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STANDARD

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I. Public Sector Accounting

A. Assessment of the National Public Sector Accounting Environment

Timely, relevant, and reliable financial information is required to support all fiscal and budget management, decision-making, and reporting processes.

1. The Accounting Law

1. For reliability, the requirements for public sector accounting and reporting should be specified by law, cover all government-owned entities, specify the methods by which accounting and auditing standards are to be set for the public sector, specify the reporting requirements, and lay down timetables for the publication of audited annual accounts.

Public sector accounting and reporting is governed by the Financial Rules and Regulations of 2001 (FRR) and is applicable to all agencies of the Royal Government of Bhutan, including departments, ministries, autonomous bodies, and Dzongkhags (provinces). The FRR are embodied in the following manuals:

- Financial Management Manual
- Budget Manual
- Revenue Manual
- Finance and Accounting Manual
- Procurement Manual
- Aid and Debt Management Manual
- Property Management Manual

These documents specify the accounting practices, internal control procedures, reporting requirements and timetables, and responsibilities for financial management in all agencies.

Legislation approved by the Parliament is desirable and a Public Finance Bill has been drafted in preparation for presentation to the National Assembly.

2. Compliance with International Public Sector Accounting Standards (IPSAS) for non-commercial bodies and International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) for commercial bodies is needed for consistent transparency.

The Royal Government follows a double-entry book-keeping approach and maintains accounting records on the cash basis. The accounting system is focused on ensuring due control over and reporting against budget appropriations. IPSAS are not adopted or complied with.

Public Enterprises are required by the Bhutan Companies Act 2000 to provide an annual report including a balance sheet and a profit and loss account. They are subject to audit by an accounting firm selected by the relevant Board from a panel of firms

The annual financial statements should be presented in the form recommended by Cash Basis IPSAS. The FRR provisions have facilitated a flexible reporting environment and provided a framework for the implementation of accounting practices that support a cash basis. As the information is available, there is scope for the annual financial statements to be prepared in the Cash Basis IPSAS format.

Currently the accounts are only available at year end and the

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	<p>chosen by the Auditor General (AG). The Royal Audit Authority (RAA) conducts a compliance audit.</p> <p>The Bhutan Companies Act includes a schedule of the audit requirements that specifies reporting in accordance with generally accepted accounting principles. The audit requirements cover a range of types of audit and are not limited to certification of the accounts. This schedule is subject to amendment by the Auditor General.</p>	<p>computer accounting system needs to be enhanced and connected to enable monthly reporting at entity level. Networking and other system improvements are needed.</p> <p>Public enterprises are not supported by a set of Bhutan's Accounting Standards. It is up to the enterprise and its auditors to decide which set of accounting standards to use. As the relevant authority, the Auditor General should vary the Companies Act Schedule to provide more certainty by requiring public enterprises to report in accordance with IAS.</p>

2. Education and Training of Public Sector Accountants

<p>3. For reliability, the curriculum requirements for the accounting qualifications of public sector accountants should accord with internationally recognized standards of accounting training as established in the IES for Professional Accountants.</p>	<p>Financial management staffs in the public sector belong to the National Finance Service. To enter the National Finance Service, candidates must have completed: (a) the one-year Post-Graduate Certificate in Financial Management at the Royal Institute of Management (RIM) if they are graduate entrants (usually B. Com); or (b) the two-year Diploma in Financial Management if they are a Grade XII qualified entrant. Graduates from RIM might go on to work not just for the National Finance Service but also for the Royal Audit Authority, Revenue and Customs, and the private sector.</p> <p>A Training-Needs Analysis conducted in 2004 by the Australian Society of Certified Practising Accountants (CPA Australia) found a need for the courses to be modified to provide the basic accounting competencies required by the Confederation of Asian and Pacific Accountants</p>	<p>Strengthening of the RIM courses is required to meet the increased skills needs of the National Finance Service as more rigorous accounting and reporting requirements are to be met.</p> <p>The Royal Public Service Commission has introduced a Position Classifications System under which the skills needs of National Finance Service posts will be formalized. The use of a comprehensive graduated framework of professional accountancy qualifications is needed. The UK Association of Chartered Certified Accountants (ACCA) offers a worldwide Professional Scheme and Certified Accounting Technician Scheme, as does the public sector program of the UK Chartered Institute of Public Finance and Accountancy (CIPFA). Cooperation of one of</p>
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	(CAPA) standards; and for the National Finance Service to review its functional and skills requirements as a professional accounting service.	<p>these or similar bodies with the Royal University of Bhutan could provide a cost-effective mechanism for providing a wide range of levels of accountancy training.</p> <p>The creation of a professional body of accountants in the National Finance Service has been facilitated by the Royal Public Service Commission decision to establish an Accounts and Finance Division in its new Position Classifications System. The Government needs to respond to the proposals put forward in the CPA Australia report on strategic pathways to developing adequate accounting and financial professionalism.⁸</p>
<p>4. For reliability, public sector accountants should be provided with continuing professional training requirements that accord with internationally recognized standards of accounting training.</p>	<p>There is no regular system or mechanism to provide public sector accountants with continuing professional development and training. The few international training programs to which staffs are sent, ranging from three-year CPA programs in Australia to ad-hoc short courses in India and Thailand, are not routinely made available to all public sector accountants, especially those not based in Thimpu. The CPA Australia-conducted Training Needs Analysis proposed a professional accounting body in Bhutan to support the National Finance Service.</p>	<p>The recommendations of CPA Australia report need to be assessed by the Auditor General and the Ministry of Finance with a view to establishing a Bhutan Institute of Accountants.⁹ Bhutan has over 585 public-sector accounting staff. The National Finance Service professional leadership capacity should be strengthened to enable training and monitoring of the professional development of the public-sector accounting staff. This can be done via higher-level training in the Royal Institute of Management or the Royal University of Bhutan, or by adopting the professional membership qualifications of the leading Chartered Accountant or CPA Institutions. The ACCA could provide substantial support to the accounting profession.¹⁰</p>

