

**2019-20 &  
2020-21  
ANNUAL INTERNAL  
AUDIT REPORT**



**CENTRAL COORDINATING AGENCY**  
FOR INTERNAL AUDIT SERVICE





## **What Internal Audit Services Can Do?**

Annual Internal Audit Report for the Royal Government of Bhutan  
for Financial Year 2019-2020 & 2020-2021.



## Vision of the Central Coordinating Agency

*Assuring an efficient civil service in support of good governance through the nationalization of a strengthened internal control system*



## Mission of Central Coordinating Agency

*Strengthened internal control mechanism in civil service agencies through effective administration of internal audit service*

## Core Values



## Restricted Circulation

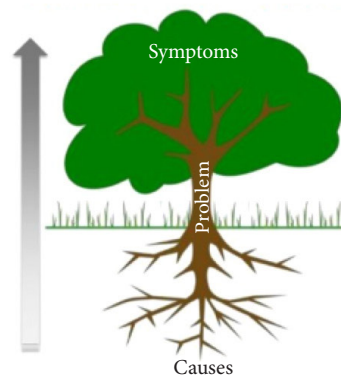
### Internal Audit Services at a glance

Inspired by our vision, mission, and values IAU's are focused on strengthening the internal control systems through confident and competent Internal Auditors

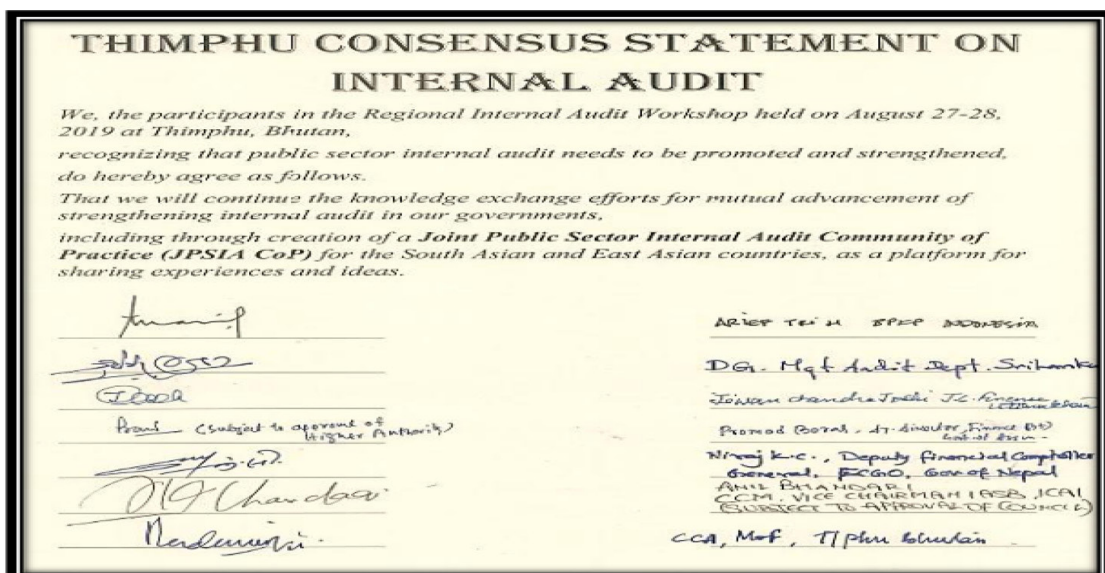
## Key Highlights

| # IAU's                 | Ministries |        | Autonomous Agencies |        | Dzongkhags |        |
|-------------------------|------------|--------|---------------------|--------|------------|--------|
|                         | Approved   | Active | Approved            | Active | Approved   | Active |
|                         | 10         | 10     | 6                   | 5      | 20         | 12     |
|                         | 20-21      | 19-20  | 20-21               | 19-20  | 20-21      | 19-20  |
| # audit reports         | 41         | 44     | 13                  | 6      | 35         | 39     |
| # audit observations    | 155        | 210    | 57                  | 40     | 120        | 163    |
| # audit recommendations | 200        | 357    | 57                  | 34     | 152        | 218    |
| # Investigations        | 5          | 4      | 1                   | 1      | 8          | 13     |
| # Internal Auditors     | 17         |        | 5                   |        | 12         |        |

- ✓ Noncompliance with policies and procedures
- ✓ Lack of supervision and monitoring
- ✓ Lack of knowledge and awareness
- ✓ Lack of segregation of duties
- ✓ Lack of trained employees
- ✓ Ignorance and / or Negligence



### Major causes mentioned in audit reports





## Message from the Chief Internal Auditor, CCA, Ministry of Finance

It is a privilege to lead the Central Coordinating Agency tasked with enhancing the effectiveness of our internal audit services by strengthening the IAU's including capacity building and keeping the function relevant.

Since 2009, the Central Coordinating Agency implemented many initiatives to strengthen public sector internal audit services.

The CCA is the dedicated body for the management of the internal audit services, with responsibilities for developing its people, processes, and services to deliver value adding and process improving audit results that matter to the Ministries, Autonomous agencies, and Dzongkhags.

CCA is working hard to provide professional development of internal auditors, ensuring quality, uniformity, and consistency in the function. It coordinates the work of Internal Audit Units that are established in 10 ministries, 20 dzongkhags and 6 autonomous agencies.

CCA adopted/adapted the International Professional Practices Framework of the Institute of Internal Auditors and developed the audit charter, code of conduct, internal audit manual, protocols, guidelines, and standards (BGIAS) that govern all audit activities in the IAU's.

To further enhance audit capabilities, CCA continued strengthening the foundations for Internal Audit services by prioritising systems / thematic audits while exploring productivity improvements through advanced auditing tools and technology. In addition, CCA promoted the vision, value, visibility to showcase utility and achievements to improve responsiveness by management towards our internal audit findings.

After the first external Quality Assurance Review in June 2019, CCA implemented the QAIP programs and 10 IAU's have completed the Internal periodic self-assessments. The next batch of IAU's are lined up to follow suit and the next EQAR is due in 2024.

While CCA continued collaborating with local authorities (RAA and Anti-corruption Commission) our regional collaboration with BPKP was paused due to COVID-19 pandemic. CCA hopes to continue this collaboration in 2022 and beyond for the benefit of our Internal Auditors.

Going forward, CCA is working towards international certification of internal auditors with the CIA credentials from IIA Inc.

Annual internal audit report of the internal audit service was published in 2015 for fiscal year 2014/15 covering the scope and work undertaken by the IAUs. In 2015/16, CCA took the first step to undertake thematic audits on procurement and the consolidated report was published. The second similar audit for 2016/17 was carried out on a human resource management. CCA continues with the practice of publishing annual internal audit report for Financial Year (FY) 2020-2021 with comparative numbers of FY 2019-2020.



Effectiveness of Internal Auditing in organisations depends on several factors including the professional mindsets and competence of the Auditors, qualifications, experience, auditing framework, coaching and guidance, and shared leadership. I believe, CCA has provided strong foundation and now relies on the quality of execution by each Internal Auditor on site which I humbly request from every Internal Auditor.

CCA is grateful to the MDF Donors “European Union (EU) and Austrian Development Agency (ADA)” for all the support and assistance in continuing the journey for good governance. This annual report has been developed with the technical assistance from the international consultant and financed through the Muti Donor Grant Funds – “Public Financial Management Multi Donor Fund (PFM-MDF) administered by World Bank”.

In 2020-2021, despite the ongoing challenge of the COVID-19 pandemic, IAU’s continued to deliver on the agreed reforms. I heartily commend all auditors and partners who helped make this journey succeed. I thank all partners and stakeholders for their support and assistance.

It is with pleasure that I present the 2020-2021 annual report of the Internal Audit Services of RGOB.

