

CHAPTER VI

Ministry of Communications

The Royal Audit Authority issued the audit reports of the following agencies under the Ministry of Communications during the year 2001:

1. Material Procurement Unit, Phuntsholing;
2. Mechanical Cell;
3. MoC, Secretariat;
4. Department of Civil Aviation;
5. Roads Maintenance Section, Trongsa;
6. Roads Maintenance Section, Trashigang;
7. Roads Maintenance Section; Lobesa;
8. City Corporation, Thimphu;
9. Regional Workshop, Hesothangka;
10. Regional Workshop, Lingmethang; and
11. Road Maintenance Section, Lingmethang.

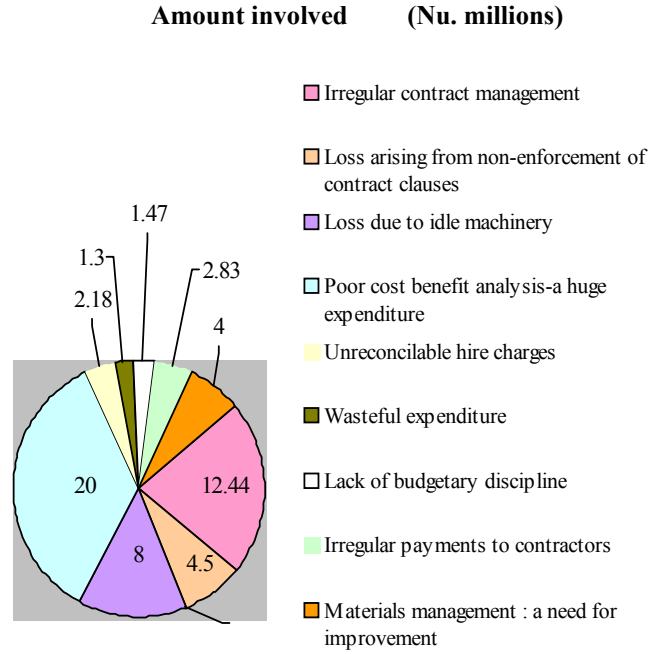


Table 1.19: Showing audit observations by different categories

Sl.No	Nature of observations	Amount involved (Nu. millions)	%
1	Irregular contract management	12.44	9
2	Loss arising from non-enforcement of contract clauses	4.50	3
3	Outstanding Advances	20.75	15
4	Outstanding Revenue	61.41	44
5	Loss due to idle machinery	8.00	6
6	Poor cost benefit analysis-a huge expenditure	20.00	14
7	Unreconcilable hire charges	2.18	2
8	Wasteful expenditure	1.30	1
9	Lack of budgetary discipline	1.47	1
10	Irregular payments to contractors	2.83	2
11	Materials management : a need for improvement	4.00	3
Total		138.88	100

The above table represents the actual scenario at the time of issuing the audit reports in 2001. The updated version of the contents of the above table is given under each observation in bold *Italic*.

Major findings.

1 Irregular contract management.

It was observed that agencies under the Ministry of Communications had awarded works worth millions of Ngultrums to contractors/suppliers without following the government's established norm of inviting tenders to obtain competitive rates. Works were also found awarded not to the lowest bidders. The notion of economic use of the scarce resources of the government was ignored. Instances of such irregularities are presented below:

Table 1.20: Shows the award of contract works to various agencies without inviting tenders

Sl. No.	Agency	Name of the work	Value of the work(Nu. millions)	Remarks
1	Road Maintenance Section, Trongsa	Road resurfacing work on Yotongla - Ura Highway	1.60	Negotiation to M/s EFCC
2	Department of Civil Aviation, Paro	The work "Security Lighting" at Paro Airport	0.58	Direct award of work to M/s Topsecure
3	Road Maintenance Section, Lobeysa.	Construction of Tingtha Bailey Bridge	1.43	Work order basis to M/s Nima and Singye Constructions
4	Road Maintenance Section, Trashigang.	Restoration works on (a) Dewathang - Bhangtar Road, (b) Kawaipani - Bhangtar Road etc.	2.43	Work not awarded to lowest bidder
5	MoC, Secretariat	Supply of Nashautic copier	0.15	Without quotation to M/s Automation system
6	Department of Civil Aviation, Paro	Hanger roofing, Fixing of wire mesh and Civil work at Paro Airport	2.03	Work order basis to M/s K.L Construction
7	Road Maintenance Section, Trashigang.	Restoration works on T'gang - Yadi Road; Chaskar Feeder Road; Works on Dewathang - Bhangtar Road	2.77	Work awarded on work order basis, based on the approval of the Secretary, MoC
8	Road Maintenance Section, Lobesa	Monsoon restoration works	1.45	Non-award of the work to the lowest bidder
TOTAL			12.44	