⁸ *The Royal Government of Bhutan Finance and Accounting Strategic Pathways, Training Needs Analysis of the Financial and Accounting Capacity within the Public Sector and a Simultaneous Assessment of the Royal Institute of Management, Australia Society of Certified Public Accountants, 2004, pages 54-58.*

⁹ *The Royal Government of Bhutan Finance and Accounting Strategic Pathways, Training Needs Analysis of the Financial and Accounting Capacity within the Public Sector and a Simultaneous Assessment of the Royal Institute of Management, Australia Society of Certified Public Accountants, 2004, page 56 and Appendix 7.*

¹⁰ *The UK Association of Chartered Certified Accountants is active in the Region.*

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<p>3. Code of Ethics for Public Sector Accountants</p>		
<p>The INTOSAI Code of Ethics covers integrity; independence, objectivity, and impartiality; professional secrecy; and competence. The IFAC Code covers integrity, objectivity, independence, confidentiality, technical and professional standards, competence and due care, and ethical behavior.</p>		
<p>5. For reliability, public sector accountants should be required to adhere to the principles laid down in a code of ethics that are at least in accord with the internationally recognized standards for professional accountants. This may be based on IFAC or INTOSAI codes.</p>	<p>Public sector accountants are part of the Civil Service and have to adhere to the Civil Service Code of Conduct and Ethics stipulated in the Bhutan Civil Service Rules 2002. Bhutanese ethical values, i.e. personal and collective discipline and a sense of national pride and purpose, tend to guide the civil service in working toward protecting public resources.</p>	<p>The new Audit Law includes a specific code of conduct for auditors. This should be mirrored in a similar code for accountants, which can be based on Part A of the IFAC Code for Professional Accountants.¹¹</p>
<p>4. Public Sector Accountant Arrangements</p>		
<p>6. For timeliness, relevance, and reliability, there should be a professionally qualified Chief Financial Officer (CFO) function to be responsible for maintaining systems of internal financial controls that manage risks, and for preparing regular financial accounts for each government entity.</p> <p>The CFO should also be responsible the following:</p> <ul style="list-style-type: none"> ■ maintenance and management of the chart of accounts, ■ ensure the most appropriate technological support for financial management practices, ■ manage training and education needs for financial management, ■ report on key performance indicators, and ■ assist program managers 	<p>The Position Classification System has classified Finance and Audit Services as a major occupational group. The position structure comprises Executives (Bachelor or Masters), Specialist (Masters or Ph D), Professional and Management (Bachelors or Masters), supervisory and support (Diploma or Certificate) and Operational (Class I0).</p> <p>Open and competitive selection; job descriptions which define responsibilities, knowledge, and skills requirements; and equal opportunity promotion through a combination of a minimum period of service at the lower level (with some opportunities for accelerated promotion) are characteristics of the Position Classification System. At present, there is no concept of a professionally qualified chief financial officer to be responsible for financial management, either</p>	<p>The RAA report on the 2002-03 annual accounts (submitted on January 4, 2005) proposed the creation of a post of chief financial officer as head of a separate Department of Public Accounts in the Ministry of Finance. This now has been separated from the budget function. The Position Classification System affords the opportunity to establish the specific duties and responsibilities of the person holding this post.</p>

¹¹ Handbook of International Auditing, Assurance, and Ethics Pronouncements, International Federation of Accountants, 2005, pages 15-37.



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<p>to develop an effective financial approach to the delivery of expected outcomes.</p>	<p>at the entity level or at the national level.</p> <p>At the entity/agency level, according to the FRR, the head of the department is responsible for the appropriated funds. Day-to-day financial management activities are carried out by the respective Administration and Finance Divisions of ministries and departments, and by the Administration and Finance Sections of autonomous agencies and Dzongkhags. Accounts at the entity level and at the national level, the consolidated financial statements of the Government, are prepared by the Department of Budget.</p>	

B. Assessment of National Public Sector Accounting Standards

Financial reporting must be adequate to meet the accountability demands of stakeholders.

1. Framework for the Preparation and Presentation of Financial Statements

7. National accounting standards should accord with international standards to provide consistency. The responsibility for establishing the national accounting standards for the public sector should be well-defined to provide reliability.

There are no national accounting standards in Bhutan nor have the IPSAS been formally adopted. The Financial Rules and Regulations prescribe the general accounting framework and principles for preparing financial statements of the Government.

The proposed Public Finance Act provides for annual audited financial statements and for a chief accounting officer in the Ministry of Finance who shall prescribe accounting standards for use by all budgetary bodies. It would be desirable to establish a formal board or committee to advise on the establishment of accounting standards for both the private and public sectors. This should include representatives from public and private enterprises, the Ministry of Finance, and the Royal Audit Authority. Consultation or cooperation with a similar board in the Region could be considered.