Tashi Delek.



**(Kencho Dorji)**

Chief Internal Auditor

Central Coordinating Agency, Ministry of Finance.



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## List of Abbreviations

| Abbreviations | Full Form  |
|---------------|--|
| ACC           | Anti-Corruption Commission                           |
| BGIAS         | Bhutan Government Internal Audit Standards           |
| BPKP          | Badan Pengawasan Keuangan dan Pembangunan, Indonesia |
| CIA           | Chief Internal Auditor                               |
| CIA®          | Certified Internal Auditor                           |
| CCA           | Central Coordinating Agency                          |
| GIMS          | Government Inventory Management System               |
| HR            | Human Resources                                      |
| IA            | Internal Auditor                                     |
| IIA           | The Institute of Internal Auditors                   |
| IAS           | Internal Audit Service                               |
| IAU           | Internal Audit Unit                                  |
| IPPF          | International Professional Practices Framework       |
| IAM           | Internal Audit Manual                                |
| JDWNRH        | Jigme Dorji Wangchuk National Referral Hospital      |
| MOF           | Ministry of Finance                                  |
| MOAF          | Ministry of Agriculture and Forests                  |
| MOH           | Ministry of Health                                   |
| MOWHS         | Ministry of Works and Human Settlement               |
| MOHCA         | Ministry of Home & Cultural Affairs                  |
| MOLHR         | Ministry of Labour and Human Resources               |
| MOIC          | Ministry of Information and Communication            |
| MOE           | Ministry of Education                                |
| MOFA          | Ministry of Foreign Affairs                          |
| MOEA          | Ministry of Economic Affairs                         |
| MOU           | Memorandum of Understanding                          |
| NLCS          | National Land Commission Secretariat                 |



|              |   |
|--------------|---|
| <b>QAR</b>   | Quality Assessment Review                   |
| <b>QAIP</b>  | Quality Assurance and Improvement Programme |
| <b>RGoB</b>  | The Royal Government of Bhutan              |
| <b>RAA</b>   | Royal Audit Authority                       |
| <b>ROI</b>   | Return on Investment                        |
| <b>TA/DA</b> | Travel allowance / Daily allowances         |



## 1. Executive Summary

The purpose of this annual Internal Audit report is to highlight the internal audit services contributions and achievements over 2020-2021 with comparative figures for 2019-2020. It also intends to drive positive action by Internal Auditors to enhance internal audit credibility by reporting systemic issues and improvement opportunities in the coming years.

To provide an independent, objective, and a meaningful report, the following steps were taken:

- Gathering Information on reforms and actions to strengthen internal controls;
- Perusal of various protocols, guidelines, and communications;
- Document reviews – Annual work plans, risk assessments and audit reports;
- Interviews with CIA's / IA's from Ministries, Autonomous Agencies and Dzongkhags;
- Analysis of audit observations, causes and recommendations;
- Validations by IAU leads.

While every effort is made to deliver accurate facts and figures, the report is based on the quality and reliability of the information and documentation provided.

The MDF funded the External Quality Assurance Review (EQAR) in June 2019 and the Quality Assurance and Improvement Programme (QAIP) and performance audit training on 29 July to 2 August 2019 and the development of the relevant guidelines. In addition, the MDF funded the development of the Internal Audit Strategic plan for FY 2021-2025 which was published in December 2019.

38 qualified and experienced Internal Auditors led IAU's and contributed towards the agreed reforms and deliverables. CCA continued to effectively play its role in 2020-2021 and contributed toward the achievements discussed under progress and achievements part of this report. The IAU's conducted systems / thematic audits, performance audits, financial audits, ad-hoc audits and investigations when required.

Based on the review of the audit reports issued by the IAU's, some key observations reported under Human Resource (HR) operations were wrong pay fixation resulting in excess or under payments of salaries to numerous civil servants, annual increment errors resulting in excess or under payments to civil servants, data entry errors in basic pay in e-PEMS and excess or under release of personal emoluments of employees under long term training and leave.

The key observations under projects were delayed or unexecuted project works, lacking insurance coverage for project works, discrepancies in the validity of documents and awarding of the contracts and equipment hired from vendors who were not the successful bidder.

Finance operations reported observations that reflected possible revenue and cost leakages. Disbursement vouchers were approved and paid without supporting documents, unrecorded receipts, and delayed banking of proceeds from cash sales, non-reconciliation of revenue



collection and deposit resulting into short deposits, all revenue transactions performed by one single person, suppliers paid without proper bills / supporting documents, bank accounts operated by single signatory, diversion of funds to unauthorised activities and advances given without documents and doubtful recovery.

In procurement operations, major observations reported were; irregularities in purchase orders issued to vendors who were not the lowest bidders and bid registers not maintained. Observations from admin operations relate to inconsistent TA/DA payments, duplicate TA/DA claims and payments, TA/DA payments not in compliance with entitlements and unauthorised Travel claims.

Most IAU's stated that the above lapses and control failures were caused by noncompliance with policies and procedures, lack of segregation of duties, lack of supervision and monitoring, lack of trained employees, lack of knowledge and awareness and even ignorance or negligence.



## 2. Internal Audit Services Journey

The Central Coordinating Agency established in 2009, is the coordinating agency for all Internal Audit Units across RGoB. The CCA is the leading 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.

The CIA, CCA is currently responsible for all functions of the Internal Audit Service (IAS) to ensure that its planned objectives are achieved. Functionally, the CIA, CCA reports to the Secretary of Finance, Ministry of Finance. The internal audit units in the ministries, dzongkhags, and autonomous agencies report to their respective heads of the agencies.

### The core functions of CCA are:

1. Governance of Internal Audit Function (IAF)
  - 1.1. Formulate and adopt the standards for the professional practice of Internal Audit.
  - 1.2. Develop review and modify the charter, manuals, code of ethics and issues guidelines from time to time.
2. Administration of Internal Audit Service (IAS)
  - 2.1. Overall coordination of Internal Audit Function within the budgetary bodies of the Royal Government of Bhutan.
  - 2.2. Ensure quality, uniformity and consistency of Internal Audit Functions across all government agencies
  - 2.3. Function as the parent agency for an Internal Audit profession in collaboration with HRD, MoF. These include.
    - 2.3.1. Building the capacity of the Internal Auditor through enhancement of skills, techniques and knowledge of Internal Auditors in the country.
    - 2.3.2. Coordinating the recruitments, transfers, promotions, separation and other HR actions related to Internal Auditors.
    - 2.3.3. Protecting internal auditors from undue reprisal.
3. Management of Internal Audit Activity (IAA)
  - 3.1. Develop professional competencies of Internal Auditors and render technical backstopping and consultation as and when required,
  - 3.2. Conduct annual Internal Audit Conference to discuss issues and challenges faced by Internal auditors
  - 3.3. Coordinate, identify and lead thematic and horizontal auditing in agencies based on the provisions within the internal control systems.
  - 3.4. Create awareness on Internal Audit Functions among the stakeholders and promote understanding, acceptance and utilization of Internal Audit services by all levels of Management.
  - 3.5. Promote functional partnership with other assurance providers and oversight bodies.
  - 3.6. Liaise with other national, regional and international bodies for the development of Internal Audit Services in the country.