Justifications to serial number 1, 2, 5 & 6 above submitted by MoC are briefly outlined below:

1. *During the meeting between the Ministry of Communications and the RAA on 26.3.03, the MoC acknowledged that the Road Resurfacing Work on Yotongla-Ura Highway though awarded on negotiation to M/s Environmental Friendly Construction Company (EFCC) the actual deal did not materialize. It was stated that the work eventually had to be carried out departmentally as the company failed to take up works.*
2. *The RAA was appraised that the work on security lighting at Paro airport was directly awarded to M/s Top Secure because of the security reasons and that the job demanded expertise and there were no other local contractors.*

The Department of Civil Aviation (DCA) further submitted that the tender and procurement formalities will be strictly complied with in all its future contracts.

5. *The MoC submitted that Nashautic copier had to be procured directly since it was required mainly for the donors who were conducting a Telecommunications Regulatory Meeting which was time bound. The MoC stated that such practice is discontinued.*
6. *The DCA had appraised the RAA that the work on hanger roofing, fixing of wire mesh etc was awarded based on the approval of the ministry considering the urgency of the work. It was also stated that the budget for the work was reappropriated from the budget earmarked for the purchase of vehicles.*

The DCA further submitted that the tender and procurement formalities will be strictly complied with in all its future contracts.

The MoC is still accountable to submit satisfactory justifications for the rest of the works brought out in the Table above.

2 Loss arising from non-enforcement of contract clauses.

A contract agreement is a legal document containing the terms and clauses governing the contract between the two parties.

In the audit of the agencies under the Ministry of Communications during the year 2001, it was observed that liquidated damages amounting to over Nu. 4.5 millions were not levied on the contractors who had breached contract terms. It was found that projects were not completed on the time agreed in the contract agreement.

The government therefore needs to review the competency of the contractors or the reasonableness of the contract duration keeping in view that most contractors had defaulted in delivering on the time agreed.

Necessary justifications and the amount recovered to the tune of Nu.1.57 millions were outlined in the meeting on 26th March 2003 thereby leaving a balance of Nu.2.87 millions. The MoC had further assured the RAA about inclusion of penal clauses in all its future contracts.

Table 1.21: Showing the detail of the balance amount of liquidated damages:

Sl. No	Agency	Name of works	Amount Nu. millions	Remarks
1	Department of Civil Aviation	Cons. of Airport Security barracks, toilets etc	0.04	M/s Top Secure
2	Department of Civil Aviation	Supply of Compressors	0.28	
3	Department of Civil Aviation	Hanger roofing, fixing of wire mesh etc.	0.20	M/s K.L. Construction
4.	MPU, P/ling	Supply of Bridge parts	0.03	Bhutan Hardware agency.
5.	MPU, P/ling	Supply of Tor steel	0.15	Yarkey Enterprise
6.	MPU, P/ling	Supply of Copper Sheets	0.07	Yarkey Enterprise
7.	MPU, P/ling	Supply of galvanized chain link wire mesh.	0.05	Yarkey Enterprise
8.	RMS, Lobeysa	Road resurfacing	1.97	
9.	Thimphu City corporation	Supply of electrical cables, fittings etc.	0.08	D.T. Enterprise
		Total	2.87	

3 Outstanding Advances.

Advances amounting to over Nu. 20.75 millions were outstanding as of year 2001. Agency wise amounts outstanding are presented in the table below:

