



Internal Audit Charter Royal Government of Bhutan



MINISTRY OF FINANCE
ROYAL GOVERNMENT OF BHUTAN
NOVEMBER 2014

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1. Policy Statement:

It is the policy of the Royal Government of Bhutan to maintain an independent and objective internal audit function in its agencies to promote Good Governance, which is one of the four pillars of Gross National Happiness in the country.

2. Purpose:

The purpose of this Charter is to provide legal basis to the function of Internal Audit in Government agencies and authorize access to records, personnel and physical properties relevant to the performance of engagements. It also defines the scope of the work and provides framework within which the Internal Audit in Government agencies and the Central Coordinating Agency under Ministry of Finance shall function.

3. Mission:

The mission of the Internal Audit Service is to provide the management in Government agencies with independent, objective assurance and advisory services designed to add value and to improve operations. Internal audit brings a systematic and disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

4. Scope:

The Internal Audit shall extend their services to cover all aspect of an agency's operations and shall determine whether the agency's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure that;

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- a) Plans, programs and activities are in alignment with the set vision, mission and objectives of the organization;
- b) Significant risks including potential occurrence of fraud are appropriately identified and managed effectively;
- c) Processes and procedure for decision-making are clear, transparent, accountable, responsive, equitable, inclusive, effective, efficient, and participatory;
- d) Internal control mechanisms as deemed appropriate are adequately put in place to ensure resources are acquired economically, used efficiently and adequately protected;
- e) Relevant laws, rules, agreements and standards are properly complied with and adhered to while implementing plans, programs and activities;
- f) Employee's actions are in compliance with policies, standards, procedures, and applicable laws and regulations
- g) Significant accounting, managerial, and operating information is accurate, reliable, and timely;
- h) Quality and continuous improvement are fostered in the Organization's control process;
- i) Significant legislative or regulatory issues impacting the Organization are recognized and addressed properly.

5. Independence and Reporting

In order for the internal auditors to render impartial and unbiased judgment essential to the proper conduct of audits, they will be independent of the

activities they audit. Internal auditors will not be involved in daily operations of the agency and not assume any management or executive responsibilities. While Internal Audit shall operate under the administration of respective agency, it shall have functional independence for all its operational purposes.

The Chief/Head Internal Auditor shall:

- a) Report directly to the Head of Administration and Finance of the respective agency for administrative logistics;
- b) Report directly to the Management on matter concerning audit findings through submission of clear, constructive and concise written reports in a manner prescribed in the Reporting Framework and Standard Operating Procedure and endorse a copy to CCA for reference.
- c) Report directly to the Management or to the Anti-Corruption Commission (which ever is appropriate) on matters concerning suspicious fraud or other corruption elements encountered during the course of auditing;
- d) Report directly to the Committee of Secretaries through the Central Coordinating Agency for Internal Audit Service on matters relating to disrespect or disregard of internal audit functions and its recommendations thereof.

6. Accountability

The Internal Auditors will be accountable for their actions and decisions including the administration, governance and implementation of audit programs within the scope of the Charter and be answerable for resulting consequences.

7. Responsibilities of Internal Audit:

The roles and responsibilities of Internal Auditors shall be to:

- a) Develop an annual audit plan based on comprehensive risk assessment and submit to the Management for approval and endorse a copy of approved plan to CCA for reference.
- b) Implement the approved annual audit plan in accordance with the International Standards for Professional Practice of Internal Auditing and Internal Audit manual including, as appropriate to the mandates of Internal Audit and not contradictory to the Internal Audit's Code of Ethics, any special task or project requested by the management. The impact of resource limitations and significant interim changes in the plan will also be communicated to them.
- c) Issue reports annually summarizing results of audit activities and status of implementation of past audit recommendations to the management and endorse a copy to CCA for reference.
- d) Provide adequate follow-up to ensure corrective action is taken and evaluate its effectiveness and report results
- e) Maintain a professional audit staff and seek experts view as and when required from the Central Coordinating Agency for Internal Audit Service.
- f) Notify appropriate authority of any significant corruption (criminal) offences recognized or detected during the course of internal auditing.
- g) Consider the scope of work of the external auditors and other regulators as appropriate and collaborate with them for the purpose of providing optimal coverage and avoiding duplication of work.

8. Authority:

The Internal Auditors are authorized to:

- a) Have full, free and unrestricted access to all information, functions, records, physical properties, and personnel relevant to the performance of engagement. Documents and information given to internal auditors are to be handled in the same prudent manner as by those employees normally accountable for them;
- b) Have direct access to the management and staff of the agency;
- c) Use allocated resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish the audit objectives;
- d) Obtain necessary assistance of experts for any specialized services from within or outside the Agency.

9. Central Coordinating Agency for Internal Audit Service:

In keeping with Section 23 (O) of the Public Finance Act of Bhutan 2007, there shall be a Coordinating Agency under Ministry of Finance to:

- a) Coordinate the overall Internal Audit functions in different Government agencies across the nation.
- b) Ensure quality, uniformity and consistency of Internal Audit function across all Government agencies.
- c) Develop, review and modify the Charter, Standards, Manuals, and Code of Ethics from time to time.

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- d) Render technical backstopping and consultation to the Internal Auditors as and when required.
- e) Promote functional partnership with the Royal Audit Authority, the Anti-Corruption Commission and other relevant law enforcement agencies.
- f) Promote understanding, acceptance and utilization of Internal Audit services by all levels of Management.
- g) Develop professional proficiency through enhancement of skills, techniques and knowledge of Internal Auditors in the country.
- h) Coordinate recruitments, transfers, promotions and develop career path for Internal Auditors.
- i) Review and revise terms of reference for Internal Auditors.
- j) Formulate and adopt standards for the professional practice of Internal Audit.
- k) Protect Internal Auditors from undue reprisals for their professional conduct.
- l) Liaise with other national, regional and international bodies for the development of Internal Audit Services in the country.
- m) Provide secretarial support to the Committee of Secretaries who is the ultimate appellate body to Internal Audit function in the country.

10. Professional Conduct:

There shall be a separate Code of Ethics governing the professional conduct of Internal Auditors. Internal Auditors are expected to abide by its principles and rules of conduct contained therein in addition to general Civil Service Code of Conduct. Auditors who intentionally or knowingly violate any provision of the Code shall be subject to penal action as determined in the Code of Ethics.

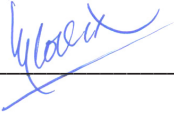
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Ministry of Finance*

11. Commencement date and Amendments of Charter:


The Charter will come into force from the date of approval and signing by the Honorable Prime Minister, Royal Government of Bhutan. To keep pace with the changing environment, this Charter shall be reviewed and updated from time to time.

APPROVAL OF INTERNAL AUDIT CHARTER

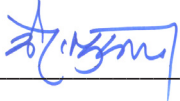
- **Developed by:** The Central Coordinating Agency for Internal Audit Service, Ministry of Finance

Sign :  _____ Date: 4/12/2014

- **Recommended by:** The Ministry of Finance, Royal Government of Bhutan

Sign :  _____ Date: 4/12/2014

- **Approved by:** Honorable Prime Minister, Royal Government of Bhutan

Sign :  _____ Date: 4/12/2014

Reference Note: (This Charter has been prepared by adapting the model Internal Audit Charter of the Institute of Internal Auditors and it's approved solely for use by Internal Auditors of the Royal Government of Bhutan. The Ministry of Finance, Royal Government of Bhutan acknowledges the reference provided by the IIA)