Internal Audit Strategic Plan for FY 2021-2025

Ministry of Finance
December 2019

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ROYAL GOVERNMENT OF BHUTAN
MINISTRY OF FINANCE
TASHICHHO DZONG

Date: 17th June 2020

Foreword

I am delighted to bring this Internal Audit Strategic Plan 2021-2025 which outlines the strategic vision and goals of the Internal Audit Service in the Royal Government of Bhutan (RGoB). The Internal Audit Strategic Plan has been developed by Central Coordinating Agency for Internal Audit Service (CCA), Ministry of Finance (MoF) in consultation with all the stake holders and will serve as a channel to add value to the Internal Audit function under RGoB. This plan has been prepared with the technical assistance from E&Y LLP consultant financed through Multi Donor Grant Funds - "Public Financial Management Multi Donor Fund (PFM-MDF) administered by World Bank.

It aims to achieve the long term mission of the Internal Audit Service through various short to medium term measures including capacity building exercises, modernization in the audit techniques and quality assurance and improvement programmes. The strategic plan also sets out how internal audit can continue to provide an adequate level of assurance whilst taking into account the resource limitations.

This document provides roadmap for strengthening the Internal Audit Service and improving service delivery to its stakeholders over the next five years.

Finally, I call upon all the stakeholders to actively support Internal Audit function in implementing this strategic plan for efficient and effective Internal Audit Service in Bhutan.

Tashidelek!

Nim Dorji
Finance Secretary

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List of Abbreviations and Acronyms

Abbreviations	Full Form
ACC	Anti-Corruption Commission
AMS	Audit Management Software
CAAT	Computer Aided Audit Techniques
CIA	Chief Internal Auditor
CCA	Central Coordinating Agency
CGAP	Certified Government Auditing Professional
CRM	Corruption Risk Management
CRMA	Certification in Risk Management Index
EQA	External Quality Assessment
GNH	Gross National Happiness
IA	Internal Audit
IA&AD	Indian Audit and Accounts Department
IAU	Internal Audit Units
IAS	Internal Audit Services
ICT	Information and Communications Technology
IIA	Institutions of Internal Auditors
IT	Information Technology
IVR	Integrity Vetting Report
MoF	Ministry of Finance
MoG	Major Occupational Group
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFM-MDF	Public Financial Management Multi Donor Fund
QAIP	Quality Assurance and Improvement Plan
RCSC	Royal Civil Service Commission
RBIA	Risk Based Internal Audit
RGoB	Royal Government of Bhutan

Preface

As one of the good practices in internal audit, Central Coordinating Agency of Internal Audit Service(CCA) in the Ministry of Finance, has developed the first Strategic Plan for the Internal Audit Service covering the period 2021-2025 in technical consultation with experts engaged under the PFM-MDF project *"Strengthening the Effectiveness and Capacity of Internal Audit in the Royal Government of Bhutan"*. CCA has referred the Practice Guide "Developing the Internal Audit Strategic Plan – Recommended Guidance" issued by Institute of Internal Auditors and other international best practices to develop this Internal Audit Strategic plan.

It is crucial for internal audit service to adapt to the changing expectations, remain relevant and align with the organization's objectives. An internal audit strategy is fundamental to remaining relevant as it plays an important role in achieving the balance between cost and value, while making meaningful contributions to the organization's overall framework of governance, risk management and internal controls. The strategic plan is the means by which the internal audit vision and mission will be pursued.

The implementation of the key strategies made in this plan, will uphold transparency and accountability in rendering effective internal audit services. It will also support in improvement of PEFA score and improvement in levels of Internal Audit services as defined by IIA - Internal Audit Capability Model. It will give direction to the organization's purpose and provide a pathway to achieve its objectives.

This Strategic Plan is developed for the period of 5 years and will be reviewed annually by CCA, and updated appropriately in consultation with all stakeholders. The annual internal audit operational plan will be developed in accordance with this strategic plan.

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Executive Summary

1. Executive Summary

This Strategic Plan provides a roadmap for a medium-term direction of the Internal Audi Service (IAS) in the Royal Government of Bhutan in improving service delivery to its stakeholders. This plan covers the period 2021 to 2025. It is designed to be practical, feasible, and easily implementable in view of the current status of strengths, weaknesses, opportunities, and threats in the IAS of Bhutan. It delineates the priorities of the IAS to continue providing adequate level of assurance to its stakeholders. The Strategic Plan is flexible and would be updated at least annually to take into account the changes in circumstances.

This Strategic Plan aims to ensure the effective performance of Internal Auditors (IAs) in CCA and Internal Audit Units (IAUs). Further, this Strategic Plan shall ensure that the works of IAs are conducted in consonance with the prevailing rules and regulations that conform with Internal Auditing Standards. This would ensure that the works of IAs are carried out in a consistent manner, and adequately recorded and documented. It is envisaged that implementation of this Strategic Plan brings will also about required capacity development of IAs of both CCA and IAUs in various agencies.

Therefore, various qualitative and quantitative key performance indicators have been defined in the plan and the envisioned strategic outcome corresponding to the same have been included as elaborated hereunder.

1.1   Strategic Outcomes and Key Performance Indicators

S. No	Key Performance Indicator	Sub-Indicator	Frequency/Timeline	Outcome
1	Capacity building of staff	1.1 Training of Internal Auditors	Semi Annually	Updated knowledge of Internal auditors on Internal Audit fundamentals, ethics, soft skills, technology, sampling, and analysis
		1.2 Internal Audit Conference	Annually	Annual IA operational strategy developed based on focus area in public sector and common key risk parameter for IAUs established
		1.3 Overseas Exposure visits of IAs	A minimum of one batch annually comprising of at least 3 Internal Auditors	IAs conversant with international best practices
		1.4 International Certification in Internal Audit or any area associated with this function	At least two Internal Auditors annually	Increased number of qualified IAs in relevant professional certification
		1.5 Continuous Professional Development	At least 80 hours annually for each auditor	Relevant knowledge and skills updated

S. No	Key Performance Indicator	Sub-Indicator	Frequency/Timeline	Outcome
2.	Resource Management	2.1 Increase IA coverage	Based on the need of relevant stakeholders, budgetary allocation, and availability of human resource	Increased coverage of Internal Audit services in government Agencies
		2.2 Adequate resource for additional IAUs & fill vacant positions	Reduce total vacancy by at least 10% every year	IAUs are adequately staffed
		2.3 Standardize Risk Based Internal Audit	For every engagement	Risk based audits uniformly practiced in all IAUs
3.	Use of Modern audit techniques and technologies	3.1 Implementation of IAMS	Effective from the first financial year i.e. FY2021-22	Effectiveness of IAS enhanced
		3.2 Training of IA staff on the IAMS	Before Implementation of IAMS and refresher training as necessary.	Effectiveness of IAS enhanced
		3.3 Use of Data Analytics in Audit	By the end of second year of implementation of IA strategic plan followed by every IA engagement	Quality of IA delivery enhanced
4.	Quality Assurance & Improvement Program (QAIP) and Performance monitoring	4.1 Random Checks of Audit Engagements to ensure audit quality	Periodically (in accordance with QAIP guideline)	Errors in audit works minimized
		4.2 Quality assurance/ assessment of IAU by CCA	At least once at each IAU in every year (in accordance with QAIP guideline)	IA process conforms to Internal Auditing standards
		4.3 External Assessment	Once in every five years.	IA-CM level improved
		4.4 Review and update Internal Audit Charter	Within six months of implementation of this strategic plan	IA function improved
5.	Improve interaction and coordination with stakeholders	5.1 Create platform for effective information sharing related to IA services	By end of second year of the implementation of this strategic plan	Stakeholders well informed
		5.2 Establish strategic partnerships & coordination with stakeholders	Periodically	Enhanced relationship with stakeholders

1.2   Implementation Arrangement

Implementation of the Strategic Plan would be done under the guidance and supervision of the CCA for which IUAs are required to provide full support and cooperation. Complete execution of the plan will be subject to adequate funding support provided by RGoB. The Strategic Plan will be periodically reviewed and updated by CCA. Factors influencing the frequency of review may include:

- ▶ Changes in the CCA's strategy.
- ▶ Degree of the host organization's growth.
- ▶ Degree to which the host organization and its senior management rely upon the internal audit activity's independent assessment and/or support regarding the management of their risks.
- ▶ Significant change in the availability of the internal audit activity's resources.
- ▶ Significant change in laws and/or significant changes to organizational policies and procedures.
- ▶ Degree of change in the host organization's control environment.
- ▶ Key changes in host organization's leadership style.
- ▶ Evaluation of how the internal audit activity has qualitatively or quantitatively delivered on the strategic plan.
- ▶ Results of internal/external assessments of the internal audit activity.

A workplan has been prepared aligning the strategies to be implemented in the year 2021-2025. The detailed workplan is as follows.