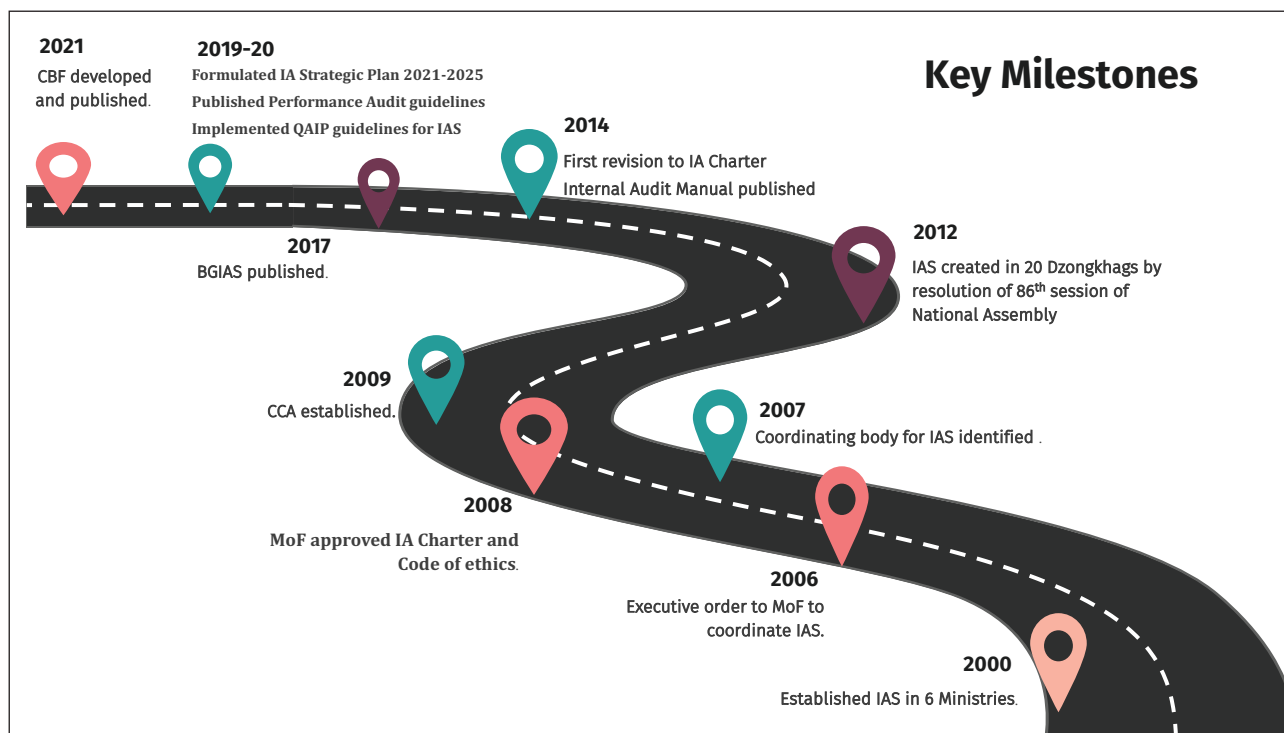
#### 4. Strengthening internal control system management

- 4.1. Compile reports from IAUs and assess the design and effectiveness of Internal Control Framework.
- 4.2. Report to the National Level committee for reviewing status of Internal Control Systems through annual Internal audit report.
- 4.3. Convey the decisions of the HLC to the nodal agencies.

#### The core functions of the Internal Audit Unit (IAU) are to:

1. Review governance and risk management systems of the government agency.
2. Assess controls and ensure compliance.
3. Evaluate the adequacy and reliability of information for informed decision making of agency's operation.
4. Conduct risk based, performance and systems audit to strengthen internal control mechanism.
5. Evaluate risk and protect assets.
6. Provide assurance that appropriate institutional policies and procedures and good practices are followed by the agency.
7. Analyze emerging trends, challenges, opportunities and offer advice for improvement.
8. Serve, support and influence management at all levels to promote good governance.

To support Internal Auditors and enable them to deliver expected results and outcomes, CCA has put in place the Internal Audit standards, Audit charter, code of ethics, Audit manual, BGIAS, protocols and guidelines for the audit activities and delivery of audit results.



*Figure 1: Key Milestones of Internal Audit Services*





The IAU's are required to ensure compliance of all the laws and regulations of RGOB including circulars, notifications including the following:

- Public Finance Act 2007
- Financial Rules & Regulations 2016 – 4 manuals
- Bhutan Civil Service Act 2010 & Rules and Regulations 2018
- Procurement rules & regulations 2019

Internal Audit units are expected to provide objective assurance and advisory services that will add value and improve Governance Risk and Control (GRC) processes which includes:

- Effectiveness of operations on internal controls
- Effectiveness of risk management systems
- Compliance with laws, rules, regulations, policies, and procedures
- Adequacy of accounting and record keeping
- Economy, efficiency and effectiveness of activities and operations
- Accountability and transparency in decision making
- Special reviews and investigations

### 3. People and capabilities

The Internal Audit Services has an approved staff strength of 53 but currently has 44 internal auditors including those placed at CCA. There are 9 vacant positions for assistant internal auditor as of April 2022, 6 Auditors were away on EOL, studies and secondment to other agencies during 2020-2021. The internal audit reports from IAU's were delivered by the 34 Internal Auditors excluding the 4 in CCA.



**Table 1 : Staff strength vis-a-vis experience in internal auditing**

| Rank         | Role                         | Based    |           |          |           |          | Total     | Years of Experience in IA |          |           |             |           |
|--------------|------------------------------|----------|-----------|----------|-----------|----------|-----------|---------------------------|----------|-----------|-------------|-----------|
|              |                              | CCA      | Min       | AA       | Dz        | Away     |           | <3 Year                   | 3-5 Year | 6-10 Year | 11-20 Years | >20 Years |
| ES3          | IA Specialist                |          | 1         |          |           |          | 1         |                           |          |           |             | 1         |
| P1           | Chief Internal Auditor       | 1        | 5         |          |           |          | 6         | 2                         | 1        | 1         | 2           |           |
| P2           | Dy Chief Internal Auditor    |          | 2         |          |           |          | 2         |                           |          | 1         | 1           |           |
| P3           | Sr Internal Auditor          | 2        | 8         | 1        | 5         | 2        | 18        |                           | 2        | 9         | 7           |           |
| P4           | Internal Auditor             | 1        | 1         |          | 2         | 1        | 5         |                           | 2        | 3         |             |           |
| P5           | Assistant Internal Auditor 1 |          | 0         | 4        | 5         | 3        | 12        | 11                        | 1        |           |             |           |
| <b>Total</b> |                              | <b>4</b> | <b>17</b> | <b>5</b> | <b>12</b> | <b>6</b> | <b>44</b> | <b>13</b>                 | <b>6</b> | <b>14</b> | <b>10</b>   | <b>1</b>  |

**Min:** Ministry; **AA:** Autonomous Agency; **Dz:** Dzongkhags; **Away:** On EOL or Secondment.

The IAU's are required to prepare their annual audit plans based on risk-assessment and identify the units to be covered during the year. The limited number of Internal Auditors continued to improve their planning, performance, and communications to deliver their planned audits.



