

**Public Financial Management Multi Donor Fund (PFM-MDF) financed Strengthening Public  
Financial Management Project for Bhutan**

**Terms of Reference for consultancy services for strengthening the effectiveness and capacity of  
internal audit in the Royal Government of Bhutan**

## Terms of Reference

### Background

1. The internal auditors are stuck in the familiar territory of compliance auditing and not keeping up with new challenges. They need to step outside their traditional comfort zone from compliance with financial rules to the wider concern for achieving the agency's plans and Annual Performance Agreement (APA) objectives within the internal control framework in order to demonstrate the effectiveness of the Internal Audit function. "As risks change, as new risks emerge, and as stakeholder expectations continue to evolve, internal auditors must move out of their comfort zone to audit at the speed of risk" (*2016 North American Pulse of Internal Audit: Time to Move Out of the Comfort Zone*). Therefore, they need to be trained not only in the rules and regulations, but also in systems and business processes and how they can be strengthened to reduce risk and aid to the achievement of agency goals.
2. The internal audit function in Bhutan was instituted in 2000 as part of the Good Governance agenda. The RGoB has taken initiatives to strengthen public internal audit through the Central Coordinating Agency (CCA) for Internal Audit in MoF including development of an audit charter, code of conduct, internal audit manual and capacity building and certification of internal auditors. The World Bank had provided technical assistance.
3. The CCA works as a dedicated body for management of the internal audit function, with responsibilities for the professional development of internal auditors, ensuring quality, uniformity and consistency in the function and technical backstopping to the internal auditors, and overall coordination. Individual Internal Audit Units (IAUs) are established in the agencies. This structure ensures functional independence of the internal auditors with uniformity and consistency across different IAUs.
4. The International Professional Practices Framework (IPPF) of the Institute of Internal Auditors (IIA) have already been incorporated in the Internal Audit Manual. Each IAU prepares an annual plan based on risk-assessment and units to be covered during the year are identified. The achievement of the annual audit plan is an impressive 97% for 2014/15 (Bhutan PEFA 2016). Seven internal auditors have already passed the CGAP certification of the IIA. A system of priority rating of individual findings has also been instituted. In 2015/16, CCA took the first step in undertaking thematic audits on procurement and the report is expected soon. For 2016/17, a human resource management audit has been planned in collaboration with the Royal Civil Service Commission. CCA has published its first annual internal audit report for 2014/15 covering the scope and work undertaken by the IAUs. The report serves as a self-assessment of the internal audit function and an instrument to disseminate the mandate, achievement and results of internal audit work. CCA organizes also an annual internal auditors conference to promote peer-to-peer learning among the various IAUs.
5. The PEFA indicator PI-26 on internal audit effectiveness was rated "C+" in the 2016 assessment. This is the same as in 2010 despite an increase in coverage. Internal audit is operational in 32 government entities (10 line ministries, all 20 dzongkhags and 2 autonomous bodies) covering 89% of all budgeted expenditure. The dimension on *Internal audit coverage* was rated "B" as some autonomous agencies do not have IAUs. All revenue is collected by DRC. Although there is no dedicated IAU in the DRC, it is covered by the IAU under MoF. The function is primarily focused on financial compliance with less emphasis on evaluation of the adequacy and effectiveness of internal controls (the dimension on *nature of audits conducted* was rated "C"). Planned audits are completed and reports distributed to appropriate parties (the dimension on *implementation and reporting* was rated "A"), but effectiveness is diluted as management provides only a partial *response to internal audit findings* (the dimension was rated "C").

6. The function, however, is constrained from staff vacancies and lacks non-financial technical staff such as engineers and doctors to undertake specialized audits. Internal audit is presently not a separate cadre with its own promotion ladder, and, therefore, it does not attract civil servants despite an incentive being paid. The current internal audit structure could inhibit attracting the people with the right talent, capacity and skills and CCA would need to address staff turnover and come out with policy for staff retention. With such less staff, capacity is tightly constrained and, therefore, support from ICT would be needed.

7. The above indicate the reform orientation of the RGoB to strengthen the internal audit function and add value. However, some challenges remain to be addressed. Further strengthening of the effectiveness of the public Internal Audit function in Bhutan has, therefore, become very critical in this current scenario to achieve accountability and integrity, improve operations, and instill confidence among citizens and stakeholders where the systems and resources to monitor the allocation of public resources are limited.

8. The effectiveness of public Internal Audit Function is sought to be achieved by reinforcing the focus of internal auditing to more systems/thematic audits, equipping the auditors with the skills to use advanced audit management and analytical tools including audit through automated systems and further enhancing the capacity and skills of internal auditors including exposure to international practices. A more effective internal audit function would add-value to its utility from stakeholder perspective, increase demand for this service and in turn, enhance responsiveness to internal audit findings and further enhance accountability in the use of public funds including improved governing in budget execution. Moreover, the internal audit function has to be commensurate with other reforms in PFM planned by RGoB.