Work plan for Implementation of Strategic Plan 2021-2025:

S.No.	Task Name	Quarter 1-20
1	**Capacity building of staff**	
1.1	Training of Internal Auditors	★ at Q2, 4, 6, 8, 10, 12, 14, 16, 18, 20
1.2	Internal Audit Conference	★ at Q4, 8, 12, 16, 20
1.3	Overseas Exposure visits of Internal Auditors	One batch of 3 IAs annually
1.4	International Certification in Internal Audit or any area associated with this function	At least two Internal Auditors Annually
1.5	Continuous Professional Development	80 hours annually for each auditor
2	**Resource Management**	
2.1	Increase IA coverage	Based on the need of relevant stakeholders, budgetary allocation, and availability of human resource
2.2	Adequate resource for additional IAUs & fill vacant positions	Reduce vacancy - at least 10% every year
2.3	Standardize Risk Based Internal Audit	For Every Engagement
3	**Use of modern audit techniques and technologies**	
3.1	Implementation of IAMS	★ at Q1
3.2	Training of IA staff on the IAMS	★ at Q4, 8, 12, 16
3.3	Use of Data Analytics in Audit	By the end of second year of implementation of IA strategic plan followed by every IA engagement
4	**Quality Assurance & Improvement Program (QAIP) and Performance monitoring**	
4.1	Random Checks of Audit Engagements to ensure audit quality	Periodically (in accordance with QAIP guideline)
4.2	Quality assurance/assessment of IAU by CCA	★ at Q4, 12, 16
4.3	External Assessment	★ at Q20
4.4	Review and update Internal Audit Charter	★ at Q2
5	**Improve interaction and coordination with stakeholders**	
5.1	Create platform for effective information sharing related to IA services	★ at Q8
5.2	Establish strategic partnerships & coordination with stakeholders	Periodically

REMARKS:

1) Implementions w.e.f 1st July 2021 and that continues similarly ending at Q20 (i.e. June 2025) given that the plan is for a period of five years

2 Introduction

2. Introduction

2.1 Background

The Internal Audit service in the Royal Government of Bhutan was instituted in year 2000 across six out of the seven ministries then. The 86th National Assembly Session resolved to establish IAUs in all Dzongkhags. With enactment of the Public Finance Act 2007, the responsibility of administering the IAS was vested to the Ministry of Finance (MoF). Accordingly, MoF established the CCA for IAS in the year 2010. While the government had been establishing IAUs in different government agencies, specific strategy to streamline and strengthen the Internal Audit System had not been pursued over the years. Some of the visible reforms in the Internal Audit Service were publication of National Internal Control Framework, 2013, revised Internal Audit Charter signed by the Hon'ble Prime Minister on 4 December 2014, development of Internal Audit Manual, and Code of Ethics for Internal Auditors in 2014 and Bhutan Government Internal Auditing Standards (BGIAS) in 2017.

Strengthening the effectiveness of the internal audit function in RGoB has become very critical in the current scenario to achieve accountability and integrity, improve operations, and build confidence among stakeholders. In addition to conventional compliance auditing engagements undertaken by IAUs, CCA had initiated thematic auditing assignments by IAUs in financial year 2015-16.

This Internal Audit Strategic Plan for FY 2021-2025 has been developed by CCA in consultation with all stakeholders and serves as a channel to add value to the public internal audit function in the country. Through various short to medium-term measures including capacity building exercises, modernization in audit techniques and quality assurance and improvement programmes, it aims to achieve RGoB's long-term Public Financial Management and good governance mission. This strategic plan has been prepared in fulfilment of the mission of strengthening the Internal Audit Service of the RGoB.

This Strategic Plan would enable focus allocation of resources which would in turn contribute to the achievement of CCA's objectives. It prioritizes holistic development and progress of Internal Auditors by setting up feasible and realistic goals. The strategic plan aims to achieve accountability in the internal audit services and provides a roadmap for strengthening the IAS and improving service delivery to its stakeholders over the next 5 years.

2.2 Internal Audit definition and Legal Mandate

2.2.1. Definition of Internal Audit

According to The IIA's definition:

"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

Based on the above IIA definition, the RGoB has accordingly defined the purpose of the Internal Audit in the Internal Audit Charter as:

"The Internal Audit Units conduct internal audits, using a systematic and disciplined approach, to provide the respective head of Ministries, Dzongkhags and Autonomous bodies with:

▶ Independent and objective assurance on the efficiency and effectiveness of their respective Entity's governance, risk management, control, and accountability processes.

▶ Proposals and recommendations for improving the efficiency and effectiveness of the Entity's operations, achieving organizational objectives and proper stewardship of resources."

2.2.2. Legal Mandate

Under Section 23 (O) of the Public Finance Act, 2007, the MoF has the responsibility for administering the Internal Audit Services and issuing guidelines. Accordingly, CCA was established to administer the Internal Audit services in RGoB. CCA is the coordinating agency for all Internal Audit Units across the nation.

The RGoB has established IAUs in all Ministries and in 20 Dzongkhags and in 6 Autonomous bodies. Subject to the availability of adequate and appropriate resources, it is the policy of the RGoB to establish IAUs in other budgetary bodies as well.

As a coordinating agency, CCA issues internal audit guidelines, coordinates function and monitors and evaluates internal audit activities in government agencies. Internal Audit is governed by Public Finance Act 2007, IA Charter, IA Code of ethics, IA Manual, and IA Standards.

In order to ensure that the internal audit services are provided in a professional manner and in accordance with best international practices, the MoF has adopted the International Professional Practices Framework (IPPF), issued by the Institute of Internal Auditors to regulate the work of the Internal Audit Service. The IPPF comprises the:

▶ Definition of Internal Audit
▶ Code of Ethics for Internal Auditors
▶ Internal Auditing Standards

2.3   Internal Audit service operating structure in the country

The IA structure in Bhutan has significantly evolved over time. The RGoB formulated an Internal Audit Charter to provide a framework within which the internal audit shall function in the budgetary bodies. It defines roles and responsibilities, and authorizes access to records, personnel, and physical properties relevant to the performance of engagements. Further, uniformity and consistency in the Internal Audit function is ensured. Based on current RGoB policy, the IAS consists of:

▶ **Central Coordinating Agency for Internal Audit Services, Ministry of Finance (CCA)** - Enables the MoF to fulfil its statutory responsibilities under Section 23 (o) of the Public Finance Act, 2007 for administering the IAS, issuing appropriate guidelines on internal auditing in the RGoB and coordinating the activities of the IAS in enhancing the quality and reliability of the internal audit work. The CCA is headed by Chief Internal Auditor reporting to the Secretary, Ministry of Finance.

▶ **Internal Audit Unit (IAU) -** Established in all Ministries and Dzongkhags and some autonomous bodies that receive government budgetary allocations. The IAU is generally headed by a Chief Internal Auditor (CIA) / Senior Internal Auditor in ministries, while IAUs in Dzongkhags and autonomous agencies have single internal auditor. They are responsible for providing internal audit services in accordance with the Internal Audit Charter and in compliance with the Code of Ethics for Internal Auditors, Standards for Internal Auditing and other guidelines issued by the Ministry of Finance. The IAUs report directly to the head of agency where the IAU is established.

Figure 1: *The following figure presents the organization structure of Internal Audit Service in RGoB:*
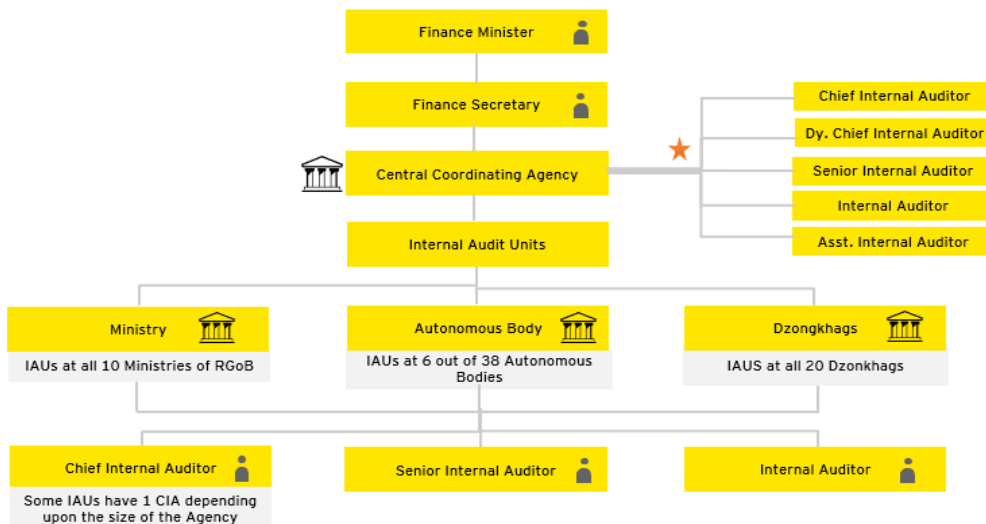
★ At CCA level, the approved strength is 4 including CIA. The other 3 positions can be either of Dy.CIA, Sr. IA, AIA and IA