Preferably the Board should adopt for the relevant bodies all IAS, IFRS, and IPSAS, but specify appropriate exemption

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		<p>periods for particular standards or clauses where difficulty in implementation is envisaged. Consultation with other boards in the Region might assist in this process in the early stages.</p>
<h2>2. Preparation and Presentation of Financial Statements on the Cash Basis</h2>		
<p>8. The Government should adopt a national accounting and reporting framework based on recognized international standards to provide authority.</p> <p>If the Cash Basis IPSAS is adopted as a national standard, reporting should comply with the standard to ensure consistency.</p> <p>If the accrual basis IPSAS is adopted, disclosures made with respect to the general government sector shall include at least disclosure of the following:</p> <ul style="list-style-type: none"> ■ Assets by major class, showing separately the investment in other sectors, ■ Liabilities by major class, ■ Net assets/equity, ■ Total revaluation increments and decrements and other items of revenue and expense recognized directly in net assets/equity, ■ Revenue by major class, ■ Expenses by major class, ■ Net surplus or deficit, ■ Cash flows from operating activities by major class, ■ Cash flows from investing activities, and ■ Cash flows from financing activities. <p>(Oct 2005 IPSAS ED 28)</p>	<p>Though the IPSAS have not been formally adopted, the FRR accounting rules do allow compliance with the key principles of the Cash Basis IPSAS:</p> <ul style="list-style-type: none"> ■ A statement of cash receipts and cash payments (IPSAS 1.3.4); ■ Sub-classification of cash receipts and cash payments into total cash receipts, total cash payments, and opening and closing cash balances (IPSAS 1.3.12); ■ Disclosure of third party settlements of government obligations (IPSAS 1.3.24); ■ Authorization for the issue of financial statements (IPSAS 1.4.5); ■ Disclosure of significant restrictions on the use of available cash balances by the government (IPSAS 1.4.9); ■ Comparative numerical financial information up to one year (IPSAS 1.4.16); ■ A consolidated financial statement (IPSAS 1.6.5); and ■ Foreign currency transactions (IPSAS 1.7.2). 	<p>The Auditor General recommended in his report on the 2002-03 statements that notes to the accounts should form an integral part of the financial statements; and that the financial position should be presented in the form of a balance sheet and other accounts.</p> <p>The Royal Government should adopt Part I of the Cash Basis IPSAS for the Government's accounts. Consolidation of controlled entities, such as public enterprises, should be considered when feasible.</p> <p>The further development and linking of current computerized budget and accounting systems is underway for a reliable accounting system that provides the required timely annual and monthly accounts. These accounts will rely on computerization of all accounting offices and reliable electronic communication. The accounting software needs to support the required chart of accounts. The communications and hardware needs have not yet been finalized, and a careful review of the proposals will be required.</p>

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9. Financial statements should include (a) balance sheet, (b) income statement, (c) statement of changes in equity or a statement of recognized gains and losses, and (d) cash flow statement. [IAS 1.8]

Financial statements should present fairly (or give a true and fair view) of the financial position, financial performance, and cash flows of the entity. [IAS 1.13]

Financial statements should be prepared on the accrual basis of accounting. [IAS 1.27]

Financial statements should be prepared using the accounting policies established by the IAS and IFRS. [IAS 1]

Financial statements are prepared generally in these forms but not specifically in accord with IAS or IFRS. The audit reports refer to the generally accepted accounting standards or principles and therefore do not provide sufficient specific information for a user to know what specific accounting principles have been used, except where they are specified in the notes.

It is important that a specific set of accounting standards be used as the basis for preparation of the financial statements and for the audit of those statements. Generally accepted accounting standards do not have the specific set of explanations and definitions that are available in formally issued accounting standards, and are needed to be a useful reference point. The IAS and IFRS should be adopted and referred to in the financial statements as having been adopted.

The relevant schedule of the Companies Act should be so amended. The proposed Accounting and Auditing Standards Board would advise the Ministry of Finance and the Royal Audit Authority on the implementation of ISA.

II. Public Sector Auditing**A. Assessment of the Public Sector Auditing Environment**

Effective scrutiny by the legislature through comprehensive, competent, external audit enables accountability for the implementation of fiscal and expenditure policies.

The environment for an effective supreme audit institution requires a comprehensive approach to public financial management (PFM). Supreme audit institutions are not stand-alone institutions; they are part of a PFM architecture that also includes budgeting, accounting, internal control, audit, and legislative oversight; and government response. Improving the way the supreme audit institution functions is integral to providing information for improving the overall PFM system, but the action must be within the executive branch under the watchful eyes of the legislature and the public. A strong demand for good public sector external auditing is necessary for the supreme audit institution to have any impact. This requires willingness of the executive branch to accept and respond to external scrutiny over its management of funds and to ensure that action is taken for reform. It also requires public presentation of the audit reports to ensure public support for effective action.

1. Statutory Framework

10. Statutory auditing requirements should be established by legislation.

The Royal Audit Authority is the government's external auditor. The Royal Audit Authority is governed

An Audit Act is to be presented to the coming session of the legislature for consideration.