### **Objective and Statement of Interest**

9. The RGoB, through its Ministry of Finance, wishes to engage a consulting firm with international experience and expertise in internal audit to provide technical guidance and hand-holding support to the RGoB in carrying out its objective of strengthening the effectiveness and capacity of the public internal audit function in Bhutan, in line with international good practices.

### **Objectives**

1. To develop and disseminate guidelines to conduct performance audits and build the capacity of internal auditors in this area including conducting performance audits
2. To train internal auditors on the use of audit management software (AMS) and Computer Aided Audit Techniques (CAAT) for enhancing efficiency in the internal audit function
3. To develop working guidelines for a Quality Assurance Improvement Program and conduct Training of Trainer workshops to build the capacity of internal auditors of CCA including Head of Internal Audit Units to carry out the internal assessment of the function, all in accordance with IIA guidelines
4. To develop the skills of CCA/IUAs in preparing Internal Audit Strategic Plan
5. Other support activities to strengthen Internal audit

### **Scope of the work**

1. **Reinforce the focus on systems/thematic audits/performance audits and enhancing the knowledge and capacity of internal auditors**

For internal audit recommendations to be more effective, internal auditors need a management perspective. They need to mature from a narrow focus on compliance with FRR to a sustainable conduct of systems/thematic audit also called performance or value for money audits including review of adequacy of the internal control framework. The internal auditors need to step outside

the traditional comfort zone of compliance auditing to the performance auditing. The Internal Auditors tendency to stick to traditional financial and compliance audits may mean that they are overlooking the most significant risks facing our organizations. CCA, with support from the IAUs, has made some headway in this direction, but more focus and intensive efforts are needed. This needs training in systems and business processes and skills on topics such as IT, procurement, project and contract management and risk management. The following are critical tasks to be carried out by the consultant.

*Task 1: Review guidelines and standards of performance auditing for the Public Sector internal auditors developed by international organizations, and develop localized guidelines in the context of Bhutan.*

*Task 2: Develop training material and provide in class training to the Internal Auditors on the guidelines developed for performance auditing.*

*Task 3: Demonstrate pilot performance audits for cross-sections of auditors in the CCA and the IAUs in two selected areas such as annual budget reports, debt management, payroll, revenue and IT controls*

*Task 4: Conduct one regional Internal Audit Workshop*

2. **Build the capacity of internal auditors to use advanced auditing and audit management tools**

To enhance the efficiency and effectiveness of internal audit function and to support business process reengineering of internal audit in an IT environment through use of more technology, which also contribute to address the issue of inadequate staffing in internal audit. IT software will be acquired for (a) audit information, management and documentation and (b) Computer Assisted Audit Techniques (CAAT). This will facilitate internal auditors to draw data from various government systems i.e. MYRB/PEMS/RAMIS etc. to conduct high-end ICT based audits. With these tools and enhanced capacity in evaluations of internal controls and systems/thematic audits, internal auditors will be better able to test program controls and deal with large volumes of data and evaluate Government operations in terms of value for money

*Task 5: Prepare Training Material and provide hands-on job training on the use of application/software for audit management and CAAT*

3. **Design and develop QAIP guidelines, and accordingly train the internal auditors of CCA and Heads of the Internal Audit Units.**

IIA Standard 1300 - Quality Assurance and Improvement Program (QAIP) requires: “*The Chief Internal Audit must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity*”. The Internal Audit Charter 2014 also vests upon the CCA to ensure quality, uniformity and consistency of the Internal Audit function and render technical backstopping and consultation to the Internal Auditors as and when required. Given the importance of this activity, strengthening of quality assurance in the CCA and the Internal Audit Units will be supported under the project and this will facilitate meeting the Quality Assurance and Improvement Program (QAIP) of the IIA.

*Task 6: Review the Quality Assurance and Improvement Program (QAIP) Practice Guide of IIA and other good practices internationally and develop the QA guidelines in the context of Bhutan*

*Task 7: Based on the IIA's internal and external assessment guidelines, provide training to CCA's Internal Auditors including Heads of Internal Audit Units for carrying out internal assessment, and also orient them on approaching external assessment*

#### **4. Internal Audit outreach activates to enhance visibility and showcase utility and achievements**

The RAA has advised that “greater awareness should be created amongst stakeholders on the Internal Audit Charter, the roles, responsibilities and importance of internal auditors in strengthening internal controls, reducing risks and improving the overall government process”.<sup>1</sup>As part of the strengthening the Internal Audit function, the CCA needs to showcase the activities undertaken, process improvements recommended and value added by the function. For doing so, CCA has already started producing the annual consolidated internal audit report, but further means will be needed to educate stakeholders on the value of internal audit.

*Task 8: Develop skills of, and provide hand-holding support to CCA/IUAs in preparing an Internal Audit Strategic Plan*

## **Reporting**

The Consultant shall submit the following reports and documentation:

- Inception Report, within 15 days of start of assignment
- Quarterly progress reports, showing what was done during the previous period, what was accomplished, staff deployment, and what is planned for the following period (Refer Appendix A below for more details).