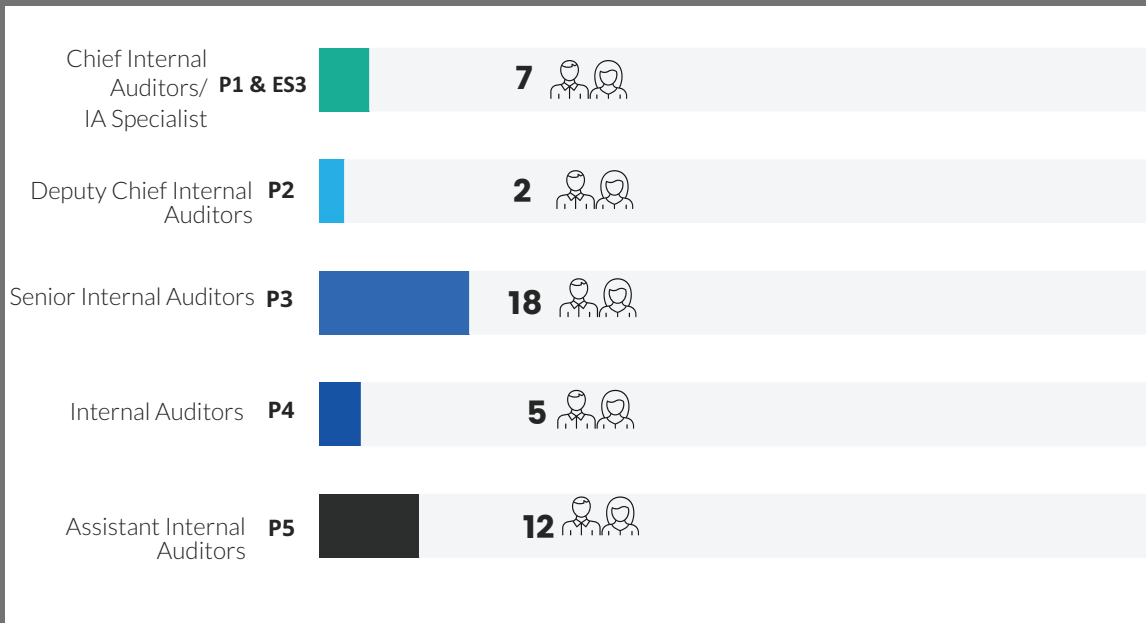


Figure 2 : No of Internal auditors in each position level

## 44 Auditors with multiple Qualifications

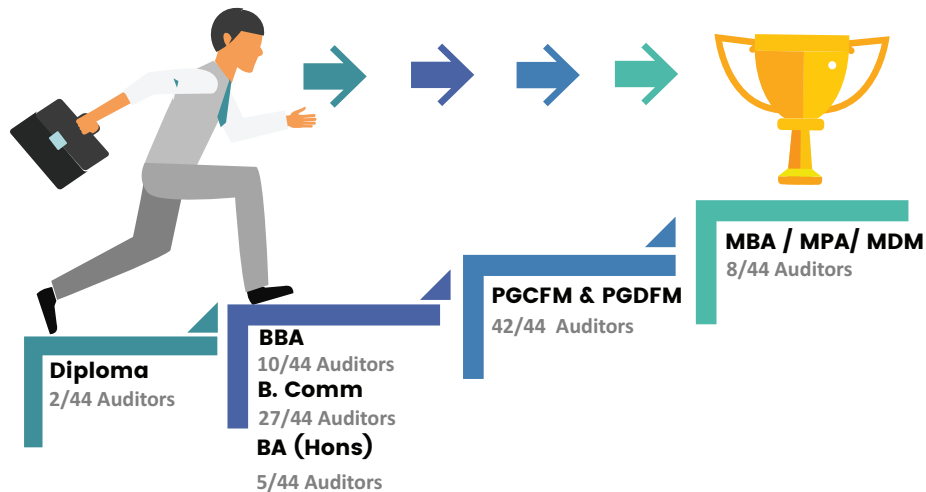


Figure 3 : Internal auditors by qualification

## 4. Summary of audit reports and observations

**Table 2 : Summary of IA report for 2019-20 and 2020-21**

| IAU's               | 2019-2020 | IAU's with no reports | 2020-2021 | IAU's with no reports |
|---------------------|-----------|-----------------------|-----------|-----------------------|
| Ministries          | 44        | 1                     | 41        | 1                     |
| Autonomous Agencies | 6         | Nil                   | 13        | Nil                   |
| Dzongkhags          | 39        | 2                     | 35        | 1                     |
| <b>Total</b>        | <b>89</b> |                       | <b>89</b> |                       |

COVID-19 pandemic restrictions has impacted the IAU's delivery during the fiscal years, 89 audit reports were issued each year in 2019-2020 and 2020-2021.

## 5. Key audit Findings

### 5.1. Key findings disclosed in Audit reports from Ministries:

| Audit area         | 2020-2021 Findings  | 2019-2020 Findings   |
|--------------------|---|--|
| <b>HR</b>          | <ul style="list-style-type: none"> <li>▶ Wrong pay fixation resulting in excess (Nu. 25K) / under (Nu. 206K) payments of salaries to 40 civil servants</li> <li>▶ Annual Increment errors resulting in excess (Nu. 28K) / under (Nu. 43K) payments to 26 civil servants</li> <li>▶ Data entry errors in basic pay in e-PEMS</li> <li>▶ Non-compliance with leave procedures</li> <li>▶ Excess and under release of personal emoluments of employees under long term Training and Leave</li> </ul> | <ul style="list-style-type: none"> <li>▶ Inaccurate update of positions levels, title, and ID in e-PEMS led to incorrect disbursement of benefits / personnel emoluments</li> <li>▶ Wrong pay fixation &amp; disbursement</li> </ul> |
| <b>Procurement</b> | <ul style="list-style-type: none"> <li>▶ Supply order issued to vendors who are not the lowest evaluated bidders</li> <li>▶ Bid registers not maintained</li> </ul>   | <ul style="list-style-type: none"> <li>▶ Procurement function carried out by same employee</li> <li>▶ Noncompliance with PRR 2019</li> </ul>   |
| <b>Projects</b>    | <ul style="list-style-type: none"> <li>▶ Delayed / non execution of projects</li> <li>▶ Lack of insurance coverage for project works</li> <li>▶ Performance security not in place till end of contract</li> </ul>   | <ul style="list-style-type: none"> <li>▶ Inconsistencies in appointment and remuneration of project contract employees</li> </ul>  |



| Audit area              | 2020-2021 Findings  | 2019-2020 Findings   |
|-------------------------|---|--|
|                         | <ul style="list-style-type: none"> <li>▶ Discrepancy in the validity of documents and awarding of the contracts</li> <li>▶ Hiring of equipment from unsuccessful bidders</li> </ul>   |  |
| <b>Finance</b>          | <ul style="list-style-type: none"> <li>▶ 40 Disbursement vouchers lacked supporting documents</li> <li>▶ Nu.300K paid without supporting documents</li> <li>▶ Unrecorded and delayed banking of proceeds from cash receipts.</li> <li>▶ No proper records for cheques in use / cancelled</li> <li>▶ Suppliers paid without proper bills/ supporting documents</li> <li>▶ Bank accounts operated by single signatory</li> <li>▶ Discrepancies in Bills verified, and payments made</li> <li>▶ Diversion of funds (Nu. 87M) for unauthorised activities</li> <li>▶ Shortage in accounts (Nu. 354K)</li> </ul> | <ul style="list-style-type: none"> <li>▶ Noncompliance with FAM 2016</li> <li>▶ Increased usage of manual receipts instead of online systems.</li> <li>▶ Delayed deposits and unaccounted revenue</li> <li>▶ Short deposit of revenue collections</li> <li>▶ Cancellation of revenue receipts</li> <li>▶ No proper record of manual receipts issued</li> </ul> |
| <b>Operations</b>       | <ul style="list-style-type: none"> <li>▶ High cost of fleet maintenance</li> </ul>  |  |
| <b>Admin</b>            | <ul style="list-style-type: none"> <li>▶ Inconsistent TA/DA payments</li> <li>▶ Duplicate TA/DA claims and payments made</li> <li>▶ TA/DA payments not in compliance with entitlements</li> <li>▶ Unauthorised Travel claims</li> </ul>   | <ul style="list-style-type: none"> <li>▶ TA/DA claims -noncompliance to BCSR 2018</li> </ul>   |
| <b>Asset/ Inventory</b> | <ul style="list-style-type: none"> <li>▶ Discrepancies in inventory records</li> <li>▶ Assets not recorded in Assets Inventory Management System (AIMs)</li> <li>▶ Inadequate physical verification of properties</li> <li>▶ Inadequate inventory management controls</li> </ul>  | <ul style="list-style-type: none"> <li>▶ Lost computers at home written off</li> </ul>   |

