.</p>
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**EMBEZZLEMENT**  
The accountant had misappropriated government funds included to count whatever money was collected to the employees of the institute. Fifty-seven-year-old Namgye Drukpa had argued that he had neither misappropriated nor embezzled the fund but the shortage occurred because he did not know how to use the budget and accounting system (BAS). He, however, failed to justify his stand on the each and every charge framed against him.

Golephu dungkhag court, after studying the case for more than two years found that Namgye Drukpa had embezzled more than Nu 470,000. While rating the crime based on the value, it fell into misdemeanor, where the penalty ranged from one to three years prison term.

The court verdict stated that Namgye Drukpa's claim that he did not know how to use BAS was not a reasonable defence because claiming to be ignorant does not make a defendant innocent.

Golephu dungkhag court had also asked Namgye Drukpa to retribute the money he embezzled to the ministry within two months.

The RAA can only hope that deterrence can be created for potential perpetrators only through implicating those who have committed the crime.

The irregularities of other than nature of fraud also have potential to bring about huge implications in terms of cost or otherwise to the government and impede the agencies from achieving economy, efficiency and effectiveness in the use of public resources.

The RAA had been able to rescue the government of huge direct financial losses or rendered basis to tone up necessary checks and controls. Some of these issues also grabbed the attention of the media and alarmed the nation of the existence of undesired practices in public operations. The irregularities that were detected had occurred in various areas of operations and management as briefly mentioned below.

The most vulnerable area for perpetration of malpractices was found to be in the area of procurement and construction management. Resorting to wilful misrepresentations and collusions with the third parties, the perpetrators flouted rules and disregarded due processes to derive undue benefits. All these came at the cost of government, where quality of goods and services received by the government were severely affected besides, also hindering transparency and accountability in the public operations.

The RAA found numerous deceptive practices and gross violations involving over Nu. 10 million in the construction of Vocational Training Institute (VTI), Rangjung under Basic Skills Development Project implemented by the Department of Human Resources, MoLHR. Huge excess payment of over Nu. 12 million were made in the procurement of drugs by DVED, Department of Medical Services in 2009 through collusions with the suppliers. The amount of over Nu. 13 million were found siphoned off through various unscrupulous means in the procurement of science laboratory equipment by the Ministry of Education in 2007. There were several violations and breach of contract by the contractor resulting into extremely poor physical progress in the construction of Nimshong-Nabjikorphu Farm Road under Dzongkhag Administration, Trongsa in 2009.

Further, construction of the Gaylongkhar-Minjiwoong farm road was plagued with various deficiencies in the contract management due to defective agreements, wilful negligence of contractors, acceptance of old financial certificates by tender committee, improper feasibility studies and surveys, ineffective supervision by the Dzongkhag, Samdrupjongkhar leading to failure to complete the work and entailing cost overrun of over 13 million.

The construction of Domestic Airports at Bumthang, Gelephu and Yonphula by the Department of Civil Aviation, amongst many irregularities noted, was seen fraught with numerous indications of corrupt practices rendering huge financial implications as well as compromising of quality in the infrastructure built. The irregularities of corrupt and fraudulent nature amounted to over Nu. 111 million.

The perpetration of fraud and corrupt practices were also seen occurring in the management of donor funded projects with the involvement of key personnel.

There were numerous cases of forgery, tampering and deceitful practices involving over Nu. 2.500 million in the Department of Adult and Higher Education, Ministry of Education pertaining to Expanded Basic Education Programme for the Head Teachers in five Dzongkhags.

Of all these, perpetration of such practices by accounts personnel is a greater cause of concern in managing the financial resources of the public entities. They are the ones who are charged with the responsibility overseeing and ensuring custody and proper management of resources. Such instances of revenue embezzlement of over 4 million in Bhutan Agro Industries Limited in 2009 and cash embezzlement involving millions of Ngultrum in the Royal Bhutanese Embassy, Bangkok were found perpetrated by dealing finance personnel.

I have reproduced only a handful of fraud and corrupt practices among many that were detected during the period to provide the glimpse of how undesired practices are occurring regularly in the public institutions. Moreover, what we had detected could be a just a tip of an iceberg. What is worrying more is bigger drain created to drain off resources through various unscrupulous means. While we make a point to regularly advise the agencies to improve the internal control systems, it is not the system alone that allows perpetration of fraud and corrupt practices. After all, the systems are made by human, and humans are capable of manoeuvring it too. It is certainly the deficits of basic human values of morality and integrity at the individual level that rein the overall conduct.

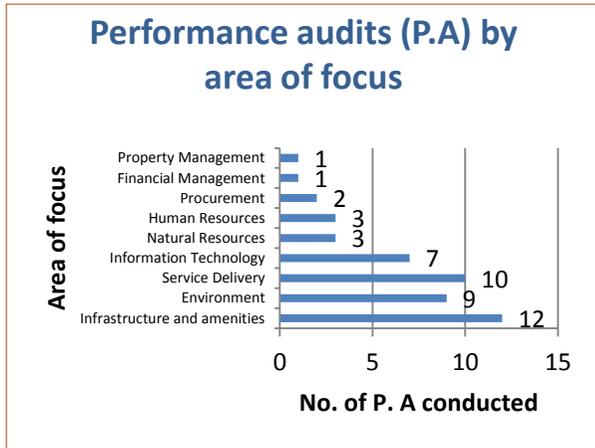
### 3.4 CONTRIBUTION THROUGH PERFORMANCE AUDIT

With a broad audit mandate, “*economy, efficiency and effectiveness in the use of public resources*”, we realized that by conducting only the financial and compliance audits, we were not justifying the mandate that was bestowed upon us. The financial audits conducted were confined to only providing assurance at the input level and our auditing and reporting did not cover higher level goals (outcome) of agencies, programmes and projects. We saw RAA justifying its mandate and also playing greater role in contributing to service delivery and good governance through Performance Auditing. My concern was that while we look at branches and twigs, we tend to ignore the picture of the whole forest. The performance audit is a holistic approach in assessment of performance encompassing all levels of results. With immense potential of performance audits to positively contribute to



good governance, I have always reckoned that the performance audit is the future of RAA and also to justify its constitutional mandates.