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	by the 1970 royal edict and the 1989 General Auditing Rules and Regulations (GARR).	(enacted since then in June 2006). The model law is comprehensive and will provide a good foundation for the proper implementation of the audit function.
11. The Supreme Audit Institution should have authority to conduct a full range of audits for all government-owned or -controlled entities including regularity, financial, and performance audits. (INTOSAI Lima Declaration Sections 18-19)	As provided for by the Royal edict and the GARR 1989, the Royal Audit Authority is mandated to carry out audits of government organizations, government-owned and/or -controlled entities, foreign aid projects, and non-governmental organizations. It has the functional independence to decide on the type and scope of audits to be carried out on each entity and, as such, performs financial, statutory, compliance, certification audits, and special reviews, as it may deem proper. In practice, however, due to manpower constraints, Royal Audit Authority allows state-owned enterprises to have their financial statements audited by a private audit firm selected from an approved list of auditors. Also some instances in the Audit Report for 2002-03 noted that certain records were not made available.	The functional independence of the Royal Audit Authority would be improved by the independence guarantees in the governance section in the Audit Act and have the access rights set down in the Act.
12. The legislation should set out penalties in the event of non compliance with the auditing requirements, and these penalties should be applied appropriately.	There are no penalties specified in the GARR 1989 for non-compliance with auditing requirements.	The new Audit Act contains a satisfactory offences and sanctions section.
2. Setting Auditing Standards		
13. The government should adopt the INTOSAI Auditing Standards and the IAASB International Standards on Auditing for public sector entities. (ISA 200.5 and INTOSAI Auditing Standards I.O.14)	The Royal Audit Authority has drafted and developed its own Auditing Standards of Bhutan, which are in line with the INTOSAI Auditing Standards. A peer review in 2005 by the SAI of India recommended that audit manuals be prepared. During the June- July 2006 period, teams have been established to prepare audit guides in 14 areas of audit.	The Royal Audit Authority needs to review the success of these development activities and develop further plans as needed to prepare appropriate audit manuals for the tasks that are established by the new Audit Act.

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3. Code of Ethics		
<p>14. The INTOSAI Code of Ethics should be fully adopted by the SAI (IAASB ISA 200.4 and INTOSAI Code of Ethics 4), communicated to all staff, and applied.</p>	<p>The Royal Audit Authority has its own Code of Ethics. All auditors are sworn in by this Code. The RAA Code forms an integral part of the employment contract of RAA staff.</p>	<p>Policies and procedures for protecting whistle blowers should be adopted.</p> <p>The new Audit Act provides a strong ethical framework and provides that the Royal Audit Authority shall maintain the confidentiality of the source of any information received about potential offences, in good faith and trust, under the laws of the Kingdom.</p>
4. Accountability in the Supreme Audit Institution		
<p>15. There should be an accountability process in the Supreme Audit Institution. (INTOSAI Auditing Standards 1.0.20)</p>	<p>The Auditor General has management meetings, and circular instructions are issued to staff from time to time by the Auditor General.</p>	
<p>16. There should be clear responsibility in the SAI for: (a) advising on internal finance, keeping proper financial records and accounts, and maintaining systems of internal control; and (b) for ensuring compliance with laws and regulations.</p>	<p>The Royal Audit Authority follows the FRR, Bhutan Civil Service Rules and Regulations, and GARR 1989, all of which provide the internal control framework for the audit office.</p>	
<p>17. The SAI should prepare an annual report on its operations and performance, which is separate from its reports on its audits. It should provide an objective, balanced and understandable account of activities and achievements, and details of financial position and performance.</p>	<p>The Royal Audit Authority prepares and issues an Annual Audit Report, which includes comprehensive information of its operations and performance during the year. This report includes information (by agency and amounts) on key audit findings, wasteful expenditure, double payments, contract mismanagement, misappropriation of funds, noncompliance with rules, performance lapses, and value for money.</p>	<p>The Royal Audit Authority issues only one report a year, which includes the audit opinion on the annual accounts of the government, and the AG's comments on the work of the Audit Office, and the audit reports on the Audit Office's inspection and compliance activities. This confluence of different reporting would be more user-friendly if the annual report had separate volumes to cover the different aspects.</p> <p>The Audit Act requires an extensive Annual Audit Report that is separate from the other audit reports. It is important that the audit reports be presented in separate volumes throughout the</p>

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		year as audits are completed. This procedure would simplify the reporting process and make it more timely, and lessen the burden on the Public Accounts Committee for examination of audit reports.
18. The SAI should prepare a corporate plan or equivalent.	The Royal Audit Authority prepares an Annual Audit Plan, which details the audit program schedule for auditee institutions.	There is need for a more comprehensive corporate plan covering the general development needed by the Audit Office.
19. The SAI should undergo peer review or independent performance audit.	The Royal Audit Authority in 2004 had the SAI of India carry out a peer review of its operations.	The new Audit Act requires regular peer review.

5. Independence provided by the Legislation

Legislation should be adequate for the following core SAI principles of independence if the Supreme Audit Institution is to provide effective external scrutiny:

- Existence and de facto application of an appropriate and effective constitutional and legal framework,
- Independence of SAI Heads including security of tenure and legal immunity in the normal discharge of their duties,
- Sufficiently broad mandate and full discretion in the discharge of SAI functions,
- Unrestricted access to information;
- Obligation to report on their work,
- Freedom to decide on content and timing of their reports and to publish and disseminate them,
- Existence of effective follow-up mechanisms on SAI recommendations,
- Financial and managerial autonomy and the availability of appropriate human, material, and monetary resources.