## 5.2. Key findings disclosed in Audit reports from Autonomous Agencies:

| Audit area         | 2020-2021 Findings  | 2019-2020 Findings |
|--------------------|---|--------------------|
| <b>Procurement</b> | <ul style="list-style-type: none"> <li>▶ Purchase made without approval</li> <li>▶ Goods not procured from the lowest evaluated bidder</li> <li>▶ Absence of Physical verification of goods by the procurement section</li> </ul> |                    |



| Audit area                | 2020-2021 Findings   | 2019-2020 Findings   |
|---------------------------|--|--|
| <b>Education Div</b>      | <ul style="list-style-type: none"> <li>▶ Utilities for Principal's residence paid and accounted by school</li> </ul>   |  |
| <b>Finance</b>            | <ul style="list-style-type: none"> <li>▶ Delayed banking of proceeds from cash receipts.</li> <li>▶ Non-reconciliation of revenue collection and deposit resulting into short deposits.</li> <li>▶ All revenue transactions were performed by one single person. (Segregation of duty failure)</li> <li>▶ Advance availed without documents</li> </ul> | <ul style="list-style-type: none"> <li>▶ Monies received but not accounted for in cash book (Nu. 410K)</li> <li>▶ Bank reconciliations not performed</li> <li>▶ Manual receipts used when system was accessible and no power outage.</li> <li>▶ Taxpayers' info not updated in systems hence unreliable</li> </ul> |
| <b>Admin</b>              | <ul style="list-style-type: none"> <li>▶ Inconsistent TA/DA payments</li> <li>▶ Payment of TADA with incomplete Document</li> <li>▶ Discrepancy in payment of DA for official tour/duty</li> </ul>   |  |
| <b>Assets / Inventory</b> | <ul style="list-style-type: none"> <li>▶ items not entered in stock register</li> </ul>  |  |

### 5.3. Key findings disclosed in Audit reports from Dzongkhags:

| Audit area           | 2020-2021 Findings  | 2019-2020 Findings   |
|----------------------|---|--|
| <b>Finance</b>       | <ul style="list-style-type: none"> <li>▶ Payment of TA/DA without statutory supporting documents</li> <li>▶ No proper check and balance in preparing vouchers</li> <li>▶ Improper processing, verification, and unapproved payments for TA/DA claims</li> <li>▶ Excess payment of TA/DA</li> <li>▶ Diversion of funds</li> <li>▶ Non recovery of advances to staff Nu.321K &amp; 400K</li> <li>▶ Revenue leaks- manual receipts for fee received</li> </ul> | <ul style="list-style-type: none"> <li>▶ Inadmissible/Impractical claim and payment of TADA</li> <li>▶ Payments made without original bills</li> <li>▶ Lack of planning in procurement of Goods resulted in ad hoc procurement</li> <li>▶ Excess payments to contractors</li> <li>▶ Short deposit of revenue collected</li> <li>▶ Delayed banking of revenue receipts</li> </ul> |
| <b>Education Div</b> | <ul style="list-style-type: none"> <li>▶ Non-Deposit of Token fee to RGR account</li> <li>▶ Wrong Booking- personal advance given from SDF account.</li> <li>▶ Non deposit of cash into SDF account</li> </ul>  |  |





| Audit area               | 2020-2021 Findings  | 2019-2020 Findings   |
|--------------------------|---|--|
| <b>Gewog Admin</b>       | <ul style="list-style-type: none"> <li>▶ Improper maintenance of Cash Book.</li> <li>▶ Misuse of cash Nu.10K</li> </ul>   | <ul style="list-style-type: none"> <li>▶ Noncompliance with the PRR, 2019 for Procurement of Goods</li> </ul>  |
| <b>Admin</b>             | <ul style="list-style-type: none"> <li>▶ Improper maintenance of vehicle logbook.</li> <li>▶ Discrepancies in mileage records</li> <li>▶ No SOP/By-Laws for the usage of School Development Fund</li> </ul>   | <ul style="list-style-type: none"> <li>▶ Non maintenance of vehicle logs</li> </ul>  |
| <b>Assets/ Inventory</b> | <ul style="list-style-type: none"> <li>▶ Records for fixed assets / stock register not maintained</li> </ul>  | <ul style="list-style-type: none"> <li>▶ Laptop not recorded in inventory</li> <li>▶ Incomplete / not updated stock records</li> <li>▶ No individual Records of Office Equipment in the Gewogs</li> </ul>  |
| <b>Projects</b>          | <ul style="list-style-type: none"> <li>▶ Non deduction of Liquidity Damages</li> <li>▶ Non completion of work within contract period</li> <li>▶ Lapses in awarding labour contracts</li> <li>▶ Cost overrun (Nu. 1.28M) and payment unauthorised</li> <li>▶ Lack of supervision and monitoring</li> </ul> | <ul style="list-style-type: none"> <li>▶ Non-levy of Liquidated Damage for Delay in supply of goods</li> <li>▶ Lack of proper study and feasibility assessment in planning prior to distribution government subsidy</li> <li>▶ Nu1.5M Direct award for approach road resulted in improper road construction</li> </ul> |

## 6. Agreed Key Performance Indicators (KPI) and action plans

CCA and the IAU's continued their journey to strengthen the internal audit functions including capacity building to keep the function relevant, value adding and improving governance, risk, and control processes.

Under the Public Financial Management Multi Donor Fund (PFM-MDF) supported project in 2017, subcomponent 2c -Strengthening Internal Controls, the three agreed KPIs were:

| Reform                               | Action Description   | Baseline                   | Years 1 to 4   | Expected Outcomes year 5 and beyond  |
|--------------------------------------|--|----------------------------|--|--|
| Improved Quality Assurance processes | Improvement in quality of audits through implementation of internal assessments based on IIA QAIxP framework | QAR by external validators | Ongoing monitoring and periodic self-assessments (PSA) | Systematic and repeated ongoing monitoring and PSA by all IAU's with continuous improvements |



| Reform   | Action Description   | Baseline   | Years 1 to 4                        | Expected Outcomes year 5 and beyond             |
|--|--|--|-------------------------------------|---|
| Increased systems / thematic (performance or VFM audits) | Increased number of systems / thematic audits annually                         | Adoption of guidelines for performance and thematic audits | From 2 to 5 audits per IAU annually | Minimum of 5 audit reports per year by each IAU |
| Improved efficiency of IAU's                             | Increase in number of auditable units covered during the audit cycle each year | 109 audits   | 125 audits to 200 audits            | Minimum 200 audits annually                     |

To deliver on the above KPIs, CCA and the IAU's continued with the following actions in 2020-2021:

- 1) Strengthening the foundations for Internal Audit Services.
- 2) Focus on systems / thematic audits
- 3) Enhancing knowledge and competencies of Internal auditors
- 4) Exploring productivity improvements through advanced auditing tools and technology
- 5) Implementing the quality assurance improvement program (QAIP)
- 6) Enhancing responsiveness of internal audit findings
- 7) Enhancing Vision, Value and Visibility of Internal Audit Services.
- 8) Collaborating with peer organisations within and in the region

While Internal audit services prioritised on the above, CCA is also exploring certification of internal auditors with the Certified Internal Auditor (CIA®) from IIA Inc.



## 7. Progress and achievements

The following are the progress and achievements towards the agreed targets.

### 7.1. Strengthening the foundations for Internal Audit Services.

The CCA developed and issued comprehensive protocols for thematic audits. The protocols were developed to ensure wide coverage and maintain uniformity in executing engagements by all IAUs. Auditors were expected to effectively conduct the thematic audit and come up with meaningful recommendations.

