

**PROJECT INFORMATION DOCUMENT (PID)  
IDENTIFICATION/CONCEPT STAGE**

Report No.: PIDC23231

<b>Project Name</b>	Bhutan Institutional Capacity Development of the Royal Audit Authority Project
<b>Region</b>	SOUTH ASIA
<b>Country</b>	Bhutan
<b>Sector(s)</b>	General public administration sector (100%)
<b>Theme(s)</b>	Other accountability/anti-corruption (100%)
<b>Lending Instrument</b>	Lending Instrument
<b>Project ID</b>	P155150
<b>Borrower Name</b>	
<b>Implementing Agency</b>	
<b>Environment Category</b>	C - Not Required
<b>Date PID Prepared</b>	12-Mar-2015
<b>Estimated Date of Approval</b>	23-Mar-2015
<b>Initiation Note Review Decision</b>	The review did authorize the preparation to continue

## **I. Introduction and Context**

### **Country Context**

Bhutan is a small landlocked country located in the Eastern Himalayas between India to the South and China to the North, with a population size of about 700,000. Bhutan has expressed strong commitment to the Good Governance agenda. Good Governance has been the central theme of the various strategic documents of Bhutan including the five year plans, GNH index and Bhutan Vision 2020 document. The country has also acknowledged that strengthening of accountability institutions specifically the Supreme Audit Institutions (SAI) is vital for good governance. The current five year plan document (FY13 to 18) acknowledges the importance of Royal Audit Authority and states “To ensure economy, efficiency and effectiveness in use of public resources, annual audit is carried out by the Royal Audit Authority (RAA), a supreme audit institution and a constitutional body that functions independently and reports directly to the Parliament”. It states that “Constitutional offices such as the Anti-Corruption Commission, Election Commission, Royal Audit Authority, Royal Civil Service Commission and the Supreme Court have been established.” The document goes on to state “However, many of these institutions being relatively new, their effective functioning are constrained by lack of proper infrastructure facilities, human resource constraints and efficient systems. Strengthening Constitutional bodies and empowering local governments are a priority.”

Bhutan 2020: A Vision for Peace, Prosperity and Happiness (the Vision) is a twenty year perspective strategy which sets the preferred direction for where Bhutan wants to be in the year 2020 starting from the base year of 2000. The Vision anticipates the full development of the country's governance and legal institutions in terms of good governance outcomes to be attained by

2020.

Bhutan is a Gross National Happiness country. Good Governance is one of the four pillars of the GNH Index and is also one of the nine domains within the same index.

The proposed Grant is fully aligned with the strategic objectives of the Royal Government of Bhutan.

### **Sectoral and Institutional Context**

Bhutan has been making progress in the area of governance and public financial management. The parliamentarians have started to pay attention to the budget approval process and also review the audit observations through public accounts committee. Like in other countries, the Bhutanese public has become more demanding in terms of transparent and efficient government. Royal Audit Authority has been making progress and needs to take continuous improvement and capacity building to meet the increasing expectations of the parliamentarians, PAC and public at large. To further strengthen public sector auditing the Royal Audit Authority (RAA) (the SAI of Bhutan) is in the process of adopting and implementing the International Standards of Supreme Audit Institutions (ISSAIs) solely meant for public sector audit. RAA's quality of products and services, credibility and its professionalism would enhance substantially on compliance to such standards. This intervention coincides with the implementation of the Eleventh Five Year development plan where promoting Good Governance by strengthening accountability and transparency in the use of public resources is one of the key priorities.

This Grant will support Royal Audit Authority in fulfilling its mandate to audit and report on the economy, efficiency, and effectiveness in the use of public resources.

### **Relationship to CAS/CPS/CPF**

The Country Partnership Strategy (CPS) for the period FY11 to FY14 is guided by three key strategic principles: (i) alignment with government strategic priorities; (ii) partnership; and (iii) selectivity. It also defines a set of outcomes which includes "increasing the effectiveness in the use of public resources". To help achieve results, it identifies capacity building for good governance as a major thematic area.