(Core Principles of SAI Independence, INTOSAI Sub-committee on SAI Independence, 2004)

20. The legislation should spell out in detail the extent of the SAI independence. (INTOSAI Lima Declaration Section 5) The legislation should assure the independence of the SAI Heads and “Members” (in collegial organizations) and that there is security of tenure and legal immunity in the normal discharge of their duties. (INTOSAI Lima Declaration Section 6)	The Royal edict of 1970, resolutions of the National Assembly, GARR 1989 and FRR provide for the independence of the Royal Audit Authority. The appointment of the Auditor General is made by the King of Bhutan.	Satisfactory arrangements are made in Part 5 of the new Audit Act. The new legislation would assist in resolving the differences between the current practice in Bhutan and that desired by the international practice.
21. The SAI constitutional/statutory/legal framework	The legal framework does not provide for the AG’s administrative and	Greater powers regarding the recruitment of staff are provided

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<p>should ensure that it has available sufficient human, material, and monetary resources. (INTOSAI Lima Declaration Section 7)</p>	<p>financial independence to decide on matters such as recruiting staff, material, and monetary resources.</p>	<p>in the new Audit Act, but no specific powers over the budget are provided. However the new legislation does propose that if (in the opinion of the Auditor General) there was insufficient budget to conduct his/her responsibilities, it should be mentioned in the Annual Audit Report. This is not satisfactory. The UNDP model law (Section 13) provides for the AG's budget proposal to be submitted to the Legislature by the Auditor General at the same time and in the same format as the Executive submits its budget.</p>
<p>22. A fixed term must be long enough to survive changes of government and avoid pressures concerning re-appointment impinging too early in the term of office of the SAI office holder. A single nonrenewable appointment is preferable to avoid those pressures. (INTOSAI Working Group on SAI Independence, 2004)</p>	<p>Once appointed, the Auditor General has tenure until reaching retirement age (60 years). Although there is no provision de jure to safeguard the Auditor General from being summarily dismissed by the King, in practice this has not happened.</p>	<p>The new legislation provides for a five year non-renewable term and this is rather short by international standards.</p>
<p>23. The legislation should ensure that the SAI Head is free to determine the organization of the audit office, including personnel and contract management systems and material acquisition/disposal policies and procedures. The SAI should be able to determine personnel policies, including the selection, recruitment, training, remuneration, promotion, discipline, and dismissal of staff and contract personnel. (INTOSAI Lima Declaration Section 6)</p>	<p>The Auditor General does not have administrative independence to determine and implement policies relating to matters of personnel recruitment, selection, remuneration, training, promotion, discipline, and dismissal of RAA staff.</p>	<p>The new Audit Act provides for this.</p>

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<p>24. There should be unrestricted access to information. (INTOSAI Lima Declaration Section 10)</p>	<p>The legal framework provides for access to information. The Royal Audit Authority does have unrestricted access to reports, records, and all other information deemed necessary for proper execution of its audits.</p>	<p>The new Audit Act provides or this.</p>
<p>25. The legislation should give the SAI the right and obligation to report on their work. (INTOSAI Lima Declaration Section 16)</p> <p>The legislation should give the SAI the right and obligation to report effectively on its work, and the freedom to decide on the content and timing of its reports and to publish and disseminate them expeditiously. (INTOSAI Lima Declaration Section 17)</p>	<p>The legal framework does provide Royal Audit Authority with the freedom to decide on the content of its reports (within a stipulated time frame).</p> <p>The Royal Audit Authority also prepares an Annual Audit Report summarizing the results of its audit work for the year. The Annual Audit Report for 2004 was published in May 2005 on the RAA website.</p> <p>However, there is no legal provision at present which explicitly allows Royal Audit Authority to publish and disseminate audit reports on its auditee institutions once those reports have been submitted to the King.</p>	<p>The new Audit Act provides for more extensive reporting as desired by the international standard. With respect to dissemination, the proposed Audit Act provides that:</p> <p>9.2 The Auditor General, or anyone designated to do so by him/her, may provide advice or information to a person or entity relating to the responsibilities of the Royal Audit Authority, if in the opinion of the Auditor General, it does not affect the integrity of the Authority and is in the interest of the Kingdom.</p> <p>This is much more restrictive than desirable if the media is to be well informed about the contents of the Auditor General's audit reports.</p> <p>A more positive approach in the ACCA model law is exemplified in the following</p> <p>(4) The Auditor-General or his/her staff may provide comments and interviews to the press or other media on the subject of any published audit reports.¹²</p>
<p>26. To the extent that findings of the SAI findings are not delivered as legally valid and enforceable judgments, the Supreme Audit Institution shall be empowered to approach the authority which</p>	<p>An RAA division follows up on audit observations and reports on these matters in the following year's audit report of the auditee institution. In addition, status of outstanding matters (by auditee institutions) is reported on in</p>	

¹² *A Model National Audit Office Act, The Association of Chartered Certified Accountants, UK, 2004 – Section 38*

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is responsible for taking the necessary measures and require the accountable party to accept responsibility. (Lima Declaration Section 11.2)	the following year's RAA Annual Audit Report. The identification and sanction of persons held accountable for deficiencies provides a strong framework for remedy of identified compliance deficiencies.	