## **Selection Procedure & Qualification**

Given the need to high quality standards of the outputs, the consultancy firm shall be procured based on QCBS method of the World Bank (selection based on consultant's qualification).

The selected consulting firms is expected to have proven expertise and experience on design and development of guidelines for performance audit, Quality Assurance Improvement Program; experience with CAAT and Audit Management software; as well as coaching and facilitations skills.

Minimum qualifications of the firm to be selected for the required assignment include:

- a) The firm should have at least 10 years' experience in internal audit, governance and risk management.
- b) Demonstrated experience of working on at least two similar assignments during last five years in government sector internal audit reforms including experience in institutional capacity

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<sup>1</sup>Strengthening the Internal Audit System in the Royal Government of Bhutan, Royal Audit Authority, Advisory Series (2011)

assessment, preparing internal audit strategic plan, development and trainings in internal audits, preparing manuals, conducting performance and similar audits, capacity development in and roll out of audit management software/Catani carrying out quality assessments. Experience in internal audit in multiple countries would be an added advantage.

- c) Adequacy of staff with professional qualifications, and additional qualification in internal audit or government sector audit and IT audit (eg CIA, CISA, CGAP)

### **Services & Support to be provided by RGoB**

The assignment will be administratively coordinated by the Project Director, MDTF. Technical coordination will be done by the Component Manager from the CCA-IAU who will facilitate meetings with the stakeholders and provide feedback on the draft deliverables. For training, RGoB will provide the venue, but all other requirements will be arranged by the Consultant.

The composition of Review Team to monitor the assignment and review the deliverables will be:

- Mr. Pema Wangchen, Chief Internal Auditor, CCA, Ministry of Finance (Component Manager)
- Mr. Sonam Tobgyel, Chief Accounts Officer, Department of Public Accounts (Project Manager)
- Ms. Kinzang Uden, Sr. Internal Auditor, CCA, Ministry of Finance
- Mr. Tandin Phurba, Asst. Internal Auditor, CCA, Ministry of Finance

## APPENDIX A - REPORTING REQUIREMENTS

*Note: List format, frequency, and contents of reports; persons to receive them; dates of submission; etc.  
(Expected start date January 2018)*

S.No	Outputs	Report Contents	Indicative timeline (from commencement of assignment)
1	Inception Report	<ul style="list-style-type: none"> <li>- Describe the understanding of objectives and tasks, project management approach, and the control process to ensure the project reaches its goals</li> </ul>	19 <sup>th</sup> February 2018
2	Report on Task 1 (Performance Audit Guidelines)	<ul style="list-style-type: none"> <li>- Describe the features and principles of performance auditing</li> <li>- Establish a framework for the future development of performance audit methodology and professional development.</li> <li>- Details of references and best practices used while developing the guidelines.</li> </ul>	19 <sup>th</sup> April 2018
3	Report on Task 2 (Train the IAs on Performance audit guidelines)	<ul style="list-style-type: none"> <li>- Comprehensive training module</li> <li>- Post training evaluation and Impact assessment</li> </ul>	4 <sup>th</sup> May 2018
4	Report on Task 3 (Pilot Performance Audit)	<ul style="list-style-type: none"> <li>- Pilot audit working papers</li> <li>- Pilot audit experiences</li> <li>- Post audit evaluation and Impact assessment</li> </ul>	30 <sup>th</sup> June 2018
5.	Report on Task 4 (regional Internal Audit Workshop)	<ul style="list-style-type: none"> <li>- Recommendations for organizing the workshop including technical support</li> </ul>	June/July 2018
6	Report on Task 5(CAAT/Audit Management Training)	<ul style="list-style-type: none"> <li>- Report on identification and selection of AMS/CAAT application –</li> <li>- Comprehensive training module</li> <li>- Post training evaluation and Impact assessment</li> </ul>	16 <sup>th</sup> April 2018
7	Report on Task 6(QAIP Guidelines)	<ul style="list-style-type: none"> <li>- References of QAIP guidelines</li> <li>- Best practices drawn</li> </ul>	15 <sup>th</sup> August 2018
8	Report on Task 7(ToT for internal assessment & external assessment)	<ul style="list-style-type: none"> <li>- Comprehensive training module</li> <li>- Post training evaluation and Impact assessment</li> </ul>	31 <sup>s</sup> August 2018
9	Report on Task 8 (Handholding for preparation of Strategic Plan)	<ul style="list-style-type: none"> <li>- Internal Audit Strategic Plan for FY 2018-19</li> </ul>	15 <sup>th</sup> June 2018

10	Quarterly progress report	(a) Task wise progress (b) Planned activities for the next quarter, (c) Challenges being faced if any	Within 30 days of end of each quarter
11	Final consultancy report		30 <sup>th</sup> September 2018

Notes:

1. All reports to be submitted to Mr. Pema Wangchen, Chief Internal Auditor.
2. Report contents may be revised in consultation with the consultants.