2.4   Stakeholders

Key Internal Audit Service stakeholders include

- ▶ Finance Minister, Royal Government of Bhutan
- ▶ Secretary Finance, Ministry of Finance
- ▶ Central Coordinating Agency (CCA), Ministry of Finance
- ▶ Internal Audit Units (IAUs)
- ▶ Head of government agencies in Ministries, Autonomous Bodies and Dzongkhags.
- ▶ Royal Audit Authority
- ▶ Anti-Corruption Commission of Bhutan
- ▶ Royal Civil Service Commission
- ▶ Development Partners
- ▶ Other stakeholders such as law enforcement agencies, review bodies and professional bodies.
- ▶ Citizens of Bhutan

2.5   Objectives of Strategic Plan

The implementation of the Plan is expected to further strengthen and contribute to the following objectives:

Uphold the transparency and accountability in rendering effective internal audit services

Provide adequate level of assurance and contribute towards effective implementation of policies and programmes in government agencies

Making contribution to organisation overall framework of governance, risk management and internal control

Conducting Internal Audit following the International standards and best practices

Strengthening the capacity of IAs of CCA and IAUs by utilising various IT tools

2.6   Scope of Strategic Plan

The scope broadly includes efforts to improve efficiency and effectiveness of internal audit activity in the government sector and also includes increase in internal audit coverage, establishment of new internal audit units in government agencies like autonomous bodies, increase the awareness of internal audit activity through various outreach activities, coordination with other external agencies like RAA / ACC, and develop sustained professional capacity.

2.7   Purpose of Strategic Plan

The purpose is to enable the Internal Audit Function to meet the expectations of its key stakeholders to achieve its strategic objectives. The strategic plan is the channel through which the vision and mission of the CCA and RGoB will be pursued. This Strategic Plan covers a five-year period from FY 2021-2025.

Introduction

3 Strategic Planning Process

3. Strategic Planning Process

The following systematic and structured process has been used in developing the Internal Audit Strategic Plan:

▶ Understand the Internal Audit Services objectives
▶ Consider the International Professional Practices Framework (IPPF)
▶ Understand stakeholder expectations
▶ Update internal audit vision and mission
▶ Perform a strengths, weaknesses, opportunities, and threats (SWOT) analysis
▶ Define the critical success factors
▶ Identify key initiatives
▶ Way Forward

3.1 Understand the Internal Audit Services objectives

The starting point for developing the internal audit strategic plan should be obtaining a thorough understanding of the organization's[1] objectives in which it operates. Strategic objective for the internal audit activity is to add value. It is envisaged that it should contribute to the achievement of the organization's strategic, operational, reporting, and compliance objectives through assurance and consulting services. This will assure that the host organization maintains an ethical environment and culture of accountability.

3.2 Consider the International Professional Practices Framework (IPPF)

The CCA for internal audit services considered the IIA - IPPF while developing the internal audit strategic plan for Bhutan. The values the internal audit activities personnel should adopt are contained within the framework's Standards and Code of Ethics. The Internal Audit function in Bhutan has adopted International Professional Practices Framework (IPPF) of the Institute of Internal Auditors (IIA). The CCA for internal audit services in the country has developed Code of Ethics, Internal Audit Manual and Bhutan Government Internal Audit Standards in accordance with IPPF framework. Accordingly, the Development of first Internal Audit Strategic Plan is also done following the Recommended Guidance of IPPF framework i.e. "Practice Guide on Developing the Internal Audit Strategic plan" as issued by Institute of Internal Auditors.

3.3 Understand stakeholder expectations

Understanding stakeholder expectations and needs is a critical step in developing the internal audit strategic plan. It is important to include the key internal and external stakeholders (e.g., Internal Audit Units, head of government Agencies, external auditors, and other regulators). Various consultations with key stakeholders such as CCA, IAUs, and agencies were carried out to understand their expectations from internal audit activity. Some of the key expectations are:

1. CCA aspires to strengthen the IAS by strategizing its objectives;
2. The IAUs desire to improve their performance through effective service delivery;
3. The agencies wish to receive reliable internal audit reports which would enable them in taking timely decision.

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[1] The organization referred is CCA and IAUs at different government agencies.

This strategic plan has been developed based on feedback and suggestions received from them. Consequently, this plan is expected to facilitate in achieving the organization's objectives and goals.

3.4   Update Internal Audit Vision and Mission

In the process of developing the strategic plan, series of consultations were held to develop a new vision statement that encapsulate the entire essence of IAS. The strategic plan is expected to ensure that internal audit activities pursue the IA Vision and Mission.

3.4.1.   Vision Statement

The vision statement is described as follows: -

> *"A professional Internal Audit service provider to strengthen good governance in the RGoB".*

The vision statement helps to articulate the internal audit activity's philosophy and what it hopes to contribute to the organization. It is based on stakeholder expectations and IIA guidance.

The current internal audit charter issued in the year 2014 does not describe the vision statement. Therefore, one of the key findings in the process of developing this strategic plan is to update the existing internal audit charter.

3.4.2.   Mission statement

> *"Enhance and protect organizational value by providing risk-based and independent objective assurance, advice, and insight through professional practices to cope with emerging challenges"*

This strategic plan has been developed taking into account the above mission statement. The RGoB and CCA envisaged that the IA shall extend their services to cover all aspect of an agency's operations and determine whether the agency's network of risk management, control, and government processes, as designed and represented by the management is adequately functioning. Furthermore, the strategic plan will also contribute in having a credible internal audit institution.

3.5   Define the critical success factors

Identifying the critical success factors (CSFs) allows the internal audit activity to understand the limited number of elements that should go right for it to achieve its vision and mission. Monitoring the progress of the critical success factors will ensure management is giving them continuous attention. The following are the critical success factors are of critical importance to the Internal Audit Function in Bhutan. These CSF are linked to the strategic focus area of the strategic plan, in order to successfully implement its strategies and support the organizational goals:

Strategic Planning Process

S. No	Critical Success Factor	Strategic Focus Area
1	Continuous Capacity building of Internal Audit staff	▶ Training of Internal Auditors ▶ Internal Audit Conference ▶ Overseas Exposure visits of IAs ▶ International Certification in Internal Audit or any area associated with this function ▶ Continuous Professional Development ▶ Training of IA staff on the IAMS
2	Provide Impactful Reporting to Stakeholders	▶ Create platform for effective information sharing related to IA services ▶ Establish strategic partnerships & coordination with stakeholders
3	Focus on the organization's highest risks and strategy	▶ Standardize Risk Based Internal Audit
4	Policies, procedures, processes and systems adopted by CCA / IAUs are Enabling and of Dynamic Nature in Meeting the organization Needs	▶ Review and update Internal Audit Charter ▶ Increase IA coverage ▶ Adequate resource for additional IAUs & fill vacant positions
5	Use of IT Tools	▶ Implementation of IAMS ▶ Use of Data Analytics in Audit
6	Internal Audit Function Implements a Quality Assurance and Improvement Program (QAIP)	▶ Random Checks of Audit Engagements to ensure audit quality ▶ Quality assurance/assessment of IAU by CCA ▶ External Assessment

3.6 Perform SWOT analysis

Performing the assessment of the current state of the internal audit activity helped to identify what should be incorporated into a strategic plan. The aim of SWOT analysis is to identify the key internal and external factors that are important to achieving the strategy. Following is the result of current strengths, weaknesses, opportunities, and threats in the internal audit system in Bhutan:

Strengths
- Defined IA mandates such as Charter, Manual, Guidelines, Code of ethics, BGIAS
- Credibility and respect for CCA
- Focus on recent trends and changes in risk landscape
- Full support from RGoB and various reforms undertaken to strengthen governance
- Quality Assurance and Improvement Programme in place

Weaknesses
- Limited number of fully qualified staff
- Current staff not fully trained
- Absence of data analytics and data mining
- Limited dependence and credibility of auditing staff
- Limited career opportunities
- Limited knowledge of IIA Standards amongst staff

Opportunities
- To improve IA skill, knowledge and capabilities
- Maximise training and development opportunities
- Ensure adequate IT support is available to the team
- Embrace digitisation and automation in audit procedures
- Confirm and meet stakeholders' evolving expectations
- Effective use of co-sourcing
- Elevate CCA to Department level
- Encourage professional Certification for staff
- Enhance staff skill in data analytics

Threats
- Increasing skill gaps
- High staff turnover
- Increasing number of inexperienced staff
- Ineffective communication within management
- Roadblocks in implementation of recommendations due to constraints in governance.

3.7   Identify Key Initiatives

Based on the results of the SWOT analysis, it is possible to identify and prioritize the key initiatives (i.e. key strategic focus areas as detailed in chapter 4 of this strategic plan) that will have a significant impact on achieving the internal audit activity's critical success factors and therefore its vision and mission statements. For each initiative, it is valuable to identify a timeline for implementation, the desired objectives, the performance measurements (qualitative and quantitative), and the associated SWOT elements.

3.8   Way Forward

The Hon'ble Minister of Finance has expressed his concerns over the challenges faced by Internal Auditors and has emphasized the importance of the role of internal auditors. The RGoB is endeavoring to further enhance the internal audit function through various initiatives such as development of performance audit guidelines and implementation thereof, and development of Quality Assurance and Improvement Program (QAIP) guidelines and its implementation.