6. Qualifications and Skills of the Auditor

The SAI needs qualified accountants to sign audit opinions.. Auditors must have adequate professional expertise and technical knowledge to carry out audits

27. The government's and the SAI's accounting schools syllabus should cover all areas recommended by International Federation of Accountants' educational standards (IES).	The Royal University of Bhutan has a curriculum that covers all areas recommended by the IFAC educational standards.	Not all officers have attended courses covering these matters and additional in-house training may be needed. When the requirements of the Position Classifications System under which the skills needs are to be formalized have been completed, a training needs analysis would be useful.
28. There should be adequate professional criteria for recruitment and promotion of auditors. (INTOSAI Lima Declaration Section 14 and INTOSAI Auditing Standards 2.1.4)	<p>Recruitment matters are decided by the Royal Civil Service Commission, and Royal Audit Authority merely appoints officers selected by them. Recruitment is at two levels:</p> <ul style="list-style-type: none"> ■ Diploma level – candidates holding a Diploma in Financial Management from RIM; and ■ Degree level – candidates holding a Post Graduate Certificate in Financial Management from RIM. 	The new Audit Act provides for a separate cadre of officers and employees to be constituted, with their terms and conditions of services prescribed in the rules to be framed under the Audit Act. The rules are yet to be framed but the principles are contained in the Act.

7. Training

29. The SAI should operate a continuing professional development program for its professional personnel. (INTOSAI Lima Declaration Section 14 and INTOSAI Auditing Standards 2.1.5-2.1.12)	The Royal Audit Authority has a professional and international relations division responsible for arranging and providing training for staff. Though the Royal Audit Authority has plans and programs to provide in-house and external training in the future, it is severely constrained by lack of financial resources.	There is a need for a more extensive arrangement for professional training. The facilities of the ACCA and CIPFA outreach programs would bridge the gap, possibly with the help of the RIM or other in-country academic institution.
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8. Audit Competence		
<p>30. The SAI should equip itself with the full range of up-to-date audit methodologies, including systems-based techniques, analytical review methods, statistical sampling, and audit of automated information systems. (INTOSAI Auditing Standards 2.2.37)</p>	<p>The Royal Audit Authority has FRR, Bhutan Civil Service Rules and Regulations, GARR, Procurement Manual, INTOSAI & ASOSAI standards, and its own Bhutan Auditing Standards to equip itself with a full range of comprehensive audit methodologies. These do not provide a sufficiently detailed methodology for certification audit. The SAI has developed a Performance Audit Manual with the help of the UNDP.</p>	<p>Properly designed audit sampling techniques in the certification audit are difficult to use without computersupport. Use of sampling techniques and computer-aided auditing techniques, especially for the Budget and Accounting System, should be developed to increase the efficient use of audit resources.</p> <p>The SAI has no detailed financial audit manuals. Several manuals are in process of, or planned for, development. It will be necessary to review the adequacy of this work and provide supplementary development in due course.</p>
9. Quality Assurance		
<p>31. The SAI should have the quality assurance programs in place to ensure audit performance and results. Written quality control policies and procedures should be communicated to the audit personnel in a manner that provides reasonable assurance that the policies and procedures are understood and implemented. (ISA 220.7)</p> <p>Quality control procedures should cover:</p> <ul style="list-style-type: none"> ■ <i>Direction.</i> Assistants to whom work is delegated need appropriate direction. ■ <i>Supervision.</i> During the audit (a) monitor the progress of the audit, (b) become informed of and address significant accounting and auditing issues, and (c) resolve any differences of professional judgment between personnel and consider the level of consultation that is appropriate. 	<p>The Royal Audit Authority does have a satisfactory quality control and quality assurance procedure in place for its audit work.</p>	



STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<p>■ <i>Review.</i> The work performed by each assistant needs to be reviewed by personnel of at least equal competence. (ISA 220.8-220.17)</p>		

B. Assessment of Public Sector Auditing Standards and Practices

Results from the audits should hold the executive to account for its fiscal and expenditure policies and their implementation.

1. Planning

32. The planning process should collect information about the audited entity and its organization in order to identify important aspects of the environment in which the audited entity operates, develop an understanding of the accountability relationships, determine whether appropriate action has been taken on previously reported audit findings and recommendations, assess risk, and determine materiality. (IAASB ISA 300.6-300.9)

The planning process should identify the scope of the audit, and specify the audit objectives and the tests necessary to meet them. (ISA 300.10-300.12)

The planning process should review the internal audit of the audited entity and its work program, identify key management systems and controls, and carry out a preliminary assessment to identify both their strengths and weaknesses, and determine the approach to be adopted in the audit. (ISA 300.9)

The Royal Audit Authority has a dedicated team of staff assigned to auditee institutions, thus, specialist knowledge about the environment, accountability relationships, outstanding issues from previous audit findings, etc. are available.

As audit scope is specified in the various rules and regulations of the government, this is not done during the planning phase.

This is not done.

Internal audit has been declining recently and the proposed Audit Act and Finance Act is likely to provide for a stronger internal audit function. This needs to be supported by a more formal approach to training and monitoring the activities of internal audit.

The audit manuals should correct the deficiencies in planning arrangements.