A dedicated unit was established for Value for Money audit before I took over as Auditor General. Realizing that performance audit could play greater role in generating value in the overall governance system, the Unit was upgraded and bifurcated into two full-fledged Divisions headed by the Assistant Auditors General. The priority was to allocate competent officers to venture into new fields. The attempts to carry out full-fledged performance audits on a larger scale



prior to 2006 were apparently thwarted due to lack of skills and knowledge of the auditors. With establishment of dedicated Divisions for Performance and Thematic Division, the RAA embarked on pursuing performance reviews on issues of national interest to provide basis for decision-making. Our little success in this area is a tribute to the determination of my officers who have pioneered and championed the transition into new paradigm of auditing.

During the period, the RAA had carried out 48 Performance and Thematic Audits. These were mostly carried out by the dedicated divisions and a few were taken up by other divisions as a part of integrating Performance Audits with the Financial Audits. Some of the reports which were submitted to the Parliament received unprecedented attention of the law makers and media, sparking long deliberations and discussions in the house as well as in various social forums.

To make a modest beginning, we tried to focus on public operations from service delivery to property management to natural resources management and infrastructure development, environment and information technology, financial and human resource management in public institutions as depicted in the chart above.

The performance audit reports commonly contained issues that were systemic and appearing to impede agencies or sectors in achieving the intended results. The performance and systems reviews basically entailed focusing on assessing the overall legislative and institutional framework, enforcement and monitoring framework to facilitate achievement of economy, efficiency and effectiveness in the operations and delivery of services and the achievement of intended outputs and outcomes. I believe that our reviews contributed to improving performance of and trust in, the public sector.

I take this opportunity to account some of the significant performance audit carried out during the period to fulfil our aspirations to contribute towards good governance.

### 3.4.1. PERFORMANCE AUDITS OF DEVELOPMENT OF INFRASTRUCTURE AND AMENITIES

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Bhutan's successive development plans set out very ambitious development agenda and there had always been increasing trend in resource allocations to building infrastructures and public amenities such as the roads, bridges, schools, hospitals, etc. The performance audits in this area were motivated by the concerns on whether the government derives value for money in the provision of the infrastructure and amenities. The RAA had carried out 12 performance audits on the specific topics relating to developmental plans, infrastructure and amenities.

The review of Ninth Five Year Plan included Dzongkhag Administration, Chukha, Department of Roads, Health Sector and Farm Roads. The review was intended to study the overall systems of planning, implementation, coordination, and monitoring, and delivery of intended results in the implementation of the Five Year Plan. The financial audits were conducted regularly on the expenditure incurred on these activities. However, it was beyond the scope to review the whole operations encompassing preliminary phases of conceptualization, need analysis and feasibility studies of the development activities envisaged in the Plan to bring about improved changes through intended outputs of the programmes and projects. The focus on financial audit confined only to examining the prudence of the expenditures incurred for implementing the plans and programmes. What we missed was the bigger picture of whether the implementation of activities were carried out giving due regard to economy, efficiency and effectiveness.

The performance reviews entailed assessing planning process, monitoring and coordination mechanisms, implementation processes, and more importantly, assessing whether intended benefits of developments were actually delivered. Besides, through the experiences gained from the review, we were in position to offer various recommendations to remedy deficiencies arising in undertaking similar developmental plans by the implementing agencies. I believe, the holistic review through performance audits are essential to channelize our limited resources to those development areas, which are necessary and have greater potential to bring about positive changes in the lives of the citizens. This would ensure maximizing value of every chhetrum invested. I see such a prudent investment approach to be very critical and relevant in face of resource constraints that our country faces in funding our developmental activities.

The performance audit report on the implementation of Ninth Five Year Plan of Chukha Dzongkhag and Farm Road sparked off lengthy deliberations in the Parliament and resulted in numerous resolutions on the basis of our recommendations. What was more satisfying was to be able to nudge our concerns to the highest forum and render basis for appropriate interventions to streamline and remedy the deficiencies.

### 3.4.2. PERFORMANCE AUDITS IN ENVIRONMENTAL CONSERVATIONS AND PROTECTIONS

Our constitution mandates the government to maintain minimum of sixty percent of Bhutan's total land to be under forest cover for all time. The environment conservation and safeguarding biodiversity is the responsibility of every Bhutanese. Under the visionary leadership of our successive kings, we have been able to conserve our environment and biodiversity through designation of land area as national parks and biological corridors, and numerous reforestation programmes through our national plans.

However, as the country embraces fast-paced economic development, as in every other country, there is always a natural conflict between the pursuit of economic development and conservation of environment requiring us to embrace sustainable development concept. The development activities are contributing deterioration of our natural forests and natural habitats. Besides, the growth of urban centers bring about compounding problems of wastes which are hazardous to our environment.



In order to see the responsiveness of our government in mitigating impending disasters of environmental degradation, and to augment the conservation efforts of the authorities, we embarked on environmental audit on eight specific areas. These included environmental audit on solid waste, medical waste, environmental compliances by industries, compliances to multilateral agreements, water supply and sanitations, watershed management, timber harvesting and National Environment Commission.

We embarked on environmental audits to determine adequacies of existing legislative and policy frameworks to ensure conservation and preservation of our environment and also to assess compliances to relevant laws and rules by the implementing agencies. As the environmental concerns will persist as long as the human civilization exists, environmental audits shall always be one of the thrust areas of the RAA to constantly review the relevance and adequacy of mitigation measures and policy framework to ensure effectiveness of measures taken to mitigate effect of human actions on environment.