This Strategic Plan aims to address the challenges faced by the Internal Audit Units in RGoB and provide effective solutions that can be successfully implemented. It shall provide handholding support to CCA in order to achieve their mission as mentioned in the mission statement. It is envisaged that this Strategic Plan would play a significant role in strengthening the internal audit processes in Bhutan. The guidelines formulated here would serve as a road map to build the capacity of internal auditors and sufficiently meet the expectations of the stakeholders. The focus areas have been identified for Internal Auditors in order to meet stakeholder expectations (see below) based on which the actions required have been determined and included in the Strategic Plan in subsequent sections. These are (1) capacity building of staff; (2) resource management; (3) use of modern audit techniques; (4) quality assurance; and (5) improve coordination and collaboration with other oversight bodies.

There are four areas upon which Internal Audit functions need to focus to achieve the changing objectives organizations are expecting of them.
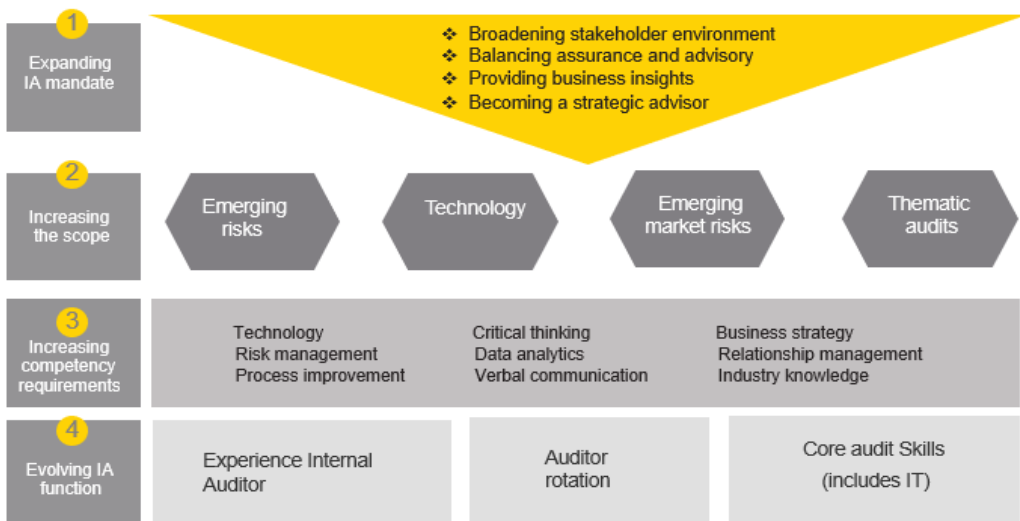
3.8.1. Internal Audit Capability Model

An EQA of internal audit services in Bhutan has been conducted by IIA Malaysia in year 2019. The review also includes benchmark of IAS against the Internal Audit Capability Model ("IA-CM") developed by the IIA Global. As per the assessment report the IAS is operating at 'Level 1– Initial' in 3 of 6 key elements of the maturity model. Three elements that assess Infrastructure consisting of services and role of IA, professional practices and governance structures were at 'Level 2'. The overall rating of IAS in Bhutan was assessed in level 2. The report further states that RGoB's IAS has the potential to progress to the next capability level rating of 'Levels 3 – Integrated' in the future. Therefore, through this strategic plan, the internal audit services in Bhutan targets for achievement of "Level 3 – Integrated in the future". The key strategies as identified in this strategic plan are aligned with the recommendations provided in the EQA and implementation thereof may lead to successful achievement of "Level 3 – Integrated in the future" from "Level 2 – Infrastructure".

3.8.2. Effectiveness of IAS as per PEFA assessment

The Public Finance Management Performance Report of Bhutan based on Public Expenditure and Financial Accountability 2016 framework (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.

Indicator/Dimension	Score	Brief justification for the score
PI-26: internal audit	**C+**	**Scoring Method M1**
26.1: Coverage of internal audit	B	Internal audit is operational for CG entities incurring most expenditure and collecting most revenue.
26.2: Nature of audits and standards applied	C	Internal audit is primarily focused on financial compliance.
26.3: Implementation of internal audits and reporting	A	All planned audits are completed and reports distributed to the appropriate parties.
26.4: Response to internal audits	C	Management provides a partial response for the majority of entities audited.

The focus area "2.1 Increase in Internal Audit Coverage" of the strategic plan is targeting to increase the internal audit coverage in the other government agencies wherever the IAUs are not established. This key focus area will lead to improvement of PEFA sub-indicator "26.1 coverage of Internal Audit" score.

One of the important areas to strengthen the IA system is development of PA guideline and training on PA guideline which is part of current project of "strengthening the effectiveness of Internal Audit system in RGoB". Further, the focus area "2.3 Standardize Risk Based Internal Audit (RBIA)" gives emphasis of RBIA instead of transaction audit or compliance audit. This key focus area of the strategic plan will lead to improvement of PEFA score of sub indicators "26.2 Nature of audits and standards applied".

Further, the strategic plan also set the key focus areas on ensuring audit quality through implementation of QAIP in internal audit services, implementation of IAMS which will improve the efficiency of IAs in Bhutan, regular performance monitoring, stakeholder outreach activities, etc. These focus areas will lead overall improvement of PEFA score. The successful implementation of these strategies will strengthen the internal audit functions in the country.

4 Key Strategic Focus Areas

4. Key Strategic Focus Areas

1   **Capacity building of Staff**

Internal auditors have to execute complex tasks and hence require specialized skills, knowledge of audit standards and have to continuously update themselves with recent developments worldwide. It is important to stimulate knowledge sharing, learning and ensure that competency is built up. The professional capacity needs to be developed to tackle current and future risks or challenges.

1.1. Training of Internal Auditors

Objective	To increase the competency of Internal Auditors through trainings
Impact Indicator	No. of training conducted to update knowledge of Internal auditor and no. of internal auditors trained
Frequency	Semi Annually (once in every 6 month)
Outcome	Updated knowledge of Internal auditors on Internal Audit fundamentals, ethics, soft skills, technology, sampling, and analysis.

The *Standards* 1200 require that engagements must be performed with proficiency and due professional care. *Standard* 1210 emphasizes a lot on proficiency.

IIA Standard on Internal Audit 1210 – Proficiency:

Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.

The Royal Government of Bhutan's requirement as per BGIAS:

As parent agency, CIA/Head of Central Coordinating Agency for IA Service is responsible to equip all internal auditors in the Royal Government of Bhutan with appropriate knowledge, skills and other competencies needed to perform their professional responsibilities. Initiatives to obtain appropriate professional competencies at the agency level must be done in consultation with CCA.

As per the EQA report 2019 on Internal Audit Services in Bhutan, there is a need to enhance audit technical knowledge of the auditing staff. Trainings can help address the problem of competency gaps to transform productivity, performance, and efficiency of internal auditors.

Capacity building can be achieved by providing trainings to the staff at all levels. It is envisaged to conduct targeted trainings for internal auditors at all levels pertaining to their work requirements every year for the next five years. Work specific training material shall be thoughtfully designed such that it covers various aspects of internal audit and encompasses

the key responsibilities of staff at all positions. For e.g. some possible topics relating to audit life cycle may be execution, reporting etc. Guest lectures may be arranged where experts in the field of Internal audit can be called to provide valuable support and share information.

The key challenge of Internal audit is to keep up with ever-changing risk, while establishing internal audit activity as a trusted advisor. Training and education play a critical role in effectiveness of Internal Audit activity. The internal auditor needs practical, high-impact training on topics like data analysis, communication, risk management, internal controls, and more. Following is the illustrative list of trainings that can be provided to internal auditors of RGoB:

S. No.	Type of Training	For	Level	Description
1	Audit Fundamentals	New Internal Auditors	Basic	Learn the basics of auditing at the new internal auditor level. The training should provide an overview of the life cycle of an audit from a new internal auditor's perspective, while examining the internal control environment and audit governance. Following topics included: ▶ Defining the phases of an audit life cycle ▶ Interviewing and communication skills ▶ Developing documentation, including audit reports ▶ Performing an audit risk assessment and walk-through of internal controls ▶ Utilizing sampling and data analysis in fieldwork ▶ Developing audit observations and findings
2	Audit Fundamentals	Experience Internal Auditor	Intermediate	Gain insight at the experience internal auditor level. The training should help IA to develop the organizational, time management, and problem-solving skills necessary to lead a successful team while examining the life cycle of an audit from a lead auditor's perspective. The training is for internal auditors with 2–4 years of experience who want to learn the concepts, tools, and techniques to enhance their effectiveness and transition into a lead auditor role. Following topics included: ▶ Communicating with audit staff ▶ Defining audit scope, objectives, hours, resources, and key activities ▶ Prioritizing workload and managing efficient use of resources ▶ Reviewing audit evidence and workpapers ▶ Becoming an effective leader ▶ Leading audit staff