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<p>The planning process should highlight special problems foreseen when planning the audit. (ISA 300.10)</p>	<p>This is not done.</p>	
<p>The planning process should prepare a budget and a schedule for the audit, and provide for appropriate documentation of the audit plan and for the proposed fieldwork. (ISA 300.10)</p>	<p>The documentation produced during the planning stage comprises lists of agencies and the time schedule only.</p>	
<p>The planning process should identify staff requirements and a team for the audit. (ISA 300.11)</p>	<p>Audit staff requirements are predetermined as stated above.</p>	
<p>The planning process should familiarize the audited entity about the scope, objectives and the assessment criteria of the audit and discuss with them as necessary. (ISA 300.7)</p>	<p>This is not done.</p>	
<h2>2. Supervision</h2>		
<p>33. The process of supervision should ensure that the members of the audit team have a clear and consistent understanding of the audit plan. (INTOSAI Auditing Standards 3.2.3a)</p>	<p>The supervision arrangements in Royal Audit Authority are satisfactory and cover all of the aspects mentioned here.</p>	
<p>34. The process of supervision should ensure that the audit is carried out in accordance with the auditing standards and practices of the SAI. (INTOSAI Auditing Standards 3.0.3b)</p>		
<p>35. The process of supervision should ensure that the audit plan and action steps specified in that plan are followed unless a variation is authorized. (INTOSAI Auditing Standards 3.0.3c)</p>		



STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<p>36. The process of supervision should ensure that working papers contain evidence adequately supporting all conclusions, recommendations, and opinions. (INTOSAI Auditing Standards 3.0.3d)</p> <p>The process of supervision should ensure that the auditor achieves the stated audit objectives. (INTOSAI Auditing Standards 3.0.3e)</p> <p>The process of supervision should ensure that the audit report includes the audit conclusions, recommendations and opinions, as appropriate. (INTOSAI Auditing Standards 3.0.3f)</p>		
<h3>3. Internal Controls</h3>		
<p>37. The auditor should obtain an understanding of the entity and its environment, including its internal control, sufficient to identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, and sufficient to design and perform further audit procedures. (ISA 315.2)</p> <p>After obtaining an understanding of the accounting and internal control procedures, the auditor should obtain a sufficient understanding of control activities to assess the risks of material misstatement at the assertion level and to design further audit procedures responsive to assessed risks. (ISA 315.90)</p> <p>The auditor should document in the audit working papers:</p> <p>(a) conclusions reached about</p>	<p>Audit staffs do have a good understanding of the environment in which the auditee institution operates. However, assessments of the internal control systems of the auditee institutions are not carried out nor relied upon for RAA's audit work. This is essentially because internal control practices in government agencies are not fully functional.</p>	<p>Improvements in internal control¹³ will be implemented if internal and external auditors make recommendations about improvements. The audit manuals should provide for the audit reports to make assessments of internal control adequacy and make recommendations about improvements.</p>

¹³ *Guidelines for Internal Control Standards for the Public Sector, INTOSAI, 2004, provides a useful framework document.*

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<p>susceptibility to material misstatement due to error or fraud; (b) the understanding obtained of the entity's accounting and internal control procedures; and (b) the assessment of control risk. (ISA 315.122-123)</p> <p>The auditor should perform tests of control to obtain sufficient appropriate audit evidence that the controls were operating effectively at relevant times during the period under audit. (ISA 330.23)</p> <p>When the auditor cannot obtain sufficient appropriate audit evidence as to a material financial statement assertion, the auditor should express a qualified opinion or a disclaimer of opinion. (ISA 330.72)</p> <p>The auditor should make management aware in writing, as soon as practical and at an appropriate level of responsibility, of material weaknesses in the design or operation of the accounting and internal control procedures, which have come to the auditor's attention. (ISA 315.12)</p>	<p>Through the Inspection Reports, Royal Audit Authority makes the management aware of material weaknesses in the design or operation of the accounting and internal control procedures of agencies.</p>	<p>The manual on certification audit, which is to be prepared, will rectify these defects.</p>
<p>4. Compliance with Laws</p>		
<p>38. The auditor should obtain a general understanding of the legal and regulatory framework applicable to the entity and the industry and how the entity is complying with that framework. (ISA 250.15)</p> <p>The auditor should perform testing and other procedures to help identify instances of</p>	<p>This is done as part of compliance audits.</p> <p>This is not done.</p>	



STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<p>non-compliance with those laws and regulations where noncompliance should be considered when preparing financial statements. (ISA 250.18-250.19)</p> <p>Generally, management is responsible for establishing an effective system of internal controls to ensure compliance with laws and regulations. In designing steps and procedures to test or assess compliance, the auditor should evaluate the entity's internal controls and assess the risk that the control structure might not prevent or detect non-compliance. These evaluations should be used to report to management on defects in the system of internal controls and the steps that should be taken to improve the system. (ISA 250.17)</p> <p>The auditor should obtain written representations that management has disclosed to the auditor, all known actual or possible non-compliance with laws and regulations, whose effects should be considered when preparing financial statements. (ISA 250.23)</p> <p>The SAI should use regularity audit to make sure that the State budget and accounts are complete and valid. The audit procedure may result, in the absence of irregularity, in the granting of a "discharge". If not other processes are needed to resolve irregularities.</p>	<p>This is not done as the internal control system of the agency is not relied upon by the Royal Audit Authority.</p> <p>This is not done.</p> <p>This is not done.</p>	