### 3.4.3. PERFORMANCE AUDITS IN SERVICE DELIVERY

Service delivery is an essential function that defines basic relationship between the government and the citizens at large. Citizens have rights to demand efficient and effective delivery and oblige the public institutions to carry out responsibilities through a fair, transparent, and accountable manner to sustain the trust and confidence of the public.

We conducted 10 performance audits on service delivery pertaining to various public institutions to review the efficiency and effectiveness of the processes and procedures applied in delivery of different services to the public. We intended to nudge the authorities to be responsive to the aspirations of the people to obtain better services within the short possible time.

The RAA took up the systems audit of Thimphu City Corporation in 2006. The audit was basically aimed to review the systems of public service delivery in respect of Land Administration and Management, Building Applications, and Land Pooling functions of the Thimphu City Corporation. The report contained various deficiencies and inefficiencies in the systems and procedures impeding transparency and accountability in the operations and also seriously impacting the service delivery. There were several corrupt and fraudulent practices that had needed detailed investigations to bring the perpetrators to task. The copies of reports were endorsed to the ACC.

We have also carried out performance audit of National Land Commission and Immigration Services of Department of Immigration on the Command of His Majesty the King. The reviews encompassed overall legislations, administrative structures, processes and procedures of implementations and monitoring control mechanisms besides, also reviewing human resource management.

Other areas of service delivery included Outreach Clinic Services of Thimphu Dzongkhag, National Brown Swiss Cattle Breeding Programme, Bumthang, Distribution of Agricultural Machineries, Bhutan Broadcasting Service Corporation Ltd., and Chigphen Rigphel in the Gewog Centres. These were either pertaining to certain sectors or programmes which had shown to be pertinent and were evaluated as potential area for RAA to bring positive changes through its reviews and recommendations.



#### 3.4.4. PERFORMANCE AUDITS IN INFORMATION TECHNOLOGY

With the proliferation of Information and Communication Technology (ICT) in the country, it has brought tremendous impact on how the business is conducted in the public institutions. Especially towards the beginning of the 21<sup>st</sup> century, we witnessed increasing race for computerization of office procedures and systems. The government had made huge investment in the IT sector. There is no doubt that the efficiency and effectiveness in the operations of public institutions have improved manifolds.

However, with huge investment made into procurement of IT systems, we felt the necessity to also review how effectively the automated systems were put to use. During the year, we have been able to complete seven audits of various IT systems. These included audit of Revenue Accounting System, Information Security, Dzongkhag Local Area Networks and Internet, Electricity Billing and Collection System, Budget and Accounting System, Computers and Peripherals, and International Development Research Centre Project.



While we desired to take up more number of such audits, we were seriously constrained by lack of people trained in this area. Besides, diversion of available IT professionals for development of Audit Resource Management System (ARMS), the IT audits had to be held in abeyance for quite a long period. However, with the completion of pilot testing of the system towards the end of this year, people can be freed up to undertake the audits.

The RAA as a member of INTOSAI Working Group on IT Audit expects to bolster its capacity to conduct IT audits

through bilateral and regional cooperation with other peer SAIs.

#### 3.4.5. PERFORMANCE AUDITS IN NATURAL RESOURCES

The RAA had undertaken the performance audit of Natural Resources specifically focussing on administration of leasing land and mineral resources. Attaching high importance of natural resources for economic development, we took three reviews on the process of leasing of government and Government Reserve Land (GRL) and mining operations. Land and minerals being scarce natural resources, we wanted to see if the current practices of exploitations conform to sustainable use having due regard to constitutional provisions and sensitive to long term impacts on the environment.

It was to make sure that natural resources are not exploited indiscriminately for short term gains but to ensure sustainability for future generations. Besides, it was also equally important to see that the benefits of natural resources trickle down to all the citizens of the country on equitable basis instead of few advantaged and privileged section of society.

The performance audit of mining operations was conducted to ascertain whether the mining activities were carried out in compliance with relevant laws to minimize environmental damages caused through extraction of minerals.

## RAA points out Nu 1.125 bn in irregularities and losses in its audit of the mining sector from 2008-2012

Tenzing Lamsang / *Thimphu*

The Royal Audit Authority (RAA) in its performance audit report on the mining sector has found weak and ineffective monitoring by the government and also certain practices by mining companies which favored promoters and disadvantaged minority shareholders.

The report titled, 'Performance Audit

of Tax on Mining and Quarrying Sector,' covers the period of 2008-2012. Out of the total 33 mines and 48 stone quarries at the time RAA visited all 33 mines and 26 out of 48 quarries.

It says that there was Nu 1.125 bn financial implication on account of profits foregone by public companies due to related third

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The performance audit of leasing of government and Government Reserve Land (GRL) was undertaken to review the overall legislations and enforcement mechanisms to see how these ensured sustainability of natural resources in the pursuit of development. The RAA's main concern was whether there was right form of legislative and institutional framework to ensure sustainable use of land resources having due regard to Constitutional provisions and consequential long-term impacts on environment.

The RAAs review revealed that most of the shortfalls and lapses occurred due to inadequate monitoring and enforcement mechanisms. The RAA formulated series of recommendations to render strong basis for decision-making.

Through the report submitted to the Parliament, the RAA expected the authorities to tone up organizational systems and procedures through systemic delineation of accountability to act in the spirit of the applicable laws and rules. In the longer run, with beefed up enforcement and compliances to legislative provisions and applicable rules and regulations, the RAA expected the responsible agencies to uphold the principles of good governance in the management of land resources. Besides, it was meant to be the pointers to the state of adherences to prevailing laws and rules having due regard to present and inter-generational equity in terms of using the national resources.

The performance audit of Tax on Mining Sector was directed by the National Council. The RAA conducted the audit with an overall objective to ascertain whether due regard was given in ensuring economy, efficiency and effectiveness in the operations of mining and quarrying sectors in the country.