S. No.	Type of Training	For	Level	Description
3	Audit Fundamentals	Experienced Internal Auditor (Chief IA / Sr. IA)	Intermediate	Learn the essential skills required at the audit manager level. The training should provide managers with the tools needed to manage efficiently and effectively in an internal auditing environment, while examining the life cycle of an audit from an audit manager's perspective. Following topics are included: ▶ Communicating with the CIA, head of government agency. ▶ Preparing a value-added audit program ▶ Developing a strategy for presenting audit findings and recommendations ▶ Developing management leadership skills ▶ Understanding the difference between managing and leading ▶ Managing relationships ▶ Managing conflict and change ▶ Marketing internal audit
4	Audit Fundamentals – Ethics for IA and Code of Ethics Conformance	All Internal Auditor	Basic	Ethics for IA: The primary focus of this training should be to provide you with an overview of ethics and how the Code of Ethics, Principles, and Rules of Conduct apply to internal audit. Code of Ethics Conformance: The primary focus of this training course is to provide an introduction to Code of Ethics conformance for internal auditors.
5	Audit Fundamentals – Audit Report Writing	All Internal Auditor	Intermediate	Persuasive communication is an essential skill to communicate effectively with the stakeholders. Quality of internal audit depends upon quality of communication. High-quality audit reports are a key communication tool. The training on audit report writing should focus on the content, organization, and structure of audit reports, and uses case study activities to apply the basics of audit report writing.
6	Audit Fundamentals – Analyzing and Improving Business Process	All Internal Auditor	Intermediate	Internal auditors are constantly searching for better tools and techniques for business process analysis. The training should provide methods that can be used in any process analysis engagement and opportunities to apply these methods to real-world scenarios. Learn to conduct analyses at a holistic level — considering the customer and focusing on the associated objectives and risks — to find ways to create efficiencies, analyze work being conducted, or provide better customer service.

S. No.	Type of Training	For	Level	Description
7	Audit Fundamentals – Project Management Skills for Internal Auditor	All Internal Auditor	Intermediate	The training provides the skills and techniques necessary to embed project management methods into internal audit process. Formal project management methodologies can help reduce and alleviate many of the struggles with delays, prioritization, scope, and timeliness that many audits routinely face. There are various tools and systems which can be immediately implemented, and real-life examples of project management failures and successes will be covered to enhance the learning experience through multiple hands-on exercises for practice of what IA learnt.
8	Audit Fundamentals – Root Cause Analysis for IA	All Internal Auditor	Intermediate	This training will provide IA with key root cause analysis tools and techniques that can be utilized in the planning, fieldwork, and reporting phases of an internal audit — to enhance audit effectiveness, strengthen audit observations reported, and facilitate deeper discussions with management on issues identified. IA will have the opportunity to practice and apply the skills learned during the course through a case study and exercises, which should enable IA to integrate the tools and techniques into IA audit engagement activities.
9	Audit Management– Building a Sustainable Quality Program	All Internal Auditor	Intermediate	Building an effective quality assurance and improvement program (QAIP) is similar to establishing a total quality management program, where products and services are analyzed to verify if they meet stakeholder expectations, operations are evaluated to determine their efficiency and effectiveness, and practices are assessed to confirm their conformance to standards. This training will help IA to learn how to build and maintain an effective QAIP, leading to a successful external quality assessment.

Key Strategic Focus Areas

S. No.	Type of Training	For	Level	Description
10	Audit Management– Performing an effective Quality Assessment	Senior Internal Auditor	Intermediate	An organization's quality monitoring must keep pace with its evolution as a whole. To ensure consistent quality in a dynamic environment, internal audit's QAIP encompassing both internal and external assessments, can provide evidence to stakeholders that internal audit is efficient, effective, and adding value. This training will provide senior IA with the appropriate knowledge and skills to plan, perform, and evaluate the results of a quality assessment. IA will also learn about the processes and tools in the IIA Quality Assessment Manual (QA Manual) that can help IA to identify opportunities to improve internal audit quality activities.
11	Fraud– Fraud Detection, Deterrence and Incident response for Internal Auditors	All Internal Auditor	Intermediate	For many auditors, management's anti-fraud expectations exceed the audit team's capability to deliver. Result: a challenging gap to fill and difficult decisions to be made regarding the application of scarce resources and management of stakeholder expectations. This training will help to learn a comprehensive anti-fraud response that will fit in any organizational setting, as well as discover how to build a tailored battle plan for fighting fraud. Step-by-step instructions will allow IA to meet and exceed their professional obligations to objectivity and independence while leading management through what it must do to foster an anti-fraud environment.
12	Governance Risk and Control – Fundamentals of Risk based Auditing	All Internal Auditor	Basic	This training will provide IA the fundamental knowledge needed to become effective in performing risk-based internal audits. Foundational concepts such as the nature of risk, risk sources and categories, risk appetite and tolerances, and risk frameworks are provided to help you understand their application to the audit engagement. This Training is for internal auditor who want to learn the principles and concepts of risk and risk management, as well as the tools and techniques used to perform a risk-based audit.

Key Strategic Focus Areas

S. No.	Type of Training	For	Level	Description
13	Governance Risk and Control – Advanced Risk based Auditing	All Internal Auditor	Intermediate	This training provides participants with the knowledge to develop an audit universe and risk-based internal audit plan. The training also addresses emerging and advanced risk management topics such as governance risk, strategic risk, fraud risk, information technology risk, and auditing the risk management process. This training will provide new concepts and tools to develop a value-added, risk-based audit plan for your organization. It is designed for senior internal audit who want to build on their knowledge and increase their value to the organization by developing effective risk-based audit plans that address emerging risks.
14	Soft Skills – The Effective Auditor: Understanding and applying Emotional Intelligence	All Internal Auditor	Intermediate	Internal Auditors need specific technical skills to be successful in their jobs, but that's only half the picture. They must be able to deal with all kinds of people, too. In this training, IA will learn to improve IA effectiveness by identifying the communication style of others, allowing IA to tailor delivery to their method of receiving, use empathy to build engagement with team members, improve IA listening skills to uncover hidden information, and enhance IA emotional intelligence to increase communication effectiveness.
15	Soft Skills – Relationship Interpersonal Skills and Auditing: Becoming a trusted Advisor	All Internal Auditor	Intermediate	The ultimate goal of any internal auditor is to become a trusted advisor — someone to whom others look for counsel and advice, a trusted confidante who will listen when times get difficult. During the training, IA will learn the why and how of developing relationships that will assist IA in becoming a trusted advisor. Tips, techniques, and reference materials will assist IA in personal and team development, impacting effectiveness positively.
16	Soft Skills – Critical Thinking	All Internal Auditor	Intermediate	This training demonstrates how critical thinking can be weaved throughout key elements of the audit process such as risk assessment, interviewing, testing and analysis, process documentation, and reporting. Critical thinking is disciplined thinking that is clear, rational, open-minded, and informed by evidence, which makes it ideally suited for application in an audit setting. The critical thinking concepts and practices should be presented and designed to enhance audit effectiveness and deliver measurable value to audit customers that win internal audit a seat at the table for key business decisions.

Key Strategic Focus Areas

S. No.	Type of Training	For	Level	Description
17	Technology–Cybersecurity Auditing	All Internal Auditor	Basic	Cyber security issues present grave risks beyond IT security. A severe breach can be costly enough to sink an organization or substantially impact its stakeholder value, oust its leadership, potentially bury its reputation, and worse. The training views cybersecurity from preventive, detective, and corrective angles, and applies audit processes and protections to the cloud and today's ever-present mobile devices.
18	Technology–Fundamental to IT Auditing	All Internal Auditor	Basic	The continued advent of technology means that to be fully effective and focused on the areas of greatest return, auditors can no longer afford to ignore IT auditing. Auditors, even those without a technical background, can and should develop knowledge of basic IT audit concepts that can be

used to facilitate integrated audits. After this training, internal auditors will be able to perform an audit of IT applications supporting key business processes and perform a risk assessment and evaluation of controls over end-user computer applications. |
| 19 | Technology–Data Sampling and Analysis | All Internal Auditor | Intermediate | This training will explore the challenges in selecting the most appropriate sampling methods, calculating and adjusting sample size, and integrating this knowledge into audit planning and reporting. It will also review properly reducing large data sets down to critical subsets based on risk or importance, determining which sampling method is most appropriate depending on the situation, and estimating sample size to get the most information at the lowest cost. |
| 20 | Technology–Data Analysis for Internal Auditor | All Internal Auditor | Intermediate | Executing a cost-effective and value-add audit requires an understanding of population analysis. Without this knowledge, IA run the risk of spreading your resources and IA sampling over low-risk subsets of the population. This could result in crucial data not being collected. In this training, IA will learn when and how to use population analysis in the planning phase of the audit and how to identify subsets of the population that behave differently from a benchmark data set. |

S. No.	Type of Training	For	Level	Description
21	Technology– Implementing Data Analytics in Internal Auditing	All Internal Auditor	Intermediate	Data analytics programs can provide the opportunity for an internal audit function to add value to their organization, while enhancing assurance for audits, fraud detection, and testing. It is also an excellent basis for fraud detection programs, allowing audit and fraud teams to identify potential fraud without having to "sample" large quantities manually to detect fraud and fraud patterns. However, implementing an effective program can pose a significant challenge. This training lays the groundwork of how to develop a functional data analytics program.