As per the CPS document, Bhutan stands out in the South Asia Region (SAR) through its use of country systems for accounting and financial reporting. As greater reliance is being placed on the country systems, the CPS envisages these functions would be strengthened through technical assistance.

The Grant is aligned with the CPS as it proposes to strengthen the constitutional body of Royal Audit Authority. Annual external audit for all Bank funded credit and grants is being carried out by Royal Audit Authority.

## **II. Project Development Objective(s)**

### **Proposed Development Objective(s)**

The objective of the proposed Grant is to enhance the effectiveness of Royal Audit Authority, the supreme audit institution of Bhutan, by implementing the International Standards of Supreme Audit Institutions (ISSAIs).

### **Key Results**

Enhanced quality of public sector auditing by effectively implementing (ISSAIs).

Indicator 1: Auditors trained in various audit and non-audit disciplines of ISSAIs from recognized institutes.

Indicator 2: Developed course materials based on ISSAIs

Indicator 3: Number of audit reports issued in compliance with ISSAI

### III. Preliminary Description

#### Concept Description

As per Article 25.1 of the Constitution of the Kingdom of Bhutan “There shall be a Royal Audit Authority to audit and report on the economy, efficiency, and effectiveness in the use of public resources” –Royal Audit Authority is a constitutional body that functions independently and reports directly to the Parliament. While the core mandate of the RAA is to audit and report on the economy, efficiency and effectiveness in the use of public resources, the Constitution also requires the RAA to audit the accounts of all departments and offices of the government including all offices in the Legislature and Judiciary, all public authorities and bodies administering the public funds, the police and the defense forces as well as the revenues, public and other monies received and the advances and the reserves of Bhutan. In line with this, the specific audit jurisdictions are outlined under Section 39 of the Audit Act of Bhutan 2006.

The Strategic Plan document of RAA for 2010 to 2015 has six programmatic goals which includes goals to: enhance effectiveness of audit services, to improve quality & timely delivery of services and to enhance organizational and professional development.

RAA has already formed a core group to develop its next strategic plan. Implementation of ISSAIs to further enhance quality, credibility and professionalism of Royal Audit Authority is one of the key goals and issues already reflected in skeleton strategic plan document of 2015-2019/20. In a meeting held in December, 2014 RAA has decided that the findings and recommendation of SAI PMF report will be the core input for the upcoming strategic plan.

RAA is one of the few supreme audit institutions in the world that has volunteered to carry out the newly developed diagnostic tool, SAI Performance Measurement Framework, on a pilot basis. Currently the IDI and the Office of the Auditor General of Norway are assessing SAI Performance Measurement Framework of RAA and the performance report is expected to be issued in March 2015. While the final SAI PMF report for Bhutan will be available only in March 2015, the draft version of the report alludes to the need for capacity building of RAA staff for ISSAI implementation.

For fulfilling this mandate and to enhance the quality of the audit reports issued, Royal Audit Authority plans to undertake capacity building activities which will lead to effective implementation of ISSAIs.

With adoption of ISSAIs, its implementation has been the top priority of the Royal Audit Authority. As the standards are meant for public sector audits, ISSAIs focus on the overall institutional audit and non-audit standards, and best practices that entail professional, organizational and institutional capacity building. Given the complexity, broadness and wide subject matter of ISSAIs, RAA needs resources to fully comprehend and comply with these standards. At the moment, RAA lacks employees with capacity to comprehend ISSAIs for right interpretation and for effective implementation. As a result, different audit teams interpret ISSAIs in different ways which results in inconsistency in audit reports.

Through this project few Subject Matter Experts (SME) will be developed, along with another group of auditors as Expert Trainers (ET) under training-of -trainers (TOT) methodology. The trained auditors (SMEs and ETs) would work on activities like interpreting the standards, developing professional development courses and delivering training. While the SMEs will be responsible to

validate the course contents in terms of consistency (interpretation of ISSAIs) and quality, the ETs will take care of effective design and delivery of various courses through adult learning approach and methodology. From sustainability perspectives, RAA will ensure that SMEs and ETs continue to develop and train the next set of SMEs and ETs so that the sufficient technical resources are available at any given point in time. The SMEs and ETs will be selected as per an acceptable criteria which would include: Somebody who is already involved in iCAT online course, Experience in various audit and non-audit disciplines, qualification in respective fields; managerial position held (team leader position level) and Gender representation. The task team will monitor the selection of the SMEs and ETs and their performance through the life of the project.