The RAA's review showed that mining and quarrying sector was literally crippled by inadequate legislation and institutional framework as well as poor enforcement mechanisms. This was seen to hamper practice of good corporate governance in the operations of public

mining companies. The RAA in its report recommended for interventions of specific authorities to come to the rescue of the mining sector from impending disasters. The state of affairs of the sector was seen to be in shambles, dwindling the aspirations of common people of having equal share in the resources of the country. The National Council deliberated the report at length and passed resolutions to direct appropriate authorities to act.

### 3.4.6. PERFORMANCE AUDITS IN FINANCIAL AND PROPERTY MANAGEMENT

The RAA had undertaken the audit of debt management of the nation to study the system in regulating and managing nation's debt and repayments. While we certify the annual financial statements of the Royal Government of Bhutan, we had never focussed on this specific topic of debt management. With expansionary trend of developmental plans especially during the 10<sup>th</sup> Five Year Plan, the government had resorted to external borrowings to fund the development activities. Besides, the mega hydro power projects which were financed through loans and grants from India, the position of country's debt had risen sharply, even exceeding the value of Gross Domestic Product. This had led to various speculations on country's macro-economic outlook, which became one of the key issues during the second parliamentary elections.

The contrasting opinions and different school of thoughts on the state of indebtedness of the country rather brought more confusions in the minds of the people. The nation really needed to know the truth through independent and objective studies. We saw opportunities to carry out such studies to dispel or concur the speculations floating in the air. We conducted the studies and submitted the report to the relevant authorities. While we maintained complete independence in our exercise, it had sparked suspicion that such initiatives were driven by ulterior motives to take sides of certain sections of people. That was an outright allegation. Besides, our capability, competency and mandate to carry out such review were also questioned during deliberations in the Parliament.

While I do not wish to appear defensive, I have the moral obligations to clarify on issues that were projected wrongly during the deliberations. Firstly, on the issue of our mandates, I would invite kind attention to Article 25.1 of the Constitution of the Kingdom of Bhutan which clearly 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 Constitution do not limit our mandates to only certifying financial statements. We have always interpreted, *"public resources"* to mean all kinds of resources under the ownership of our country. Financial audits are certainly not capable of looking into all aspects of economy, efficiency and



effectiveness. I believe our stand on interpretation of the mandate is logical and therefore, RAA has the legal mandate to carry out performance reviews of public sectors and institutions. Secondly, the question of our capability never would have arisen had the RAA been granted full independence of its human resources. Without adequate autonomy in administering our human resources, we are dependent on external agencies for our human resource needs. Instead of discrediting my officers, I would rather invite appreciation and applause for having risen to the challenges and coming out with excellent report. Thirdly, on suspicion on the motive of such studies, I disclaim that this study was not motivated by any ulterior motives. Such reviews were carried out merely in the interest of nation in fulfilment of our constitutional responsibilities.

There are lots of opportunities to intensify RAA's attempt to add value and promulgate transparency and accountability through performance audits. I believe that with further strengthening of the Performance and System Audit Division and Thematic Audit Division, the RAA would achieve more and more of such audits and make the differences in the overall governance in the public operations. Besides, there are also opportunities to further integrate thematic studies in financial and compliance audits to have greater impacts.

### 3.5 CONTRIBUTION THROUGH AUDITOR GENERAL'S ADVISORY SERIES

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Besides the audit reports pertaining to financial, compliance and performance audits, the RAA also issued Auditor General's Advisory Series which contained significant and frequently occurring issues that needed timely attention of the government. During the period, the RAA issued three such reports on Construction and Procurement, Internal Audit System and Procurement of Consultancy Services by government agencies.

#### 3.5.1. AG'S ADVISORY SERIES ON CONSTRUCTION AND PROCUREMENT

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The AG's Advisory Series on Construction and Procurement was issued on the eve of commencement of the 10<sup>th</sup> Five Year Plan. It was the desire of the RAA to highlight issues and problems in the areas of construction and procurement and caution the government on wastages and inefficiencies breeding from the existing system of implementations. Playing a part of advisory role, series of recommendations were offered to government and authorities to improve and streamline the existing systems and procedures, internal controls, quality and timeliness of execution, monitoring and reporting to render improved outputs of programmes and projects.

The AG's Advisory Series pointed out core issues and problems in Constructions and Procurements and accordingly recommended measures to improve and streamline existing systems, procedures, strengthen internal controls, improve quality and timely delivery of services, promote economy, efficiency and effectiveness in the use of public resources. Amongst other, the report pointed out the deficiencies, ambiguities and impracticalities of

rules and regulations due to lack of timely review, modifications and wider stakeholder consultation and participation.

To render impetus to the cause and to garner support from the stakeholders to improve the overall systems of construction and procurement, I had the opportunity to make presentation of the report to the Government Coordination Committee on 7 January 2008. I believe that the RAA's assertions on the existence of problems and suggestions to mitigate through appropriate interventions would have provided useful insights for our decision makers.

### 3.5.2. AG'S ADVISORY SERIES ON INTERNAL AUDIT SYSTEM

I undertook the review of internal audit system following the concerns raised during the presentation of Anti-Corruption Strategy to the Hon'ble Cabinet Ministers. The report was the outcome of the discussions held with relevant stakeholders including few government secretaries, internal auditors, Policy and Planning Division (PPD) and Administration and Finance Division (AFD) personnel, and limited review of records. The report highlighted deficiencies and recommended various measures to enhance the effectiveness of the internal audit system across the government.

### 3.5.3. AG'S ADVISORY SERIES ON PROCUREMENT OF CONSULTANCY SERVICES

The RAA as the watch dog of public, deriving value for money from very Chhetrum spent has always been at the back of our mind. The government had incurred expenditures aggregating to Nu. 4,594.15 million on procurement of Consultancy Services from 2007 to 2012.