All such trainings will be followed by a graded evaluation at the end for effective participation. For this, assistance from senior internal auditors will be taken who possess a good understanding of and application of International Standards so that they can provide trainings or workshops as desired. A score card/ template may be used for evaluation. It is important to note that adequate budget is required for developing the training modules, pay the trainers, venue costs and miscellaneous costs. Therefore, it is important to carry out appropriation of adequate funds to provide such trainings.

1.2. Internal Audit Conference

Objective	▶ Focused on emerging Trends in internal auditing, to allow for networking with peers, gaining greater understanding of leading practices, learn from experiences ▶ Update internal auditors on recent developments in the public sector internal audit sphere, International Standards, international best practices, etc. ▶ Discussion on emerging risk in the country including Internal Audit annual strategy and setting the common key risk parameters for IAUs.
Impact Indicator	Discussion among Internal Auditors on the development in the RGoB and Internal Audit practice in the country
Frequency	Annually
Outcome	Annual IA operational strategy developed based on focus area in public sector and common key risk parameter for IAUs established.

The annual conference conducted should be with the view to provide an in-depth understanding of internal audit methodologies. Representatives of RAA, ACC, RCSC, development partners, all the internal auditors of IAUs, representatives of government agencies and other stakeholders related to the internal audit process will be invited to participate in the annual Internal Audit conference. The following are the illustrative list of topics that may be covered in IA conference:
- ▶ Innovating Use of Technology
- ▶ Risk identification
- ▶ Effectively Assessing Risk
- ▶ Leading with Influence and Cultivating Talent

Key Strategic Focus Areas

The Internal audit conference helps in networking with key stakeholders, understand the expectations of the stakeholders from the IA activity, knowledge sharing by the senior internal auditors, setting the tone for upcoming year internal audit plan, identifying the prevailing key risk in the government agencies and accordingly prioritizing the audit based on risk-based methodology. This conference will also provide roadmap for Internal Audit operation plan and setting up the risk parameters for the risk assessment of the audit universe.

1.3. Overseas Exposure visits of Internal Auditors

Objective	To Learn from the best practices followed by other countries and implement the same in Bhutan
Impact Indicator	Internal Auditors sent for overseas exposure visits to other countries
Frequency	A minimum of one batch annually comprising of at least 3 Internal Auditors.
Outcome	IAs conversant with international best practices.

The overseas exposure visits for selected staff shall be arranged so that they can in-person witness international practices in other countries and replicate the same in RGoB wherever applicable. Nominations for the training shall be recommend by CCA in consultation with the head of agencies of host originations of internal auditors based on performance evaluations.

1.4. International Certification in Internal Audit or any area associated with this function

Objective	To encourage and support the internal auditors to acquire professional certification that leads to continuous professional development
Impact Indicator	The number of internal auditors certified
Frequency	At least two Internal Auditors Annually
Outcome	Increased number of qualified IAs in relevant professional certification.

> ***Interpretation of IIA Standard on Internal Audit 1210 as per BGIAS:***
>
> *Proficiency is a collective term that refers to the knowledge, skills, and other competencies required of internal auditors to effectively carry out their professional responsibilities. It encompasses consideration of current activities, trends, and emerging issues, to enable relevant advice and recommendations. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organizations.*

Currently, there are only few internal auditors, who hold Certified Government Auditing Professional (CGAP). Hence, CCA will encourage and support IAs to acquire professional certification through sponsorship and provision of study facilities/ resources to attract and retain internal auditors.

CCA can identify and encourage interested IAs to undertake certification programs. At least two internal auditors are targeted to be nominated and provide necessary sponsorship annually. For the execution of such a program, the CCA is required to develop a competency assessment tool that details the knowledge areas, technical requirements and interpersonal skills requirements that is essential for internal auditors. Such a tool may have to be customized by CCA as per the requirements and should adopt the IIA's Global Internal Audit Competency Framework.

Following are the illustrative list of international certifications that can be provided to internal auditors of RGoB:

- ▶ Certified Internal Auditor (CIA) by Institute of Internal Auditors (IIA)
- ▶ Certification in Control Self-Assessment (CCSA) by Institute of Internal Auditors (IIA)
- ▶ Certified Financial Services Auditor (CFSA) by Institute of Internal Auditors (IIA)
- ▶ Certified Government Auditing Professional (CGAP) by Institute of Internal Auditors (IIA)
- ▶ Certification in Risk Management Assurance (CRMA) by Institute of Internal Auditors (IIA)
- ▶ Certified Fraud Examiner (CFE) by Association of Certified Fraud Examiner (ACFE)
- ▶ Certified Information Systems Auditor (CISA) by ISACA (previously known as the Information Systems Audit and Control Association)
- ▶ Certified Information Technology Professional (CITP) by American Institute of Certified Public Accountants (AICPA)
- ▶ Chartered Internal Auditor (CMIIA) by Chartered Institute of Internal Auditors (Chartered IIA)
- ▶ Certified Public Accountant (CPA) by CPA Australia and other institutions.
- ▶ Chartered Accountants (CA).
- ▶ CIMA qualifications from Chartered Institute of Management Accountants.

1.5. Continuous Professional Development

Objective	To build the competence and capacity of the individual internal auditors through continuous professional development
Impact Indicator	No. of hours spent by each Internal Auditors in learning and Development
Frequency	At least 80 hours annually for each auditor
Outcome	Relevant knowledge and skills updated

> ***IIA Standard on Internal Audit 1230 - Continuing Professional Development***
> *Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.*
>
> ***Interpretation***
> *The internal auditors are expected and required to enhance their skills through continuous professional development.*

In accordance with the Internal Audit Manual 2014 issued by Ministry of Finance, RGoB, the Auditors are required to maintain their professional competence through continuous training. Training and staff development are a purposeful activity and helps build the competence and capacity of the individuals and the IAUs. Subject to the composition of the IAU staff, CIA should provide at least 80 hours annually per Auditor for training and staff development. A training plan should be developed by CCA in coordination with IAUs.

As per the External Quality Assessment (EQA) 2019 Report, CCA should develop a competency assessment tool that details the knowledge areas, technical requirements and interpersonal skills requirements that is essential for internal auditors. It further recommends to customize and adopt the model - "The IIA's Global Internal Audit Competency Framework – Career Map Alignment". The competency gaps can also be addressed by providing internal training, rotating internal audit staff and/or bringing in guest auditors (subject to applicability of law of land).

2   Resource Management

In order to enhance efficiency & effectiveness of IA service, it is crucial for RGoB to accord adequate resources for management of IAS in Bhutan. To overcome the current gaps, the CCA intends to increase internal audit coverage, manage resources to have adequate employees in all the IAUs and have a uniformly practiced risk-based auditing procedure.

2.1.   Increase in Internal Audit Coverage

Objective	To increase the coverage of Internal Audit in Autonomous Bodies and Dzongkhag
Impact Indicator	No. IAU established against the available list of government entities where IAU needs to be established.
Frequency	Based on the need of relevant stakeholders, budgetary allocation and availability of human resource.
Outcome	Increased coverage of Internal Audit services in government Agencies.

The CCA is responsible for administering the IAS in all budgetary agencies under the RGoB.

While the IAUs are placed in the government agencies to ensure functional independence of the Internal Auditors, the CCA coordinates overall internal audit functions as established under different government agencies across country. Activities performed by internal audit unit adds value to the organization and its stakeholders. The internal audit activity is effectively managed when:

- ▶ It achieves the purpose and responsibility included in the internal audit charter
- ▶ It conforms with the Standards
- ▶ Its individual members conform with the Code of Ethics and the Standards.
- ▶ It considers trends and emerging issues that could impact the organization.

CCA manages Internal Audit Functions through 30 Internal Audit Units (10 Ministry, 6 Autonomous Body and 14 Dzongkhags) against the approved 36 Internal Audit Units. The government agency wise detailed breakup is given in table below:

Agencies	Total A	IAUs Sanctioned B	IAU currently in place C	IAU sanctioned but vacant D	IAU not Sanctioned E=A-B
Ministries	10	10	10	0	0
Autonomous Bodies	38	6	3	3	32
Dzongkhags	20	20	14	6	0
Total	**68**	**36**	**27**	**9**	**32**

*The above data is as on January 2020.

As on 31st January 2020, the IAUs are not established in 32 budgetary bodies of the total 68 budgetary bodies. This is a very large gap that needs to be systematically filled depending upon the requirement of IAUs in these agencies.

There is a need to increase the coverage of Internal Audit Units and ensure that all the government agencies in Bhutan should have IAUs such that the stated objectives of Internal Audit services can be achieved. The IAUs should be established in a phased manner depending upon the budgetary allocation and availability of human resource.