With the existing foundation supported by the Internal Audit Charter, Code of ethics, manuals, BGIAS, in 2020-21 CCA achieved additional four outstanding milestones:

- ✓ formulated the Internal Audit Strategic Plan for 2020-2025;
- ✓ published the performance audit guidelines;
- ✓ launched the Quality Assurance and Improvement Program;
- ✓ Developed the Competency Based Framework for Internal Auditors (launched 15 Sept 2021).

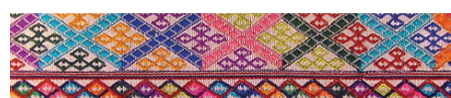
With the additions in 2020-21, the Internal auditors are on solid foundation to plan, perform, communicate and monitor audit reports.

On 27-28 August 2019, a Regional Internal Audit workshop was held with the theme, embracing the changes and innovations. The event was attended by Internal Audit teams of RGoB including dignitaries and representatives from other countries. The key outcome from this event was the Thimphu consensus statement on Internal Audit for the creation of a Joint Public Sector Internal Audit Community of Practice (JPSIA CoP). However, since August 2019 and the COVID-19 pandemic impact on all participating countries, no progress has been made so far.

### 7.2. Continued focus on systems / thematic audits

**Table 3 : KPI on thematic audit over 5 years period**

| Reform   | Action Description   | Baseline   | Years 1 to 4                        | Expected Outcomes year 5 and beyond             |
|--|--|--|-------------------------------------|---|
| Increased systems / thematic (performance or VFM audits) | Increased number of systems / thematic audits annually                         | Adoption of guidelines for performance and thematic audits | From 2 to 5 audits per IAU annually | Minimum of 5 audit reports per year by each IAU |
| Improved efficiency of IAU's                             | Increase in number of auditable units covered during the audit cycle each year | 109 audits   | 125 audits to 200 audits            | Minimum 200 audits annually                     |



Performance or Value for Money (VFM) audits are directed by the CCA. In 2019-2020 performance audits were introduced with a comprehensive performance audit manual released in July 2019.

In June 2019, CCA released the comprehensive Internal Audit Protocols for systems / thematic audits covering review of year end spending, review of revenue management system and review of pay revision 2019 for civil servants. These 3 reviews were required for 2019-2020.

On 15 September 2021, CCA issued the directive to IAU's for a systems audit of the Government Inventory Management System (GIMS) for the year 2020-2021.

On 15 August 2019, MOF instructed 13 dzongkhags, 3 autonomous agencies and 6 ministries to conduct an audit on TA/DA and mileage payments.

On 29 July 2021, CCA issued a directive to all IAU's to include in their annual work plan and conduct two special audit activities, Corruption Risk Management (CRM), and projects audits while in the same circular, reminded them of the minimum of five performance audits were required by the agreed actions under the above mandate to increase the audits.

Expectations for the Improved efficiency of IAU's were to deliver a minimum of 200 audits annually. The statistics below reflect the current achievement and shortfalls which are being addressed.

**Table 4 : Productivity of each internal auditor**

| IAU's                           | No of IAU's | No of IA | No AR 19-20 | No AR 20-21 | Productivity = No of reports per auditor |         | Remarks                    |
|---------------------------------|-------------|----------|-------------|-------------|--|---------|----------------------------|
|                                 |             |          |             |             | 2019-20                                  | 2020-21 |                            |
| Ministries                      | 10          | 17       | 44          | 41          | 2.5                                      | 2.4     |                            |
| Autonomous agencies             | 5           | 5        | 6           | 13          | 1.2                                      | 2.6     | Gelephu Thromde without IA |
| Dzongkhags                      | 12          | 12       | 39          | 35          | 3.2                                      | 2.9     | 8 Dzongkhags without IA    |
| Total                           | 27          | 34       | 89          | 89          |  |         |                            |
| Min 5 audits per IAU            |             |          | 135         | 135         | Gap= 46                                  | Gap= 46 |                            |
| Optimum target per year for IAS |             |          | 200         | 200         | Gap=115                                  | Gap=111 |                            |

**Notes:** Excludes 4 IA from CCA and 6 on EOL / secondment

The IAU's were unable to reach the targeted (135 audit reports) minimum of 5 audit reports and could not increase systems / thematic audits in both years.

The IAU's were also unable to improve efficiency to reach the targeted 200 audit reports in both years despite achieving 109 audit reports in the base year.



### 7.3. Enhancing knowledge and competencies of Internal auditors

Internal Auditors participated in the following training programs aimed at providing relevant knowledge for them to deliver effective internal audit engagements and building a fraternity to tap tacit knowledge and insights.

With the comprehensive competency-based framework in place, all capability development will be strictly guided by that framework going forward.

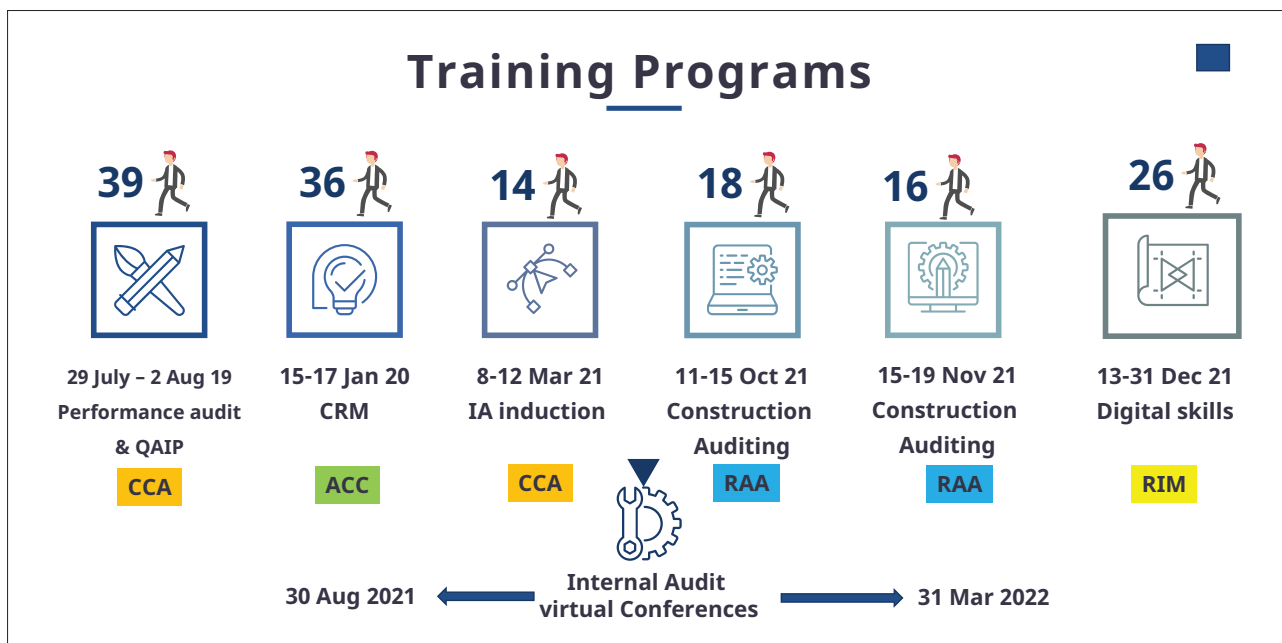
From 2019-2021, CCA coordinated the following programs for the Internal Auditors



*Picture 1 : opening ceremony of digital skills training at RIM graced by hon'ble Finance Secretary*







*Figure 4 : Training programs attended by internal auditors*



*Picture 2 : Regional International workshop for internal auditor, Thimphu: 27-28 August 2019*

The Regional workshop was timely with the theme, embracing changes and innovation. There were 6 technical sessions on selected topics to bring out good practices and technologies that could help IAU's transform their work and results.







