

CHAPTER VIII

Financial Institutions and corporations

The Royal Audit Authority had conducted the audit of the Royal Insurance Corporation of Bhutan and the Royal Monetary Authority and the State Trading Corporation of Bhutan during the year 2000. Irregularities involving millions of Ngultrums were observed and are discussed here under:

1. Contract awarded based on Cut-Off points

The management of the Royal Insurance Corporation of Bhutan awarded contracts worth over Nu. 47.81 millions to the contractors based on the Cut off points decided by the Tender Committee, which was in contravention to the provisions of the Financial Manual. Audit is of the opinion that award of contracts on such a basis was not fair and transparent since inside-information could alter fair and competitive bidding. For instance, the Tender Committee of the RICB awarded many works based on the Cut off points as follows:

Table 1.31 : showing the constructions awarded on Cut Off basis

Name of the work	Value of the work (Nu. in million)	Work awarded to
Construction of Class III quarters at Phuntsholing	7.64	Contract awarded to third lowest bidder based on cut off points and on negotiation.
Construction of Class III and Class IV quarters at S/Jongkhar	12.20	Work awarded to the highest bidder based on the cut off points and on negotiations
Construction of Office cum guest house at S/Jongkhar	11.25	Work awarded to fourth lowest bidder based on Cut off point determined by the tender committee
Construction of Commercial Building at RICB Housing Complex, P/ling.	0.95	work awarded based on cut off points
Awarded Construction of class III buildings (B group) at Phuntsholing	7.12	Work awarded to fourth lowest bidder based on Cut off point determined by the tender committee
Construction of 4 Nos. class IV buildings at Phuntsholing.	8.65	Work awarded to 5th highest bidder based on Cut off points
Total	47.81	

2. Irregular award of work

It was observed that the construction of Royal Insurance Corporation of Bhutan Head Office building at Thimphu worth over Nu. 61 million was awarded to M/S Kuenleg Construction even before the City Corporation, Thimphu had approved the drawings and design of the building.

3. Uneconomic purchases

It was observed the Royal Insurance Corporation had made purchases of computers, photocopiers, and miscellaneous items worth more than Nu. 6.5 million without considering the benefits of competitive bidding. It was observed that in many instances purchases were made on verbal inquiries from the suppliers and without inviting quotations. It was also seen that in certain cases such purchases made were not accounted for in the books of accounts indicating a serious lack of internal control.

4. Loss of Nu. 0.36 million due to purchase made from unauthorized suppliers

The State Trading Corporation of Bhutan had been allotted quotas by the Government of India to purchase fertilizers from the M/s Hindustan Fertilizer Corporation Ltd. It was observed that the STCB had purchased Urea from local suppliers incurring higher cost, which resulted in extra payment of Nu. 0.36 million.

5. Non-realization of sale proceeds of coal, Nu. 0.85 million

The State Trading Corporation of Bhutan entered an agreement to supply coals to Bhutan Ferro Alloys Limited. From the total amount invoiced Nu. 0.85 million were not realized due to quality problems although the STCB had quality control agreement signed with one Mr. B.B Dutta. The amount remains recoverable from Dutta.

6. Irregular payment of bonus incentive to contractors, Nu. 0.125 million

The Royal Audit had detected that the management of RICB had paid Nu. 0.125 million as bonus incentive to contractors for completing the work before time without the approval of the Board and in contravention to contract agreement provisions.

7. Irregular payment of advances

Over Nu. 7.7 million were found to have been paid to the contractors as advance contrary to the terms and conditions of the contract document by the Royal Insurance Corporation of Bhutan.

8. Irregular payment of Insurance claims

Audit found that the RICB had admitted insurance claims over Nu. 5 million without proper supporting documents. For instance, the company had without the accident reports from the Royal Bhutan Police, admitted numerous motor insurance claims. In the absence of such documents, possibility of misappropriation could not be ruled out.

9. Irregular payment of Donation

The Royal Insurance Corporation incurred expenditure on donation of computers to Phuntsholing Dungthrim and cash donation to BSA, Delhi amounting to Nu. 0.093 million without the approval of the Board. It was not known why there was need to donate computers to Dungthrim since the office was a government agency.

10. Other irregular payments, Nu. 1.08 million

The Royal Audit Authority also detected other irregular payments such as payment of annual increments other than the normal increments without the approval of the Board, payment of gifts in cash to Managing Directors on transfer, payment of interest on performance bonds, inadmissible payment of travel claims and payment towards contract extension without the approval of the Royal Civil Service Commission.

Similarly, the Royal Monetary Authority of Bhutan spent Nu. 0.05 million towards the expenditures for the archery tournament without the approval of the Board.

11. Works executed without inviting tenders, Nu. 11.85 million

Constructions worth Nu. 11.85 million were awarded to contractors

without inviting tenders by the Management Committee of the Royal Insurance Corporation of Bhutan. At least a few of these constructions could have been accomplished at a much lower rate if competitive bidding procedures were followed.

Instances of such award of work is shown below:

Table 1.32 : Showing the works executed without inviting tender

Name of the work	Amount (Nu. in million)	Contract awarded to
Construction of class III and Class IV at Phuntsholing	3.9	M/s Kuenleg Construction
Site Development works at Phuntsholing Housing complex	3.00	M/s Cee Dee Construction
Repair and maintenance of Thimphu Housing Colony	1.38	M/s Cee Dee Construction
Extra Works at Samdrup Jongkhar construction	1.47	M/s Tama Construction
Construction of retaining wall at Phuntsholing	0.84	M/s Kuenleg Construction
Construction of park and play ground at Phuntsholing Housing colony	0.41	M/s Kuenleg construction
Construction of water tank at Thimphu	0.85	M/s Kuenleg Construction
Total	11.85	

12.Outstanding advances against contractors

The Royal Insurance Corporation of Bhutan had paid mobilization and secured advance to contractors carrying out the construction works of the company. It was however found that about Nu. 18.94 million were not adjusted from the running bills of the contractors as required by the provisions of the contract agreement, which had resulted in undue favor to the contractors.