2.2. Adequate resource for additional IAUs and fill all vacant positions

Objective	To have adequate human resource for sanctioned positions at all IAUs and additional resource for additional IAUs in government agencies
Impact Indicator	No. of vacant position filled during the year and no. of additional audit staff approved and placed for internal audit service
Frequency	Reduce total vacancy by at least 10% every year.
Outcome	IAUs are adequately staffed.

The backbone of any organization is a competent, engaged, and motivated workforce. The IAS as at January 2020 has 45 internal auditors. The approved headcount was 54. The IAUs in 10 ministries and 6 autonomous agencies have internal auditors placed. However, 6 of the total 20 Dzongkhags have IAUs sanctioned but does not have internal auditors due to vacancy. Therefore, additional resources will be required to achieve the objective of enhanced coverage of Internal Audit services in the country. The vacant positions must be systematically and gradually filled. Moreover, the possibility of contract employment, either on outsourcing or co-sourcing basis (subject to applicability of law of land) may also be explored to fill the requisite positions on short term basis. In particular, the CCA and IAUs shall be encouraged to opt for co-sourcing of services within the same agency or from other agencies by deploying different expertise as deemed required under specific tasks or assignments.

2.3. Standardize Risk Based Internal Audit

Objective	To carry out risk-based audit as a standard procedure at all the IAUs
Impact Indicator	Have a standardized procedure for risk-based auditing. Conducting Risk Assessment on audit universe every year.
Frequency	For every engagement
Outcome	Risk based audits uniformly practiced in all IAUs.

As per IIA Internal Audit Standard 2010- Planning

Risk Based Internal Audit (RBIA) is defined as "a methodology that links internal auditing to the Ministry's overall risk management framework". This methodology allows internal auditing to provide assurance to management that the risk management processes are managing risk effectively; thereby increasing the likelihood of the entity meeting its objectives.

Interpretation as per BGIAS:

To develop the risk-based plan, the chief audit executive consults with senior management and the board and obtains an understanding of the organization's strategies, key business objectives, associated risks, and risk management processes. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls.

The Chief Internal Auditor must establish risk-based plans to determine the priorities of the internal audit activity, consistently with the organization's goals. At present, the Risk Based Internal Audit (RBIA) is not being followed uniformly in Bhutan IA services. It is important that from the outset of the implementation phase, risk-based auditing shall be carried out for all the engagements.

Moreover, for internal auditors to implement RBIA, the system of internal control needs to be strengthened in agencies through inclusion of good risk management practices.

Key Strategic Focus Areas

3 Use of Modern Audit Techniques & Technologies

Technology plays a very important role in Internal Audit functions. Increasing the use of technology would help get closer to the goal of efficiency, optimization, accountability, and transparency. CCA is keen to introduce Computer Assisted Auditing Tools (CAATs) and implement an Internal Audit Management Software. The IAMS tool will facilitate analysis of data and help to determine the scale of audit observations and, its compliance status which will facilitate decision makers to mitigate the risks in the government agencies.

Evaluation of fraud and IT risks would strengthen and improve the overall performance of audit engagements. However, the competency of the internal auditors in terms of using modern day technology is limited. Thus, the technical knowledge of audit staff needs to be enhanced to facilitate usage of CAAT and IAMS.

3.1. Implementation of IAMS

Objective	To automate the manual system of Internal Audit by use of technology.
Impact Indicator	IAMS software used in all engagements across all IAUs.
Frequency	Effective from the first financial year i.e. FY 2021-2022.
Outcome	Effectiveness of IAS enhanced.

The IT application such as IAMS will support Internal Auditors to automate all the Internal audit activity currently being performed manually. This will help in increasing the efficiency of internal audit activity. The IAMS is a software application which contains the entire life cycle of the Internal Audit starting from Planning, Execution, Reporting to Monitoring. Internal auditors of IAUs can also perform the ongoing monitoring with the use of IAMS. The IAMS will create a database of audit conducted which could be used for the purpose of analysis and decision making.

The IAMS shall be rolled out in the financial year 2021-2022. To implement IAMS, infrastructure such as specialized equipment, ICT facilities and other technical backend support should be in place.

3.2. Training to IA staff on the IAMS

Objective	To provide user training to internal auditors in using the IAMS.
Impact Indicator	Number of internal auditors trained.
Frequency	Before Implementation of IAMS and refresher training as necessary.
Outcome	Effectiveness of IAS enhanced.

Key Strategic Focus Areas

For effective use of IAMS, a detailed user training manual should be provided by the vendor who will provide or develop IAMS for Internal Audit services. To accustom the internal auditors with the new software, a classroom training with practical case studies should be provided to all the internal auditor by the concerned vendor who will provide or develop IAMS. The training should also be provided on training of the trainers (ToT) to selected internal auditors who will subsequently provide the refresher training to other internal auditors. The training should be followed by a graded performance evaluation test.

3.3. Use of Data Analytics in Audit

Objective	To modernize audit processes and initiate use of Data Analytics tools.
Impact Indicator	Data analytics used in audits
Timeline	By the end of second year of implementation of IA strategic plan followed by every IA engagement.
Outcome	Quality of IA delivery enhanced.

Auditing is an iterative process that requires the auditor's judgment to constantly evaluate the evidence and determine when procedures are adequate to minimize audit risk. Usage of data analytical tools & techniques is therefore almost required in technology disruptive world where most of the data of government agencies are being exposed to technologies such as Multi Year Rolling Budget (MYRB), e-procurement, Electronic Public Expenditure Management System (ePEMS), Revenue Accounting and Management Information System (RAMIS), e-government etc. Data analysis software provides better coverage and reduction of risk.

Some of the benefits of Data Analysis Software are:
- ▶ To gain an understanding of the systems and reporting environment.
- ▶ To identify anomalies, errors and potential fraud with relative ease and less time.
- ▶ To provide better coverage and facilitate reduction of risk in case any audit transaction has to be referred to in the database.
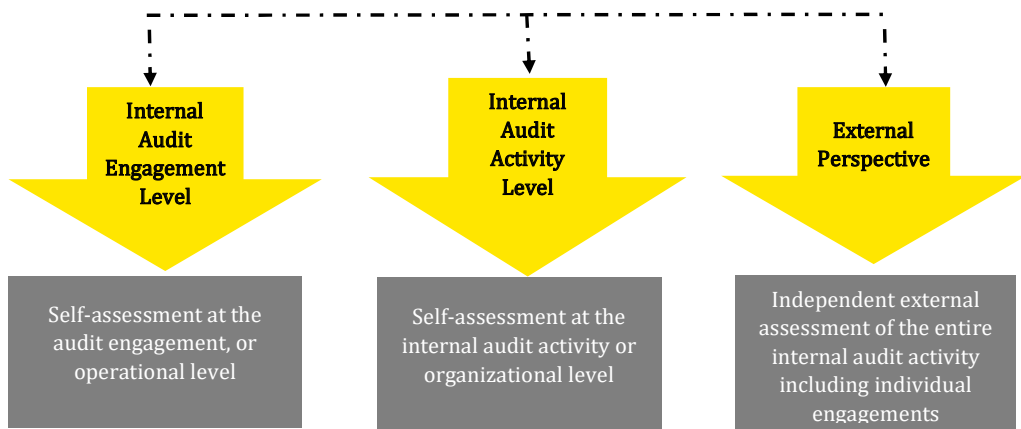
Data analytics can be used to identify current and emerging future challenges. It can also be used to detect and mitigate fraud. However, the current internal auditors do not have the required expertise. To overcome this institutional bottleneck, individuals may be trained initially in comparatively simpler and widely used software like Microsoft Excel and subsequently encouraged to move to advanced software packages. The use of data analytics should start by the end of first year of the implementation of this strategic plan.

Key Strategic Focus Areas

4 Quality Assurance & Improvement Program (QAIP) and Performance Monitoring

The Auditing Standards require the implementation of a QAIP to ensure conformance with the definition of Internal Audit, the Code of Ethics for internal auditors and the Auditing Standards. CCA is required to follow and implement QAIP, and incorporate the best practices followed by the other countries.

Such programme should include a comprehensive ongoing monitoring and periodic internal assessment. At present, it was found that quality assurance processes in the stages of planning, fieldwork, and reporting of audit were either absent or weak. To achieve comprehensive coverage of all aspects of the internal audit activity, a QAIP must effectively be applied at three fundamental levels (or perspectives):

Internal Audit Engagement Level	Internal Audit Activity Level	External Perspective
Self-assessment at the audit engagement, or operational level	Self-assessment at the internal audit activity or organizational level	Independent external assessment of the entire internal audit activity including individual engagements

The *Standard* 1320 states that the chief audit executive must communicate the results of the quality assurance and improvement *program to senior management and the board.* It was observed that there was no communication of the QAIP results to the Secretary of Finance.

At least annually, the CCA must report the results of the internal assessment, both ongoing and periodic monitoring, necessary action plans and their successful implementation to the Secretary of Finance.