The specific topic on procurement of consultancy services was chosen basically in view of persisting problems impeding economy, efficiency and effectiveness in the resources spent on procuring consultancy services. And given the fact that the procurement and management of consultancy services have significant qualitative, quantitative and financial dimensions in the public procurement, the RAA deemed it necessary to focus on this area to draw attention of the government on the existence of the problems and to suggest course of actions that will render improved systems and enhanced economy, efficiency and effectiveness in the management and procurement of consultancy services by the government.

**A closer look at why the RAA declared McKinsey a flop**

Tenzing Lamsang / *Thimphu*

In 2009, when the government unveiled its decision to hire McKinsey for USD 9.1 mn or Nu 443 mn with the aim of accelerating socio-economic development in Bhutan, there were many critics of the move.

Four years later, a Royal Audit Authority (RAA) Report on procurement of consultancy services has shown that the then government did not get what it aimed for and paid far from McKinsey.

In an indication of the impact of McKinsey or the lack of it, the RAA Report points out that one important objectives under Accelerating Bhutan's Socio-Economic Development (ABSD), which is to propel Bhutan to the top 50 nations

Nu 108 mn in savings on the procurement of construction materials like Bitumen and steel. The RAA Report, however, says this is unjustified attribution of national savings to consultants. RAA says that the actual outcomes are yet to be ascertained.

**G2C**

A key ABSD initiative was the Government-to-Citizen (G2C) services to provide online public services. However, RAA found that the lack of adequate awareness programs has hampered the success of the G2C services as the public still rely on the normal procedures to get their work done. Some of the procedures are also very tedious and people resort to the earlier system of using the post.

Consultancy services are usually procured to address the specialized needs of the procuring agencies where in-house capacities and expertise are either not available or inadequate. The consultancy services providers are deemed to be professional and highly specialized in their

specific areas of interest. However, prudence must be exercised in acquiring the consultancy services in order to obtain high quality and specialized services of high relevance to the type of services desired at reasonable costs. Besides, the consultancy services also have the potential to strengthen the professional and technical capacities of the procuring agencies through transfer of technical know-how.

Further, the policy on acquiring consultancy services also encourages and supports private sector development as well as the government policy of maintaining "small, compact and efficient" civil service.

Recognizing the increasing importance of privatization and divestment to aid capacity development in the private sector, and ultimately enhance efficiency and development of the overall economy of the country, the Royal Government of Bhutan (RGoB) has been continually outsourcing works and consultancy services. The government has been putting considerable efforts in improving and streamlining the system of governance including financial management system such as enactment and improvement of laws, updating of financial rules and regulations, budgetary, accounting, reporting reforms, strengthening of institutional and human resources capabilities.

Therefore, the RAA through this paper intended to report to the Royal Government of Bhutan on issues and concerns pertaining to procurement of consultancy services along with recommendations to address the systemic issues to add value in the engagement of consultants and ensure accountability in administration of consultancy contracts by the procuring agencies.

A detailed review of select consultancy services in the public sector showed that the quality of services provided by the consultants were apparently not commensurate with amount paid for their services. In other words, there was no matching benefits for amount of expenditure incurred. The quality of the services rendered by consultants had on numerous occasions suffered serious deficiencies impeding the economy, efficiency and effectiveness in the use of government resources.

In the backdrop of RAA's findings, the RAA pointed out the need to firstly reconsider the policy intent of outsourcing consultancy services and to come out with clear and definitive strategies to achieve the policy intent of outsourcing consultancy services.

## RAA finds deficiencies in Consultancy Services for Hydro projects

Tenzing Lamsang / Thimphu

The RAA, in its performance report on procurement of consultancy services by the government has pointed out some deficiencies and shortfalls in consultancy services for Hydro projects, which are impacting the construction of Hydro projects.

During the period 2007-08 to 2011-12, a total of Nu. 1,804.350 million was spent on procurement of consultancy services in the Hydropower Sector.

This was around 39 percent of the total money spent by the government on consultancy.

The RAA reviewed the services provided by consultancy firms for projects like, the Tala Hydropower Project Authority and Punatsangchu-I Hydropower Project Authority. The consultancy services for preparation of Detailed Project Report (DPR) and estimations of pre-construction activities of these Projects were awarded to

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However, it was not to advocate abolition of consultancy services in the public sector but to demonstrate the magnitude of the issues that are prevalent in the system for corrective actions in areas, where interventions were necessary and critical.

Appreciating the potential to facilitate value added engagements, the RAA had formulated series of recommendations for the government and the concerned authorities to initiate improvements and achieve value for money from engagement of consultants.

## CHAPTER 4: PERSISTING ORGANISATIONAL CHALLENGES

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While I enlisted numerous progressive developments we had pursued during my two terms, I must also be obliged to leave behind key pointers on what would potentially constitute formidable tasks in sustaining the smooth voyage of this institution and in fulfilling societal expectations through its value and benefits. I believe that knowing the pitfalls would enable the new leadership to avert it or formulate appropriate strategies to overcome it. The issues are divided into two categories; Internal and External.

### 4.1. INTERNAL CHALLENGES

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#### 4.1.1. SUSTAINING PROFESSIONALISM

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I have always been stressing on building professionalism in the work we do to enhance the credibility of our work as well as effectiveness of auditing works. While at the theoretical level, numerous trainings were imparted to auditors in proper planning and designing audit procedures, risk assessment, maintenance of working papers, etc., it has yet to bring positive changes in some of our auditors. To aid the auditors further, manuals and guidelines wherever possible were developed and adopted for implementation. The risk is that, auditors fail to identify areas where issues crop up. I have experienced numerous specific cases where irregularities went undetected during the audit. On many of such occasions, different teams undertaking the audit of particular agencies come up with issues which were not detected by earlier auditors. The greater risk associated with such incidents is denting the confidence of the stakeholders in our work. The credibility of professional body is at stake.