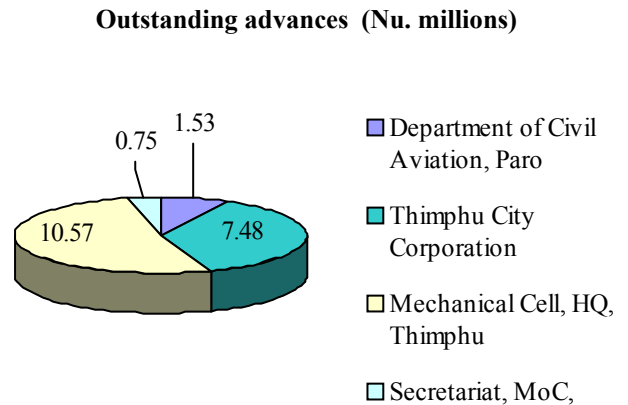


Table 1.22: Showing the outstanding advances against various agencies

Sl.No	Agency	Amount Nu. Millions		
		Total Amount	Adjusted/recovered	Balance
1	Department of Civil Aviation, Paro	1.53	1.15	0.38
2	Thimphu City Corporation	7.49	7.49	-
3	Mechanical Cell, HQ, Thimphu	10.58	0.0007	10.58
4	Secretariat, MoC, Thimphu	0.76	0.28	0.48
5	Hesothangkha Regional Workshop	0.39	0.08	0.31
Total		20.75	9.00	11.75

The Ministry of Communications had initiated actions, recoveries and adjustments were made. As a result the latest position of the outstanding is only a mere Nu.0.03 million.

4 Slow moving and obsolete materials.

Old and slow moving items such as vehicle spare parts, water supply materials worth millions were dumped in the stockyards of the Material Procurement Unit, Regional workshops in Hesothangka and Lingmethang. This not only impinges on the financial resource of the nation but also on the human and spatial resources.

A copy of the handing/taking note between MPU, P/ling and the Department of National Properties was not produced.

5 Outstanding Revenue.

Revenue worth Nu. 61.41 millions earned out of hire of machinery and equipment, sale of water supply materials, taxes etc. from the government as well as the private parties were outstanding during the year 2001. This is shown in the table 1.29:

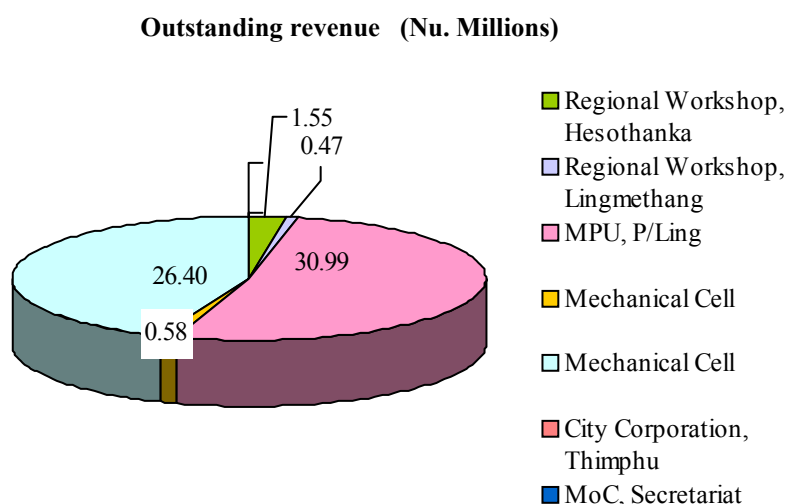


Table 1.23: Showing the agency wise outstanding revenue

Sl.No	Agency Audited	Outstanding on account of	Nu. millions	
			Total Amount	Adjusted/recovered
1	Regional Workshop, Hesothanga	Hire of machinery and equipment	1.55	1.15
2	Regional Workshop, Lingmethang	Hire of machinery and equipment	0.47	0.23
3	Material Procurement Unit, P/Ling	Dzongkhags and private parties	30.99	2.29
4	Mechanical Cell	Hire of equipment	0.58	0.03
5	Mechanical Cell	Outstanding against regional workshops and RMSs	26.40	
6	City Corporation, Thimphu	Outstanding urban taxes	0.57	0.47
7	MoC, Secretariat	Renewal fees from cable operators and dish antenna users	0.85	
Total			61.41	4.17

The responses submitted to the RAA stated that the adjustments and recoveries are continuously being pursued. Out of Nu.57.24 millions outstanding as on 7th October 2002, the balance amounts awaiting adjustments/recoveries stands at Nu.20.82 millions as detailed in the Table 1.24 below:

Table 1.24: Showing balances of revenue outstanding.