Regular performance monitoring is essential and performance goals can be introduced to measure the progress of each internal auditor. Such indicators should comprise of quantitative as well as qualitative factors. Auditors' work must be carefully directed, supervised, and reviewed. There should be provision to systematically review work for quality assurance. Checks may be carried out at all important levels of the engagement.

Key Strategic Focus Areas

4.1. Random Checks of Audit Engagements to ensure audit quality

Objective	To monitor/supervise internal audit engagements.
Impact Indicator	No. of audit engagement checks.
Frequency	Periodically (in accordance with QAIP guideline).
Outcome	Errors in audit works minimized.

Timely performance evaluations would be very helpful in minimizing errors, providing support in maintenance of performance standards, and in turn help in ensuring that audit objectives are suitably met. The evaluations may be in the form of random checks that shall be carried out at all levels of engagements by the seniors. An overall performance report may be prepared based on analysis of assessments. Such performance reports should cover all recent developments and should be submitted to the stakeholders. It should also include feedbacks about the quality of IA work.

A brief stakeholder satisfaction survey should also be conducted as a part of the random check of audit engagement to ensure the effectiveness of IA service provided. Such random checks must be carried out periodically.

4.2. Quality assurance/ Assessment of IAU by CCA

Objective	To ensure standard internal auditing practices in IAUs.
Impact Indicator	CCA conducts and reports on internal quality assessment.
Frequency	At least once at each IAU in every year (in accordance with QAIP guideline)
Outcome	IA process conforms to Internal Auditing standards.

Performance Monitoring of internal audit services is essential to ensure the effectiveness of internal audit services. CCA has mandate of monitoring and supervision of audit work. The effectiveness of IA should be enhanced through regular monitoring and supervision. CCA should perform periodic internal assessment of internal audit services once in a financial year. CCA should prepare the report of internal assessment and submit to the respective head of agency who will in turn evaluate the audit work based on the recommendations given by CCA.

4.3. External Assessment

Objective	To ensure quality of internal audit service.
Impact Indicator	External assessment carried out periodically
Frequency	Once in every five years (in accordance with QAIP guideline)
Outcome	IA-CM level improved.

External quality assessment evaluates conformance of the internal audit function with the Internal Audit Charter, Code of Ethics, Manual and BGIAS. It would be more effective and efficient if a unified External Assessment of the overall function of the IAS within RGOB encompassing all the IAUs are conducted. The CCA should coordinate with all IAUs and arrange for a unified external assessment at least once every five years. The next External Assessment is due in 2024.The CCA must propose and seek approval from MoF to hire competent external assessor to perform external assessment.

4.4.   Review and update Internal Audit Charter

Objective	To review and update the Internal Audit Charter
Impact Indicator	Updated Internal Audit Charter
Timeline	Within six months of implementation of this strategic plan
Outcome	An updated Internal Audit Charter with all relevant changes

The charter is an important document giving authority and defining the roles & responsibilities of Internal Audit. The Internal Audit Charter issued by the RGoB needs to be reviewed and updated to incorporate the recent changes to the IPPF (2017 Edition) by including the mandatory elements of the IPPF specifically on the Core Principles and Quality Assurance and Improvement Program as per the Supplementary Guidance - Internal Audit Activity Model Charter 2017. The purpose of this Charter is to provide a framework within which the internal audit shall function. The mandate of CCA would then depend on the additional roles and responsibilities as per the updated Charter. The Charter will be updated within six months of implementation of this Strategic Plan, and thereafter as and when required.

Key Strategic Focus Areas

5 **Improve Interaction and Coordination with Stakeholders**

The internal audit profession is strengthened by engaging stakeholders and providing insight on risks impacting organizations. It is important to define stakeholders' priority targets, deploy appropriate messages, and leverage effective communication channels. To achieve a high level of engagement with stakeholders for post reviewing and assessing the current scenario, the following measures are envisioned to be followed:

5.1. Create platform for effective information sharing related to IA services accessible by all stakeholders

Objective	To improve interaction and coordination with stakeholders
Impact Indicator	Established communication channel with stakeholders
Timeline	By end of second financial year of the implementation of this strategic plan
Outcome	Stakeholders well informed.

In an attempt to ease sharing of information related to IA processes, an effective communication platform may have to be devised. It will help in disseminating information and obtain input on specific issues that need to be dealt with. It is intended to also serve as a platform to market the IA services of RGoB and relay audit related issues to its stakeholders. This can be done through the following ways which can serve as outreach activities

- ▶ An Internal Audit website can be created and /or
- ▶ A quarterly newsletter may be published and /or
- ▶ Establish a social media presence to both inform stakeholders on a timely basis (for example, by highlighting key decisions made at meetings through podcasts), and to enhance interaction with stakeholders (for example, by opening conversations on various topics on social media and allowing stakeholders to respond directly with comments). Moreover, they may serve as channels of two way communication.
- ▶ Conducting outreach activity to various government agency through in person meeting and presentation of IA services to management of government agencies. This will also help in enhancment of trust of Internal Auditor in government agencies. This wiil lead IA to become a trusted and valued advisor.

The above activities would institutionalize processes for partnering with stakeholders.

Key Strategic Focus Areas

5.2. Establish strategic partnerships and coordination with stakeholders

Objective	To establish partnerships with stakeholders and continue to retain it
Impact Indicator	Number of MOUs signed, forums established, and meetings attended, frequency of joint forums, ToR developed with ACC and RAA.
Timeline	Periodically
Outcome	Enhanced relationship with stakeholders

It is envisaged to enhance the existing partnerships and strive to develop new ones with national and relevant international institutions on matters of common interests. This can be done in the following ways:

- ▶ Protocol with other control actors signed
- ▶ Memorandum of Understanding (MoU) with peer Institution signed
- ▶ Joint forum with public sector Internal Audit Functions and other control actors established and sustained
- ▶ Meetings of relevant professional bodies attended

Further, it is intended to extend outreach activties for alignment and coordination with relevant stakeholders for implementation of its Strategic Plan. The outreach activities would be built on the existing Terms of Reference (ToR) between ACC and MoF for implementation of Corruption Risk Management (CRM) and other arrangements between ACC and MoF.

There is a tripartite collaboration between ACC, RAA and IAS of the past, which is still relevant for internal control purpose. The ACC's intention is to pursue on enhancing 3 Cs (collaboration, coordination and consolidation) between ACC and IAS as desired under the 12 Five Year Plan (FYP) activities to promote good governance through reduced corruption.

In order to provide overall assurance on risk management and governance proceeses, CCA should collaborate with RAA and develop working protocol. Further, following are the possible key collaborations between CCA and ACC.

- ▶ Collaborate on implementation of National Internal Control Framework (NICF) across the agencies. This would help in changing the general perception that only IAs are responsible to oversee implementation of NICF in agencies.
- ▶ To implement CRM as per the ToR signed between the ACC and MoF.

Key Strategic Focus Areas

5

Strategic
Risk Matrix

5. Strategic Risk Matrix

Following are the key risks in the implementation of the Strategic Plan for Internal Audit Services in Bhutan along with likely cause & impact with possible mitigation measures. All of these are addressed while strategizing the internal audit strategy for the period 2021-2025 and each of these risks are mapped against the strategy as detailed in the Risk Matrix table below:

S. No	Risk Description			Mitigation Measure	Main linkage with focus areas
	Event	Cause	Impact		
1.	Lack of adequate funding	Financial constraints or slow processing of funds	Failure to implement the strategic plan	CCA to apprise MoF to ensure adequate funding	Key focus area1,2,3,4
2.	Lack of knowledge and skills to utilize tools	Skill gap in audit staff	Reduces efficiency and effectiveness	Training to staff; encourage professional certification	Key focus area 1,3
3.	Staff shortages	Hiring policy/ policies of RCSC	Inefficiency; persistent low staffing may hinder implementation of the plan	Increase automation and use of technology to increase efficiency	Key focus area 2
4.	High staff turnover	Monetary and/ or non-monetary reasons	Reduces efficiency and effectiveness	Attract and retain qualified audit staff; Introduce non-monetary incentive schemes	Key focus area 1,2
5.	Limited resources and lack of knowledge of data analytics	Relatively new technology and audit staff isn't sufficiently familiar with the same	Inefficient and ineffective of IAS delivery	Expand and encourage use of technology; train audit staffs	Key focus area 1,3
6.	Lack of effective feedback mechanism	Absence of a proper feedback mechanism	Lessons learned will not be effectively captured	Have a proper mechanism for performance monitoring and regular feedbacks	Key focus area 4,5

6 References

6. References

- ▶ Malawi Strategic Plan for the Internal Audit Service in Central Government 2016-2021, Republic of Malawi
- ▶ IIA – "Practice Guide: Developing the Internal Audit Strategic Plan - Recommended Guidance"
- ▶ EQA 2019, IA Services, CCA, MoF, Royal Government of Bhutan
- ▶ Internal Audit Manual 2012 issued by CCA for Internal Audit Services in Bhutan
- ▶ Internal Audit Charter issued by Ministry of Finance for Internal Audit Services in Bhutan

References