I have a vivid memories of people accusing RAA of being equal partner in the deficiencies and lapses in the systems detected at a later stage. And I believe, they are true to some extent. If the lapses had occurred despite regular auditing by RAA, it apparently indicates auditors' failure to detect it. Though auditors cannot be blammed wholly for such incidents, it is definitely a pointer to the state of professionalism of the auditors.

I firmly believe that if necessary steps are followed as per auditing manuals and guidelines and also that auditors know how to do it, such incident may be minimized and audit will become effective. My assertion is also backed by the findings of the SAI PMF assessors who have assigned very low ratings in the aspects of planning, risk assessment and documentation.

What I perceive from the experiences of engaging with these people, the biggest contributing factor to these gaps are resistance to change, gaps in qualifications and indifference of the attitude.

#### **4.1.2. QUALITY ASSURANCE REVIEWS**

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One way of ensuring effectiveness of RAA's performance is through quality control mechanism. We have in place the Auditing Standards, rules, procedures, etc., which prescribe specific attributes of the processes and products. Conformity to these attributes are necessary as these are yardstick against which performance of RAA is gauged.

Realizing the importance of the quality control mechanism in the audit process and results, we have a separate Division for Research & Quality Assurance, responsible to oversee the overall quality control measures in place. However, with only limited officials placed in the Division, their scope of work is confined to mere editing of reports, confirming the technicalities and evaluating supporting documents. The quality assurance review could not be conducted for any of the divisions or teams despite having developed Handbook on Audit Quality Assurance Review Process.

The QA review if undertaken would have ensured that the RAA's system of quality controls are working effectively and that the individual audits are carried out in compliance to practices and standards and provide an opportunity to address the bottlenecks if any. Thus, without any such reviews being undertaken, we are skeptical of the quality of processes we practiced and products we produced to the extent not being reviewed.

#### **4.1.3. FOCUS ON PERFORMANCE AUDITS ON TOPICAL ISSUES**

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Performance Audits provide enormous opportunities to contribute to good governance through holistic reviews, however, it will be a challenge to ensure relevance of the topics chosen. To render basis for informed decisions for good governance, it is of utmost importance that RAA divert its resources to areas where it is pertinent and have high possibility to bring about positive changes.

We have tried to be proactive wherever possible in undertaking performance audits but it always fell short of our expectations in terms of ensuring coverage of issues that were pertinent and of national importance. The performance audits to review of quality control measures in procurement and overall revenue management are potential areas that RAA would be able to contribute to informed decision making.

#### **2.1.1. RISK BASED AUDIT**

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With compounding growth of agencies with almost constant workforce, it will be a challenge in ensuring adequate audit coverage. While agency categorization was initiated to address the issue, the problem still persists. The other solution was the introduction of risk based auditing approach which can be applied for proritizing areas for detailed scrutiny and save time.

However, we are yet to attain desired stage in embracing risk based auditing concept in every audit we undertake. With the completion of the pilot audits in three agencies and training of

reviewers, the focus should be on replicating it in the audit of other agencies. To do so, it is definitely a mammoth task. This will entail creating a database and detailed documentation and profiling of every agency.

Therefore, it had shown that mere delivery of training was not fruitful without constant monitoring at every level of audit process. Professionalism must insulate RAA from external criticism such as these.

#### 4.1.4. DEARTH OF PROFESSIONALS

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The lack of professional and qualified auditors is a cause of concern in attaining the desired level of human capabilities. We have only handful of officials possessing degree in Professional Accountancy including the Chartered Certified Accountants and Management Accountant. While the proficiency of work shall depend on the qualifications of the auditors, the RAA is far from attaining the desired level of professional accountants, who are very critical in sustaining human capabilities.

Besides, the shift of RAA's focus to performance auditing, the availability of people specialized in specific subjects such as economist, statisticians, etc., have become a necessity. The dearth of human capabilities will have consequences in sustaining human resources in delivering audit works.

#### 4.1.5. OBJECTIVE WORK ENVIRONMENT

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Within the bounds of Civil Service Rules and Regulations, we have tried to make very objective working environment to retain and attract people. Institution of Audit Performance Management System (APEMS) is one aspect of performance management of our auditors. This was instituted to recognize the performers through appropriate incentives, monetary or otherwise and also to provide opportunities for non-performers through administration of specific trainings or appropriate counselling. The other aspect is provision of laptop each to auditors to facilitate efficiency of the auditors.

The challenges of creating objective working environment to motivate auditors still persist. However, there are also opportunities to pursue some of the motivational efforts such as creating recreation facilities, forums for discourses, improved canteen facilities, child care/day care in offices, etc.

#### 4.1.6. RETENTION

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The challenge of retention is not uncommon as in any other organizations. However, relatively higher attrition rates of employees can be attributed to specific occupational hazards associated with auditing profession. A close knit community renders unattractive environment to work and auditing is considered as thankless job. Given the opportunities elsewhere, anybody would naturally opt to go out.

However, the successive governments have been generous to continue with the extra financial benefits over and above the normal basic pay of civil servants. Being part of Bhutan Civil Service, there is no other option than to continuously apprise the government of the day on the need to maintain such incentives.

#### **4.1.7. COMPLIANCES TO ISSAIs**

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The institutionalization and transformational process that RAA underwent were carried out giving due regard to various international best practices in order to enhance professionalism of RAA. We have come thus far.

As a signatory to the South African Declaration on the International Standards of Supreme Audit Institutions (ISSAIs) during the 20<sup>th</sup> INTOSAI Congress, we have adopted a comprehensive set of ISSAIs for implementation. These covers core audit disciplines of financial, compliance and performance audits. The adoption of ISSAIs would facilitate benchmarking of current practices against internationally recognized best practices and ensure increased credibility of our reports.