This project will be aligned with other activities of RAA which includes: (a) A Professional Development Centre (PDC) which is presently under construction at Tsirang, Bhutan and is being funded by Government of India. The centre is expected to be launched in 2015-2016 and will aim for continuous and sustained delivery of ISSAI and courses for RAA's employees; it will also gradually cater courses to regional (ASOSAI) member countries. The SMEs and ETs trained under this project will deliver ISSAI training programs at the PDC using the Courses that are developed under the Project. (b) RAA has signed MoU with the Comptroller and Auditor General of India or SAI-India on a specific activity whereby two slots are provided to RAA officials in a probation course for Indian Audit and Accounts Services (IA&AS), a key training program for civil servants who will be working in the field of accounts and audit. The training provided under this Project will complement the training provided by SAI-India in terms of addressing the overall training needs of RAA. (c) Simultaneously, the RAA is revising its Continuous Professional Development Policy (CPDP) with the aim to guide auditors in the professional development activities to update and enhance their professional and technical capabilities which would continuously improve the performance of the RAA resulting quality outputs. To uphold this policy, the RAA needs in-house Expert Trainers to develop Professional Development Courses for positions at all levels and also for effective delivery of courses. Through trainings, the ETs will also become familiar with the contributions which training can make to organizational development as well as to improve staff performance. The project will serve a good example of partnership between Government of India (GoI) and Kingdom of Bhutan and their respective SAIs and how this partnership can be further leveraged to help SAI Bhutan to implement ISSAI. While GoI is providing funds for development of infrastructure, SAI India will provide the course for the civil servants, this project will provide fund for creating specialists on knowledge and training delivery.

The components under this Grant would include:-

Component 1: Training of Expert Trainers (ET) and Subject Matter Experts (SME)

Sub-component 1A: Training of Expert Trainers (ET)

A group of auditors will be trained as Expert Trainers using train-the-trainer (TOT) methodology in order to understand effective adult teaching methodology i.e. methods based on case study/ situations, exercises, discussion leading skills, co-facilitation techniques and skills etc. enabling them to teach practical job environment in classrooms. This training will focus on building environment for effective teaching and learning in the PDC. On availing training, they will further disseminate to rest of the auditors on what they have learned. The design and effective delivery of the courses will depend on the effectiveness of the ETs.

Sub-component 1B: Subject Matter Experts (SME)

To comprehend the subject matter technicalities of ISSAIs, knowledge of few auditors will be enhanced through formal trainings, and they will be identified as a group of SME. They will aid in developing quality content of the professional development courses in a timely manner.

Currently, the RAA don't have competence to comprehend ISSAIs fully which may result in diverse interpretations of Standards that could lead to inconsistency and impact quality of audit products and

services. This scarcity could be solved by this intervention by creating a pool of employees who can better understand the context of ISSAIs and support rest of the employees.

Component 2: Professional Development Courses based on ISSAIs

ET and SME will together develop Professional Development Courses based on ISSAIs from basics to advanced levels for the auditors at all position levels. In the subsequent years, the SMEs will revise and update the contents of the syllabus in accordance with the changing auditing standards, practices and environment.

#### IV. Safeguard Policies that Might Apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01		x	
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11		x	
Indigenous Peoples OP/BP 4.10		x	
Involuntary Resettlement OP/BP 4.12		x	
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

#### V. Financing (in USD Million)

Total Project Cost:	0.275	Total Bank Financing:	0
Financing Gap:	0		
<b>Financing Source</b>			<b>Amount</b>
Supreme Audit Institutions Capacity Development Fund			0.275

#### VI. Contact point

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