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
5. Evidence		
<p>39. When obtaining audit evidence from tests of control, the auditor should consider the sufficiency and appropriateness of the audit evidence to support the assessed level of control risk. (ISA 500.10)</p> <p>When obtaining audit evidence from substantive procedures, the auditor should consider the sufficiency and appropriateness of audit evidence from such procedures together with any evidence from tests of control to support financial statement assertions. (ISA 500.12)</p>	<p>Royal Audit Authority does collect appropriate and sufficient evidence to be able to later defend the audit report it issues.</p> <p>However, as mentioned above, tests of internal controls are not done.</p>	<p>The manual on certification audit, which is to be prepared, will rectify these defects provided that the Royal Audit Authority recommends the improvement of internal controls through a policy decision for audit reports.</p>
<p>40. When inventory is material to the financial statements, the auditor should obtain sufficient appropriate audit evidence regarding its existence and condition by attendance at physical inventory counting. (ISA 500.5)</p> <p>When in substantial doubt as to a material financial statement assertion, the auditor should express a qualified opinion or a disclaimer of opinion. (ISA 500.18)</p>	<p>Yes, inventory verification is carried out, if deemed necessary.</p> <p>Yes.</p>	
6. Analysis of Financial Statements		
<p>41. In regularity (financial) audit, and in other types of audit when applicable, the auditor should analyze the financial statements to establish whether acceptable accounting standards for financial reporting and disclosure are complied with. (INTOSAI Auditing Standards 3.6.1)</p> <p>Analysis of financial statements should be performed to such a</p>	<p>These are done.</p>	



STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<p>degree that a rational basis is obtained to express an opinion on the financial statements. The auditor should ascertain whether:</p> <ul style="list-style-type: none"> (a) financial statements are prepared in accordance with acceptable accounting standards; (b) financial statements are presented with due consideration to the circumstances of the audited entity; (c) sufficient disclosures are presented about various elements of financial statements; and (d) the various elements of financial statements are properly evaluated, measured and presented. <p>(ISA 200.2-200.12)</p>		

7. Reporting on Financial Statements.

42. The auditor should provide an opinion paragraph in the audit report. (ISA 700.4)

There should be a reference to the financial reporting framework used to prepare the financial statements (including identifying the country of origin of the financial reporting framework when the framework used is not International Accounting Standards). (ISA 700.12-15)

The opinion paragraph should contain an expression of opinion on the financial statements stating the auditor's opinion as to whether the financial statements give a true and fair view (or are presented fairly)

This is done. The most recent report is for the financial year 2002-03. The two part certificate and opinion provided by the Auditor General includes most of the elements of an audit opinion that accords with ISA 700, but the presentation suffers from various substantial differences from the standard.

The defects in the format of the opinion should be corrected as per the requirements of ISA 200. In particular the opinion is expressed negatively rather than positively: "The audit had not detected any material misstatement" – rather than –

"We plan and perform the audit to obtain reasonable assurance about whether the schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the schedule. We

STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<p>in all material respects. (ISA 700.17)</p>		<p>believe that our audit provides a reasonable basis for our opinion.”</p> <p>Also, the certificate attaches a statement of the exceptions rather than including them in the certificate.</p>
<p>43. The SAI should provide a detailed report amplifying the opinion in circumstances in which it has been unable to give an unqualified opinion. Reports should be made where weaknesses exist in systems of financial control or accounting. (ISA 700.17)</p>	<p>An Inspection Report is issued detailing the weaknesses identified in the financial control system during the audit.</p>	
<p>8. Reporting on Fraud</p>		
<p>44. The SAI should report fraudulent practices or serious irregularities discovered by the auditors. (INTOSAI Auditing Standards 4.0.7)</p>	<p>This is done. The Royal Audit Authority reports the matter to the head of the ministry/agency for initiating disciplinary action.</p>	
<p>ISA 240 establishes standards and provides guidance on the auditor’s responsibility to consider fraud and error in an audit of financial statements. The standard requires that – when planning and performing audit procedures and evaluating and reporting the results thereof – the auditor considers the risk of material misstatements in the financial statements resulting from fraud or error.</p>	<p>The Royal Audit Authority has also developed and published a list of fraud indicators on its website. In addition, Royal Audit Authority has a fraud alert service on its website, which the general public can use to anonymously inform the Royal Audit Authority of any fraudulent practices which they have observed</p>	
<p>9. Reporting on Compliance</p>		
<p>45. With regard to regularity audits, the auditor prepare a written report, which may either be a part of the report on the financial statements or a separate report, on the tests of compliance with applicable</p>	<p>The Royal Audit Authority prepares an Inspection Report, which is a mix of financial audit, compliance audit and performance audit. All such reports are addressed to the ministers/ chairmen concerned.</p>	<p>The Royal Audit Authority has been experiencing manpower constraints in recruiting adequate staff and maintaining the Audit Information Management System. The actions to reduce the calls on the system by the Royal Public</p>



STANDARD	PRESENT POSITION	OPTIONS FOR IMPROVEMENT
<p>laws and regulations. (INTOSAI Auditing Standards 4.0.7)</p>	<p>The Bhutan Civil Service Rules and Regulations require that every civil servant obtains an Audit Clearance Certificate prior to requesting processing of promotion, training, post-retirement benefits, further studies, and participation in conferences and seminars. Royal Audit Authority issues the Audit Clearance Certificate only if the Audit Information Management System does not contain any adverse report against the applicant. This has encouraged personal and professional discipline in the discharge of fiduciary duties at the individual level. Recent initiatives have been taken for the Royal Public Service Commission to hold information on which individuals are included in the Audit Information Management System and request clearances only for these persons.</p>	<p>Service Commission are likely to reduce these concerns.</p>