However, during the recent review carried out by SAI PMF experts, we fall short on many fronts. With core group already formed for ISSAI implementation, I believe it would not be so far when RAA would be able to succeed in embracing it fully.

#### **4.2. EXTERNAL CHALLENGES**

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##### **4.2.1. RESPONSIVE ACTIONS TO AUDIT REPORTS – APATHETIC?**

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As a worldwide practice, audit institutions provide opinions and recommendations for corrective actions to be initiated by public authorities charged with the responsibilities. Ideally, our reports and recommendations are to be acted upon if there is a will to improve the system. While audit institution do not question the policy of the government of the day, it makes sense to question the basis on which policies are being formulated. If audit authority is merely obliged to submit its report and provides no basis for any actions, there is no way that it would provide value and benefits to the society. Then the whole accountability framework may be rendered flawed.

However, it is not to say that our reports were not acted upon by the authorities. But yes, I have reasons to say that on many occasions, our efforts have gone in vain too. As a head of oversight body, I have no qualm in saying that most often our reports do not attract kind of attention that it deserve. There is greater room to act collectively to remedy deficiencies and to promote good governance in the public operations.

#### 4.2.2. ISSUES PERSISTING AND RECURRING IN CONSTRUCTION AND PROCUREMENT

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It is a complete dismay to the institution which strive to cleaning the system to see that there is little improvement in areas of procurement and constructions. Most of the issues that are contained in the Annual Audit Reports pertain to these areas. The RAA in its successive Annual Audit Reports had categorically advised that authorities to prevent recurrence of lapses, however the issues still persist.

Seemingly it had become routine and kind of ritual for RAA to merely point out such repeated lapses without any action from appropriate authorities. And if appropriate authorities exhibit indifference towards RAA's suggestions, there is no other ways RAA could do. To render efficient and effective management of construction and procurement so as to derive value for money in the resources spent, the onus is on the executives and policy makers to lend credence to our reports and act accordingly. There lies bigger opportunity for the authorities to manifest through their actions.

I strongly believe that the efficacy of audit depends on the conviction of those authorities and their alacrity to practice and promote good governance.

#### 4.2.3. ENGAGEMENT OF CONSULTANTS – A PROBLEM AREA

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As the country embraces fast paced developments, consultancy services are availed for works that are highly specialized from the outside experts. Huge amounts of money were spent by the government in procuring such services. We remain in oblivion as to whether the government derives value for money in resources spent on such services.

The RAA carried out analysis of engagement of consultants on the basis of issues that confronted during various individual audits. The diagnostic review that we carried out showed interesting results which were great cause of concern for the nation.

From a simple issue such as procuring agencies not knowing what kind of services or output sought from the consultants to receiving unprofessional works, the review showed that government was losing huge amount of money. All these problems had root cause in inadequacies in the delineated process and procedures and lack of monitoring and control in the administration of engaging consultants. The RAA had issued the report in the form of AG's Advisory Series 2013 and submitted to appropriate authorities to take remedial actions through streamlining the overall systems of engaging consultants.

Until the issues are addressed through appropriate interventions of the concerned authorities, the issues in engaging consultants will still persist. This definitely will be a huge drain of public resources. This shall be a challenge for RAA to continue focussing on the procurement of consultancy services by various public agencies.

#### **4.2.4. INDEPENDENCE OF HUMAN RESOURCES**

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HR Independence is accorded a high priority by Supreme Audit Institutions worldwide. Royal Audit Authority being the member to INTOSAI and ASOSIA follows the standards and best practices adopted by these organisations. The SAI is ideally required to have adequate independence over its financial and human resources to foster inclusiveness, productivity, equity and fairness, as well as to strengthen SAI's ability to attract, develop, and retain a diverse and outstanding workforce, capable of upholding the standards of excellence.

In case of the Royal Audit Authority, we are not fully independent of both financial and human resources. While the RAA's financial independence could be pursued gradually given the state of financial resources that our country is going through, its human resources independence has outweighed all other critical issues in the areas that are in parallel with the upholding of integrity and accountability in the public service. Our requirement to work without fear, favour or prejudice as per the Audit Act of Bhutan 2006 may be infringed upon with apparent mismatch in mandates and nature of working environment for our employees.

The RAA exerts on its human resources mainly at the forefront of instituting appropriate system in valuing its employees, promoting innovation and introducing timely human resources policies and programmes within the organization. It is also to provide a supportive environment to derive job satisfaction for employees which can intensify their commitment towards their works. Independence is also crucial to provide high quality training and orientation, self-directed learning and skill development, as well as to institute staff recognition incentives that can nurture loyalty, motivation and morale of the employees.

It would be a challenge to keep the issue of human resource alive not for the sake of it but on the basis of above merits and in the overall interest of the nation.

#### **4.2.5. CURBING CORRUPT AND FRAUDULENT PRACTICES**

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While we have Anti-Corruption Commission to combat corruption, all citizens have collective responsibility to fight against corruption. Our experiences show that corruption occur in different forms and at different scales with varying impacts, financial or otherwise on delivery of public services. While our immediate mandates is to express opinions on the performance of the public entities, it is our ultimate aspirations to contribute towards reducing corruptions that occur primarily due to weaknesses of the organization systems and processes.

However, while systems and procedures can be corrected, the curbing of wilful perpetration of corrupt and fraudulent practices is an impossible task. We have no human-proof system to address the deficits in the values of integrity and honesty of the individuals.

As an oversight body, the RAA stands responsible to tone up control systems and procedures in the public entities and minimize the risk of occurrence of corrupt practices with the systems. It is an enormous challenge to complement and supplement Anti-Corruption Commission in combating corruption in the public operations.