**Picture 3 :**  
Construction audit training at  
PDC, Batch 1

CCA conducted the IA conference for Internal Auditors in August 2016 and in August 2019. However, face to face conference could not be continued in 2020 and 2021 due to the covid restrictions in place, but half yearly virtual conference has been instituted from 2021. This helped internal auditors to share experiences and learn from each other. The peer-to-peer learning amongst IAU's will be continued in the coming years.



**Picture 4 :** Construction Audit Training at  
PDC with AG, RAA-Batch 2

#### 7.4. Exploring productivity improvements through advanced auditing tools and technology

To achieve the optimum level of audit reports at 200 per year, Internal Auditors need technology as an enabler of efficiency. The use of advanced audit tools including data analytics and computer assisted audit techniques will augment the limited manpower in IAUs to deliver higher number of engagements. As an interim measure, internal auditors were provided with digital skills program in December 2021 towards improving productivity through more efficient use of existing tools in hand. A total of 26 Auditors participated in digital skills training and 11 Auditors are planned for the next digital skills training.



### 7.5. Implementing quality assurance improvement program (QAIP).

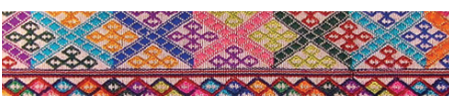
| Reform Strategy                             | Agreed Action Description   | Expected Outcomes beyond year 5  |
|---|---|--|
| <b>Improved Quality Assurance processes</b> | Improvement in quality of audits through implementation of internal assessments based on IIA QAIP framework | Systematic and repeated ongoing monitoring and PSA by all IAU's with continuous improvements |

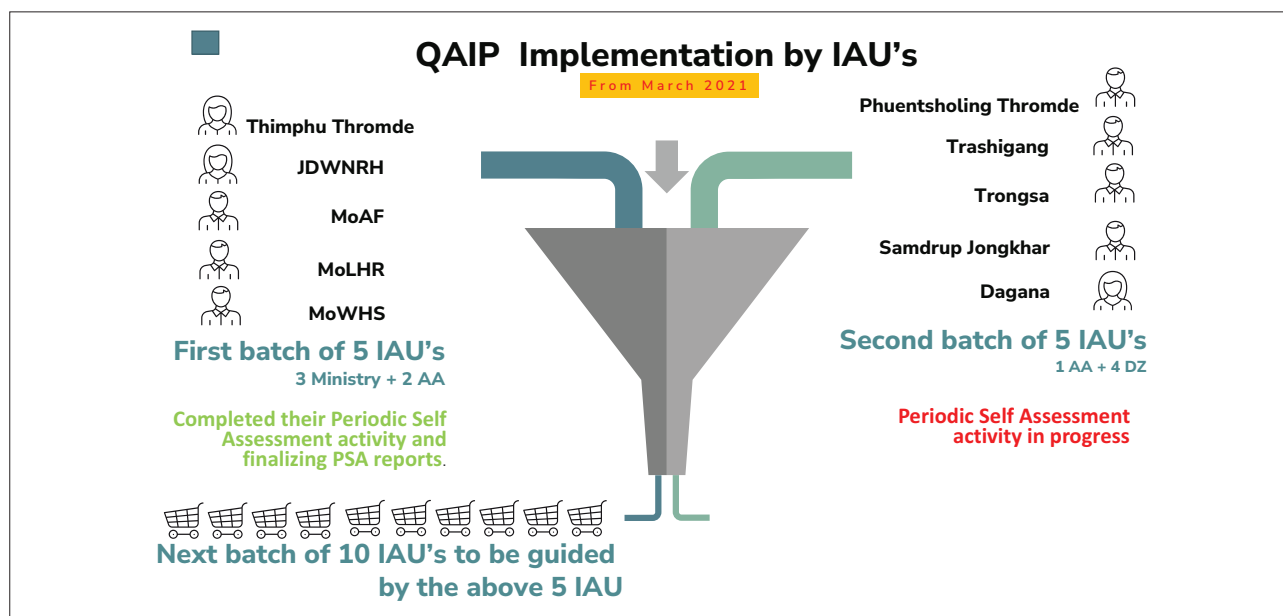
CCA successfully completed the External QAR in June 2019 and are tracking the non-compliances with 23 standards that required action to implement the recommendations. Some of the implementations are still in progress and CCA is monitoring the progress so that IAU's are fully compliant before the next QAR in 2024.

CCA launched the Quality Assurance and Improvement Program by providing the foundations in July 2019 where 39 Auditors were trained for QAIP implementation. In March 2021, CCA brought together the people, knowledge, and processes necessary to implement QAIP within each IAU.



*Picture 5 : Launching of IA Strategic Plan & QAIP guidelines by Hon'ble Finance Secretary*





*Picture 5 : Status of periodic self-assessment implemented by IAU's*

Currently CCA is in the process of validating the Periodic self-assessment reports before acceptance. Going forward CCA has developed the capacity of the first 5 IAU's to hand hold and facilitate the next batch of ten IAU's. This QAIP process will gain momentum and is expected to build and sustain a culture for quality within each IAU.

The next major step in QAIP is to implement ongoing monitoring and CCA is planning the use of technology to enable such monitoring and control over every audit engagement. The current set up of IAU's does not facilitate proper ongoing monitoring as most IAU's are manned by single Auditors. CCA will explore all options to include ongoing monitoring solutions in the next internal auditor development programs.

## 7.6. Enhancing responsiveness of Internal Audit findings

CCA implemented tracking templates to capture, consolidate and monitor the audit results from each IAU by leveraging on google suite provided by RGOB. This resulted in consolidation of results for 2019-2020 and 2020-2021. From the consolidated results, CCA was able to monitor the acceptance level of each audit observation and related management responses.

Interviews with IAU leads provided evidence of engagement with management leading to improving acceptance of audit observations and positive management responses. Some feedbacks received were:

- "Management responses are supported with action taken reports or minutes of meetings with senior leadership teams."
- "Audit reports are discussed within HRC where decisions and actions to implement are agreed upon and recorded."
- "Satisfactory and good responses from Audit clients and senior leadership and stakeholders"





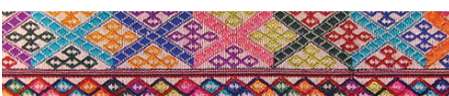
- “My recommendations are accepted and, in some cases, implemented immediately before the final Audit Report is delivered.”

### 7.7. Enhancing Vision, Value and Visibility of Internal Audit Services.

CCA promoted its vision and mission through various outreach programs that include awareness programs for IAU client management. A recent opportunity to showcase its value was the basic training conducted for the central monastic body. Dratshang Lhentshog in collaboration with CCA conducted a five-day basic training to Internal Auditors of the Central Monastic body from 26-30 April 2021 to hone skills to detect shortfalls. The training program was well received.