Sl.No	Agency Audited	Outstanding on account of	Amount Nu. millions
1	Regional Workshop, Hesothanga	Hire of machinery and equipment	0.20
2	Material Procurement Unit, P/Ling	Supply of materials to Dzongkhags and private parties	17.87
3	Mechanical Cell	Hire of equipment	0.55
4	Mechanical Cell	Outstanding against regional workshops and RMSs	1.25
5	City Corporation, Thimphu	Outstanding urban taxes	0.10
6	MoC, Secretariat	Renewal fees from cable operators and dish antenna users	0.85
Total			20.82

6 Loss due to idle machinery.

The Regional Workshops at Hesothangka and Lingmethang hire out machinery to the Road Maintenance Sections. Hire charges were charged only for the actual use of the machine ignoring the idle time during the period of the hire. If the idle time is taken into consideration, and the alternative of hiring it out to the private parties considered, government would have earned approximately Nu. 7 millions from the Regional Workshop, Lingmethang and over Nu. 1 million from Hesothangka.

The MoC had informed the RAA that the matter in question is brought to the notice of the Ministry of Finance. The Ministry of Finance had instructed the Regional Workshop to keep the withholding charges in abeyance.

7 Poor Cost Benefit Analysis: a huge expenditure.

The Material Procurement Unit in Phuntsholing had incurred about Nu. 20 millions towards the cost of transportation in 3 years to transport materials to various agencies. The MPU had four trucks standing idle on many of the dates of transportation through private transporters.

The MPU on the one hand was paying huge amounts on account of hire charges, where as on the other hand departmental trucks were lying idle.

The MoC had submitted that the departmental trucks in question were meant for specific project. The project document did not authorize its usage for non-project related activities.

8 Irreconcilable Hire Charges.

The hire charges of Machinery by the Regional Workshop, Hesothangka could not be reconciled to the tune of Nu. 2.18 millions. The bills raised were higher than the payments received by the workshop.

The concerned agency had informed the RAA about having recovered/realized the billed amount thus reconciling the hire charges.

This will be reviewed in the next audit.

9 Wasteful Expenditure.

It was observed that expenditure to the tune of Nu. 1.3 millions approximately were incurred on the works executed on the Kawaipani-Bhangtar road. It was however found that the work was abandoned resulting in wastage of government fund to that extent.

The RAA is informed that the work in question was abandoned due to security reasons.

10. Lack of budgetary discipline.

- I. It was observed that the Ministry of Communications had incurred over Nu. 0.4 million on hospitality and entertainment as against the Budget provision of Nu.0.20 million.

- II. Salary disbursement to the tune of Nu. 0.26 million and Nu. 0.81 million were made by the RMS, Lobesa and Regional workshop, Hesothangka against posts not sanctioned/approved.

For point No. I: *The MoC had stated that out of Nu.0.40 million expenditure incurred, about Nu.0.095 million was incurred on Deputy Minister's behalf which should have got refunded from the Ministry of Finance, minus Secretary's entitlement of Nu.0.20 million rest were incurred during the visit of government guest which must be refunded from the Ministry of Finance.*

The RAA expects the RMS, Lobesa and Regional Workshop, Hesothangka to obtain the concurrence of competent authority for engaging staff beyond the approved post and furnished to audit for verification.

10 Irregular payments to contractors.

Contrary to imposing penalties to the contractors for the breach of contract terms and conditions, it was observed that the government agency had extended undue financial help to the contractor against the provisions of the contract agreement and the financial rules in force. It is seen that either the advances to the contractors were paid in excess of what was defined in the contract agreement or against the rules set in the financial manual. Instances of such irregular payments are given in the table below:

Table 1.25: Shows the Irregular payments and the amount involved

Agency responsible	Name of the work	Irregularities	Amount (Nu.millions)	Contractor
DCA, Paro	Hanger roofing, fixing wiremesh and other civil works	Payment of advance not covered by the contract	2.00	M/s K.L construction
RMS, Lobesa	Additional formation cutting on Tashithang-Damji road	Advance released, works not executed	0.51	M/s Nima Construction
RMS, Lobesa	Formation cutting on Tashithang-Damji road	Excess payment of advance not in terms of the contract	0.32	M/s Nima Construction
Total			2.83	

11 Materials Management: a need for Improvement.

It was observed that materials worth over Nu. 3.5 millions were dumped behind the workshop in Hesothangka exposed to heat and rain. Similarly,

it was observed during the audit of RMS, Lingmethang that materials worth over Nu. 0.5 million remained at site after the completion of the works without proper care.

The RAA was informed that proper storage facilities have been constructed and that the materials are under safe custody. The issue now stands resolved.