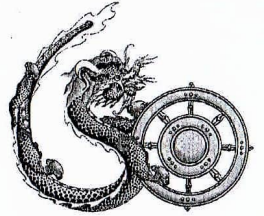




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ROYAL GOVERNMENT OF BHUTAN
MINISTRY OF FINANCE
TASHICHHO DZONG



MOF/CCA-01/2016-17/297

Internal Memo

From: Secretary,
Ministry of Finance, Tashichhodzong

Dated: 29th March 2015

To: All PPCM Members

Subject: Internal Audit Protocol

As endorsed by the 59th PPC Meeting, internal audit in the Ministry will henceforth, function in accordance with the 'Internal Audit Protocol'. A copy of the '*Internal Audit Protocol*' is herewith circulated for your reference and possible dissemination of it to others in the Department.

Copy to:

1. The Director, Department of Macroeconomic Affairs, MoF Thimphu.
2. The Director, Department of Revenue of Customs, MoF Thimphu.
3. The Director, Department of Public Accounts, MoF, Thimphu.
4. The Director, Department of National Properties, MoF Thimphu.
5. The Director, Department of National Budget, MoF Thimphu.
6. The Chief Administrative Officer, AFD, MoF Thimphu.
7. The Chief Planning Officer, PPD, MoF, Thimphu.
8. The Chief Internal Auditor, IAU, MoF, Thimphu.
9. The Chief Internal Auditor, CCA, MoF Thimphu.



INTERNAL AUDIT PROTOCOL

Ministry of Finance
Royal Government of Bhutan

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AUTHORITY

A statement of the purpose, scope, responsibility, authority and independence of the internal audit function is provided therein the 'Internal Audit Charter' duly approved by the Royal Government of Bhutan.

OBJECTIVE

This Protocol aims to facilitate the effective operations of the internal audit function by explaining what is expected of the internal auditors, management, line management and staff in the conduct of internal audit.

SCOPE

This protocol covers all aspects of the internal auditing process comprising:

- Audit planning
- Engagement planning
- Fieldwork
- Audit reporting, and
- Implementation follow up

GUIDING PRINCIPLES

It must be understood that internal audit is an in-house management tool to help achieve organizational goals and that internal auditing function must be conducted in the most cooperative, professional and courteous manner.

PROCEDURES

Audit Planning

Based on risk assessment, internal auditors will develop an internal audit plan. The plan will set out activities that will be subject to internal audit in that year together with an estimate of the resources required to undertake the audit. It will also propose commencement and reporting dates. The plan will be presented to the Planning and Policy Coordination Meeting (PPCM), the highest decision-making body for approval during an appropriate time. PPCM will approve the annual internal audit plan.

Internal audit activity will only be undertaken in accordance with the approved plan and any new addition or deletion to the approved plan must have prior approval of the PPCM.

Engagement Planning

Internal auditors will notify the relevant officials of the commencement of the internal audit based on the approved plan and provide opportunities to discuss and clarify any aspects of the planned audit.



In accordance with Internal Audit Manual, Internal auditors will follow all necessary procedures and inform the relevant official of their readiness to conduct audit.

It is the responsibility of the head of the relevant agency under Ministry of Finance to inform all relevant Division Heads and staff of the audit and make necessary arrangements to facilitate smooth conduct of internal audit.

Internal auditors will endeavor, within reason, to conduct internal audit at a time convenient to the management and staff.

Field Work

This phase of internal audit involves evidence gathering to reach a conclusion in relation to the audit objectives. The internal auditors may require line management and staff to be available to:

- explain process
- provide information, and
- provide explanations to any apparent anomalies detected.

Line management and staff are expected to cooperate with frank and honest responses.

Audit Reporting

The reporting phase comprises three elements:

- Draft audit report
- Management response to draft report, and
- Final audit report

Draft Report

Within one month of the completion of the fieldwork a draft audit report will be issued to the relevant head of the agency. The draft report will contain the following:

- Background
- Audit objective and scope
- Methodology
- Audit observations and findings, and
- Recommendations

The draft audit report is issued for the purpose of seeking:

- Confirmation to factual correctness of the findings, and
- Management's response in relation to the acceptance or otherwise of each finding, proposed corrective action and timeframe for implementation of agreed recommendations.

The relevant head of agency will have opportunity to discuss or clarify any aspect of the draft report.



Management Response

A written management response to the draft audit report is required to be provided within the stipulated timeframe, which cannot be more than a month in any case.

Management response can be in any of the following forms:

- Agree with the findings and recommendations of the report and commit to implement the recommendations within the stipulated timeframe.
- Agree with the findings but not recommendations and provide alternative solution to address the risk associated with the finding, or
- Disagree with both findings and recommendations and confirm their acceptance of the risk associated with the finding.

Where management responses are not valid, internal auditors will highlight the issue in the final report and present both views to PPCM for final outcome.

Final Report

The final report will be based on the draft report and will incorporate management responses and action plan. The Internal auditor may paraphrase management response when it is lengthy without distorting the meaning. Along with the presentation of the synopses, the final report will be submitted to PPCM without delay.

IMPLEMENTATION/FOLLOW UP

The relevant head of agency is responsible for implementation of the agreed recommendations by the date agreed upon or as advised by the PPCM.

Relevant head of agency will make a submission to the PPCM on the implementation status of the recommendation in the next presentation of the internal audit report.

Approved for implementation within the Ministry of Finance with immediate effect.


(NIM DORJI)
Finance Secretary