*Picture 6 : CCA facilitating the training of the Central Monastic Body auditors*





**Picture 7 :** Auditors of Central Monastic Body received their participation certificate

CCA also conducted 4 awareness programs in 2019-2020 and another 4 in 2020-2021 of which 2 were conducted in November and December 2021

**Table 5 :** Awareness program on internal audit conducted by date

| Fiscal Year | Agency                                    | Date of Program |
|-------------|---|-----------------|
| 2019-20     | Tashigang Dzongkhag                       | 13-Dec-19       |
| 2019-20     | Dagana Dzongkhag                          | 07-Nov-19       |
| 2019-20     | Lhamoi Zingkhag Drungkhag                 | 04-Nov-19       |
| 2019-20     | Lhuntshi Dzongkhag                        | 09-Dec-19       |
| 2020-21     | Ministry of Foreign Affairs               | May-21          |
| 2020-21     | Ministry of Agriculture and Forest        | Jun-21          |
| 2020-21     | Ministry of Education                     | 02-Dec-21       |
| 2020-21     | Ministry of Information and Communication | 29-Nov-21       |

## 7.8. Collaborations with peer organisations within and in the region

Most IAU's confirmed the following nature of collaboration with peer agencies:

### Royal Audit Authority

- Follow ups / resolving outstanding audit issues
- Follow up follow through audit implementations
- Supported CCA by providing training to Internal Auditors on construction auditing

### Anti-Corruption Agency

- CRM and all ACC investigations
- Focal person & coordination role



In October 2019, CCA executed a Memorandum of Understanding (MOU) with the Finance and Development Supervisory Agency (BPKP) of Indonesia. The area of cooperation included:

- Sharing, developing and implementing capacity building of Internal Auditors
- Sharing information and expertise in governance, risk management and IT systems auditing
- Experience exchange in capacity building
- Joint Research, training programs, seminars and conferences

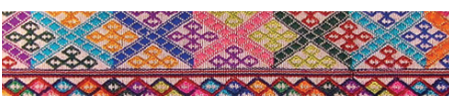
The collaboration with BPKP Indonesia was inactive due to COVID-19 restrictions and expires in October 2022 unless mutually extended for another period.

## 8. Challenges and Opportunities for improvement

2020-2021 was a challenging year with several lock downs and restricted access to offices. The lack of remote working capabilities and COVID duties performed by the Internal Auditors added further constraints on the available man-days to complete the planned audits.

The feedback from Internal Auditors and the CCA are to address the following challenges and concerns in the journey to strengthen internal controls and sustain them. Each challenge provides an opportunity for improvement.

- Inadequate Internal Auditors to handle the volume of audit work.
- Impaired Independence and objectivity of Internal auditors as they report to the head of agency and has no functional reporting to CCA.
- Ineffective application of acquired knowledge in internal audit fundamentals despite training and comprehensive support material.
- Lack of supervision and feedback on audit practices and outcomes that need change. Auditors continue with practices they are comfortable with as no one corrects or provides feedback for corrective action.
- Fundamentals are weak and need more coaching and mentoring to help get up to speed on proper internal audit practices and compliance with BGIAS / standards
- Annual audit risk assessment and planning is weak / improper, and audit engagements are not risk based and not always aligned with agency's deliverables / annual performance appraisals.
- Funding constraints (e.g., TA/DA exhausted by management leaving no more funding for IA activities)
- Lack proper mindsets for Internal auditing. Weak curiosity, learning and passion for internal auditing,
- CCA is unable to influence the Internal Auditors who are evaluated by their agencies.
- Not using technology as enabler for performance and productivity. Limited use of technology impacts productivity and knowledge management. Most of the audit work is still manual in nature and slow.
- Quality of executing audit engagements and audit results varies significantly between Ministries, agencies, and dzongkhags.





- Audit observations are weak without properly identified and validated causes resulting in weak observations and ineffective recommendations.
- A system of priority rating of individual findings and overall report was not consistently applied by IAU's.

## 9. CCA's views on way forward – “Doing more with Less”

Internal Auditors need to address the question: Are Internal Audit Services effective enough after existing for more than a decade?

Based on the steps taken to provide an independent, objective, and a meaningful report, the consultant shares some views.

- a) There is an urgent need to get back to governance risk and control fundamentals for better risk assessments, annual planning, engagement planning, performance and communication which needs significant improvements.
- b) Auditors should focus on addressing the risk of fraud, malpractices, and mismanagement to prevent recurring observations and continuing leaks in revenue and costs. They should go beyond compliance. Based on the audit reports, adequacy and effectiveness of internal controls are yet to be addressed well. There is also an increase in the level of investigative work that IAU's are performing. At the same time RAA could place more reliance and value internal audit reports.
- c) One obvious cause for the lack of quality in audit work is the absence of ongoing supervision and monitoring to ensure audit observations are of acceptable standard and that recommendations are adding value and improving business processes and outcomes.
- d) The thematic audits produced common audit observations across locations and operations. However, what could have really provided tangible and measurable Return on Investment (ROI) for this initiative was centralised supervision, monitoring, and consolidation of the audit observations from the thematic audits. This would facilitate peer learning and effective audit reports with recommendations that are meaningful and workable across operations. The value of thematic audits is to resolve lapses in governance, risks, and controls in a coordinated manner so that such lapses are eliminated, and improvements are tracked for long term benefit. There is no evidence of consultation or shared learning from the outcomes of the thematic audits to address common control gaps and jointly develop recommendations. The IAU's appeared to have operated in silos.
- e) Some reports disclosed in their glossary, the rating scales for individual findings and overall report, but these ratings were inconsistently applied.
- f) Every Internal Auditor is under Civil Service Professional & Management Category (PMC) with graduate and some with post graduate qualifications plus adequate experience in their roles. This is encouraging as they can appreciate the knowledge, learn, apply and deliver expected results. CCA has laid the foundation and provided adequate training, material, and guidance to help in audit delivery. However, based on the review and analysis of audit reports, most reports showed weakness and needed improvement in the quality of audit observations and reporting.



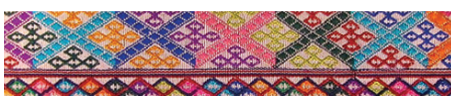
- g) The future of Internal audit services lies in the hands of every Internal Auditor and the support availed to them. IAU's will be facing more challenges and changes ahead in terms of higher expectations and reforms from stakeholders. IAU's need to come together to take action to improve every shortcoming in audit planning, performing, communicating, and monitoring. IAU's should be adding value and be in high demand by agencies and stakeholders to help strengthen their governance, risk management and controls.
- h) The time has come for IAU's to explore solutions beyond training to solve the problem of weak audit delivery while doing more with less.

The following are some suggestions for innovation and transformation of the Internal Audit Services:

- Implement coaching and mentoring programs for the IAU's
- CCA to consolidate and analyse audit reports submitted by IAU's in a systematic manner. This analysis should provide insights, knowledge management and relevant research.
- Standardisation of Audit Programs and scoping for IAU's with common operations – Ministries, Thromde, and dzongkhags
- Guest auditor programs within Ministries, agencies, and dzongkhags to assist shorthanded IAU's to complete engagements
- Develop subject matter experts within IAU's
- Transforming audit processes and outputs to achieve faster better and cheaper outcomes that add value and improve processes.
- Use computer assisted audit techniques and data analytics tools in planning and field work.

CCA, MoF should encourage every Internal Auditor to demonstrate how Internal Audit Services can better report on the results of audits by putting into practice several of the 'core principles' articulated in the 'International Professional Practices Framework' (IPPF), notably:

- Aligns with the strategies, objectives, and risks of the organisation.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive and future-focused. CCA, MoF plans to introduce IA management software and CAAT tools
- Promotes organizational improvement.



## 10. References

- 1) Public Finance Act 2007
- 2) Public Finance (Amendment) Act of Bhutan 2012
- 3) Bhutan civil service rules & Regulations 2018
- 4) Procurement rules & Regulations 2019
- 5) Internal Audit charter 2014
- 6) BGIAS standards
- 7) IA Manual 2014
- 8) Code of Ethics 2014
- 9) Internal Audit protocols (2015) – MoF
- 10) Internal Audit Strategic Plan 2020-2025
- 11) Performance Audit Guidelines
- 12) Quality Assurance and Improvement Programme
- 13) Competency Based Framework 2021
- 14) Annual Internal Audit Plans
- 15) Internal Audit Reports







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