13.Excess payments

It was noted that excess payment of Nu. 0.58 million were paid to the contractors undertaking the construction of the RMA building at Kawangjangsa.

Similarly, it was observed that the management of the Royal Insurance Corporation of Bhutan had paid Nu. 1.16 million more than what was admissible. Transportation Charges for the Chisel dressed stones from Wangdue to Thimphu were entertained when the construction was carried out with hollow blocks. Similarly, the management had entertained additional DSA for training abroad of three employees when the Royal Civil Service Commission had already paid the DSA's. The audit also detected double payment of Leave encashment to the employees of the Company.

Excess payments were also detected in the audit of the accounts of the State Trading Corporation of Bhutan. The STCB had paid M/s SAIL Nu. 0.65 million towards sales tax which was exempt as per the Notification of the Indian Government. This amount remains recoverable. STCB also incurred about Nu. 0.29 million without deducting the discount offered by the supplier and due to incorrect calculation of prices in the purchase of Modi Xerox papers and computers.

14.Non-accountal of Stocks

Physical verification of the stores of the Royal Insurance Corporation of Bhutan revealed that stock worth Nu. 0.175 were not physically available.

It was also observed that Furniture worth Nu. 0.256 million were not accounted by the Royal Monetary Authority of Bhutan.

Stocks worth Nu.3.77 million could not be accounted for at different STCB godowns. It relates to shortages of imported vehicle spare parts, CGI sheets

and OEAM stores.

15. Irregular sale of vehicles damaged on voyage from Japan

Three units Toyota Hilux and 1 unit Hiace bus imported from Japan was said to be damaged while on voyage in rough seas. The surveyors' report indicated that there were no major damages and the Royal Insurance Corporation of Bhutan incurred about Nu. 87,000.00 for the repairs. These vehicles were found to have been sold without auction and assessment of value to the private individuals at their offered value which was highly irregular.

16. Execution of substandard works valuing Nu. 0.77 million

It was observed that construction works of RMA Office building executed by the M/s Drubjor Construction, Thimphu included substandard works valuing Nu. 0.77 million

17. Wasteful expenditure

The Royal Monetary Authority of Bhutan had purchased Machinery to set up coin Mint at Thimphu at a cost of over Nu. 2.8 million. It was however decided not to go ahead with the project due to viability problems. Improper feasibility study by the RMA had led to wasteful expenditure affecting the scarce government resources.

Similarly, an expenditure of Nu. 0.63 million incurred on preparation of designs/drawings and earth work etc. proved to be wasteful due to non-utilization of the drawings/designs, estimates etc by the RMA.

It was also observed that the RMA had paid an amount of Nu. 0.449 million (US\$ 10,375.00) to Reuters Service without availing services and which was neither recovered.

18. Monetary Policy failure

The Royal Monetary Authority has been compensating Banks by introducing

Reserve Repurchase Scheme to absorbing excess liquidity. As of the date of audit, the RMA had paid Nu. 112.50 million towards 5% interest on such repurchase scheme of Nu. 500 million from BOB and its renewal from time to time. The scheme had continued although it had failed to achieve intended objective and tantamount to providing subsidy to the Bank.

19. Irregular payment of differential interest Nu. 7.71 million

It was observed that differential interest burden amounting to Nu. 7.71 million on fixed deposits upon revision of interest rates were borne by the RMA instead of by the respective Banks as the risks and rewards accrue to the Banks.

20. Avoidable expenditure, Nu. 3.8 million

It was observed that the State Trading Corporation of Bhutan had paid over Nu. 3,8 million being the dealership commission of Maruti vehicles to M/s Beekay Automobiles, Siliguri. Although, trends indicated a rapid rise in the demand of the Maruti make vehicles in Bhutan, arrangements to obtain dealership from the manufacturer to avoid dealership commission was not made. This has resulted in an avoidable expenditure of Nu. 3.8 million.

Similarly, it was observed that the State Trading Corporation of Bhutan had paid to M/s Rabten Engineering Workshop over Nu. One million for the warranty labor expenses for Telco Vehicles for which Telco had explicitly committed to bear 100% of the warranty labor cost.

21. Physical Verification of stocks worth over Nu. 48.4 million

It was observed that the STCB had procured over Nu. 48 .4 million worth of spare parts between 1997 and 1999. The stock records were computerized. Actual position of the stocks could not be verified due to computer system failure. There was no back- up available. Possibility of misuse was suspected by the audit.

22. Purchase of 14,684.288Ozs of gold and the consequences thereof.

The Royal Monetary Authority, the Central Bank of Bhutan had purchased US\$ 5 million worth of gold from the Republic National Bank, Singapore with a view to maximize yields when the gold prices were rising in the market. When the gold prices went up in May 1997, there was an opportunity for the RMA to make a profit of about US\$ 0.075 million. Since then gold prices fell in the global market. If sold as of 22nd March 2001, the RMA would have incurred a loss of about US\$ 1.15 million.

The investment that was made without the approval of the Board of Directors is now proving to be risky and the consequences on to the government exchequer may be quite heavy.