## CHAPTER 5: CONCLUSION

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My association with this august institution, the Royal Audit Authority had been my lifetime privilege and honor. I started my career in this institution as trainee officer in 1979. If not by sheer coincidence, it was definitely my KARMA which was made possible by the Trust and Confidence of our Kings to end my service to this great nation from the very institution that had enlivened every moment of my career. I have seen growth of the RAA from a mere institution involved in transactional audit to the one bestowed with constitutional status, professionally advanced and capable of producing quality reports comparable to international standards and having a trust and credibility through our independent reports.

Under the visionary and dynamic leadership of our successive Kings, the institution has witnessed a gigantic leap in transforming itself into a highly professional institution. The progressive developments and value it provided in the service to the TSA-WA-SUM had culminated into DRUK THUKSEY, institutional award bestowed upon by His Majesty the King in December 2012. I take this opportunity to thank all employees – past and present, which made this institution worthy of highest trust and confidence.

My appointment as the Auditor General came at a time when the country was preparing for constitutional democracy. The Kasho explicitly Commanded to strengthen RAA to promote good governance and root out corruption at the very start of parliamentary democracy. It was really a lifetime opportunity and privilege to take part in preparing the institution to play an important role in the democratic set up.

As were the wishes of His Majesty explicit and succinct in the Kasho, my priorities were to ensure preparedness of the institution in shouldering the responsibilities in the democratic era. This entailed strengthening of institutional framework, overhauling of organizational systems and processes and enhancing human capabilities, besides taking on board the societal expectations and ensuring professional integration with the auditing fraternity around the world. The main focus was rendering institutional and organizational capabilities to shoulder the responsibilities as the country's Supreme Audit Institution. I believe that all those strategies we formulated and embarked on to attain desired level of capability were achieved. And we saw ourselves going through various transformational process in aligning ourselves to higher level of professionalism in our core work of auditing and reporting. We compared ourselves to the practices around the world through external review and committed ourselves to attain highest possible level of professionalism in contributing towards promoting transparency and accountability in the use of public resources. Besides, our normal audit services had also remained unhindered. All these were attempt to align ourselves to the best professional practices in preparing towards constitutional democracy to render efficacy in delivering the audit services and promoting good governance in the country. To my inner self, it was fulfilling to witness paradigm shifts in every sphere of auditing and reporting processes.

Challenges were numerous. And it is not to claim that we had solutions for all. However, I have no qualm about saying that we could excel in some areas in rising to the challenges. It had definitely bolstered our confidence and had definitely provided us good learning experiences to give desired facelift to most of what we were doing in the past. The most important and also difficult was enhancing professionalism in the way we worked. It was most critical and had assumed a center stage in our efforts in institutionalization and streamlining processes. I always believed that if that is achieved, the development of the rest will follow. I must say that there was no instant way or “quick fix” solution to meeting these challenges but we embarked on the process of trial and error.

My first term, so to say was to build overall capacity of the institution. For once, actual delivery was not on the agenda. But for the entire period, we could also achieve our results concurrently, though not at a desired state. Our intention was to sustain a high quality audit results that will have potential to bring about positive impacts, through transformational changes and instituting efficacious process that would guarantee the desired results.

Two years into the Constitutional Democracy, the Royal Kasho Commanded the appointment of the Auditor General under the Constitution of the Kingdom of Bhutan. I was once again fortunate to be honored and privileged to be bestowed with the Trust and Confidence of His Majesty the King. Moreover, it was a rarest of opportunity to provide my leadership and experience the fruition of plans embarked during my first term. It was natural that during this time I would put to use all those capabilities we had nurtured during the first phase into delivering a high quality and professional audit services and contribute towards promoting good governance. This time was for actual delivery.

I ardently believed that RAA needed to go beyond certification of financial statements to provide holistic review of operations and performance of agencies and sectors. The vast mandate for RAA to report on *“economy, efficiency and effectiveness”* rendered unlimited scope for RAA to undertake reviews on performance of agencies. I saw the opportunity to render objective basis for decision making by parliament and the government through holistic reviews. During the period, we were able to take up few performance audits of few sectoral issues that were confronting the nation and having potential to spur impending economic and social problems. While some of the topics were assigned by Parliament through directives, most were selected based on the relevance and significance of issues in the national context. Based on our reports, we saw lot of deliberations in the Parliament Sessions, which we feel is the immediate impact of our report, though the longer impact – the progressive changes through improved decisions and policies on the basis of our reports, need to be reviewed separately.

However, scaling up of performance audits would entail comparatively larger amount of resources both time and people. To move at the pace as we would wish to, there is a risk of RAA not being able to ensure adequate audit coverage in respect of financial audits. With wide spectrum of audit jurisdiction and ever growing number and magnitude of such agencies, the RAA is constrained with the adequate manpower. As a tactical measure, the RAA

had adopted strategy to outsource auditing of some of the agencies to license accounting firms.

The adoption of Financial Resources Management Accountability Index (FRMAI) was pursued to improve accountability in the public sector. The implementation of the model would see most of the agencies competing for higher ranks in resource management and as a result, principles of good governance shall become automatic choice of all public entities. The model is intended to promote a culture that promotes values in all disciplines by every public agencies. How much ever idealistic this model might seem, it should at least instil sense of responsibility and accountability of public authorities – which is the very essence of good governance.

With so much of progressive developments I associate to my two terms, yet many things remain unfinished. It is a matter of time and as a dynamic organization, adapting to the changes are inevitable. As I exit this great institution, I humbly offer my sincere prayers for attainment of newer heights and success and continue to be an institution worthy of trust and confidence of His Majesty the King, the People and the Country.

I would like to pay my sincere tribute to the vision of His Majesty the King for the Royal Audit Authority and the Trust and Confidence placed in me to steer this organization during the last nine and half years. May this institution be blessed with wisdom and guidance of His Majesty and grow from strength to strength in fulfilling His Majesty's aspirations of promoting a culture of good governance in the country.

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