

Annual Audit Report 2003

Main Report

This chapter and the chapters that follow shall form the part of the Annual Audit Report 2003.

During the year 2003 the Royal Audit Authority had conducted 294 audits as summarized below:

Sl. No	Particular	Normal Audit	Special audit	Statutory Audit	Project Certification	Total
1.	No. of audit conducted.	203	5	17	69	294

Accordingly the RAA had issued 275 reports as summarized below:

Sl. No	Particular	Normal Audit	Special audit	Statutory Audit	Project Certification	Total
1.	No. of reports issued.	184	6	17	68	275

Special Audit.

Apart from normal inspection audit, the RAA conducted 5 Special Audit of Taktshang Reconstruction Project, Renovation of Petsheling Monastery, Renovation of Rigsum Gonpa, Army Welfare Project, Khuruthang Water Supply and Electric Stove Distribution Project under the National Women Association of Bhutan.

The findings of all the reports were submitted to the concerned head of agencies for necessary action. While two rounds of discussions were already held between the RAA and concerned head of agencies pertaining to the Reconstruction & Renovation works Special Enquiry Committee chaired by Finance Secretary is currently reviewing the Special Audit Report of the Army Welfare Project.

The report on the Special Audit of the Khuruthang Water Supply Project was also submitted to the RCSC. The significant findings include provision of inadequate number of thrust blocks in contrast to drawings and the Bill of Quantity, use of less quantity of lead in Corrugated Iron (CI) pipe joints deviating from the standard, depth of trenches in contravention to specification, excessive release of water than the designed capacity and non-alignment of pipe joints within the permissible angle. The contractor had carried out the renovation works valuing Nu. 2.500 million and the engineers involved were reprimanded. The audit findings had concurred with the rectification's carried out.

Since the management of Electric Stove Distribution Project has initiated no action the whole finding of the audit are incorporated in this Annual Audit Report 2003. The findings include deceiving and fraudulently collecting money from the public of 11

Dzongkhags through overcharging by a total amount of Nu.2.600 million, supply of defective electric stoves, use of superficial firm, collection of irregular advances, non-delivery of stoves after the payment, furnishing false statement, etc.

Value for Money Audit.

The Royal Audit Authority, in order to keep abreast of the latest audit techniques prevalent in different Supreme Audit Institutions has recently embarked upon Value For Money Audit (VFM). The division in the RAA specially assigned for this purpose had conducted such audit in the areas of Inventory Management by Central Stores, Procurement of Computers by government agencies and Referral of Patients outside Bhutan. The recommendations to help resolve all deficiencies were also appropriately provided for. Other theme based audit such as personnel action by the Ministries in the areas of promotion and training is under progress.

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The findings incorporated in the Annual Audit Report 2003 by and large are no different in terms of category of observations from its earlier versions such as excess & inadmissible payment, outstanding advances & revenue. The tabulated summary of the AAR 2003 is presented here below:

Tabulated summary of AAR 2003 showing agency wise, category wise and the amount involved (in millions).

Code No.	Category of Irregularities	MoHCA	MoA	MoWHS	MoE	MoH	MoF	MoFA	MoIC	MoLHR	MTI	Corp.& FI	Armed Forces	Judiciary	Auto. Agencies	Total
1	Outstanding advance/loan	31.222	2.927	2.042	0.026	52.392	0.031	5.641	-	0.077	0.277	96.631	21.867	0.013	3.727	216.873
2	Outstanding revenue/debtors	0.168	5.716	0.474	0.035	-	-	-	3.270	-	0.642	89.121	-	-	3.335	102.761
3	Procurement without tendering	1.040	-	-	-	-	-	-	-	-	-	0.207	-	-	0.347	1.594
4	Loss of revenue	-	-	-	-	-	0.063	-	-	-	-	-	-	-	-	0.063
5	Avoidable/wasteful purchases/expenditure	0.496	-	-	-	-	-	-	-	-	-	0.099	-	-	-	0.595
6	Over/excess /double payment	3.722	0.215	1.847	0.018	-	-	0.094	-	0.068	-	0.749	0.658	-	0.074	7.445
7	Irregular contract management	36.656	0.053	6.615	0.364	-	-	-	-	-	-	-	-	0.235	-	43.923
8	Irregular/inadmissible payment	0.434	0.532	3.864	-	0.073	-	4.382	-	-	-	2.414	0.080	0.082	-	11.861
9	Misappropriation/misuse of revenue	0.913	-	-	-	-	-	-	-	-	-	-	-	0.072	-	0.985
11	Shortage of cash/materials/equipment	-	0.915	-	0.156	-	-	0.128	-	-	-	0.497	0.93	-	-	2.626
13	Non-levying of liquidated damages	1.914	-	2.167	-	-	-	-	-	-	-	-	0.497	-	-	4.578
14	Payments for works not executed/materials not received	0.118	0.025	-	-	-	-	-	-	-	-	-	0.056	-	-	0.199
15	Short/Non-deduction of taxes	0.243	0.205	0.015	-	0.040	-	-	-	-	-	0.025	-	-	-	0.528
16	Non-accountal of advances/equipment	0.087	0.360	-	-	-	-	-	0.041	-	-	-	-	-	-	0.488
17	Fictitious booking of expenses	0.419	-	-	-	-	-	-	-	-	-	-	-	-	-	0.419
18	Others	2.341	0.400	0.468	0.021	0.019	1.035	-	0.198	-	-	113.582	0.265	0.310	0.100	118.739
	Total	79.773	11.348	17.492	0.620	52.524	1.129	10.245	3.509	0.145	0.919	303.325	24.353	0.712	7.583	513.677

1. Outstanding advance/ loan.

An amount aggregating to Nu.216.873 million has been lying outstanding. Issue of government money lying in the private hands pending recovery and adjustment for a very long period of time continues to top the list of irregularities. The five agencies that had the highest outstanding advances were as given below:

Sl. No.	Agencies responsible	Amount (Nu. Million)
1.	Corporations & Financial Institutes	96.631
2.	Ministry of Health	52.392
3.	Ministry of Home & Cultural Affairs	31.222
4.	Armed Forces	21.867
5.	Ministry of Agriculture	2.927
	Total	205.039

The figure of Nu.96.631 million against Corporation & Financial Institutes includes Nu. 92.116 million lying outstanding against various customers of the Bank of Bhutan. The validity period of the loan had already expired. It was noticed that some of the outstanding loan goes as far back as the year 1980.

The RAA always stressed that all over due advances beyond the permissible time must be recovered with commercial interest of 16% per annum.

All old and irrecoverable advances should be reviewed and appropriate action taken.

2. Outstanding revenue/debtors.

The government had revenue/debtors amounting to Nu. 102.761 million lying outstanding against government agencies, third parties and individuals. The five agencies that had the highest outstanding are as elucidated in the Table below:

Sl. No.	Agencies responsible	Amount (Nu. Million)
1.	Corporations & Financial Institutes	89.121
2.	Ministry of Agriculture	5.716
3.	Autonomous agencies	3.335
4.	Ministry of Information & Communications	3.270
5.	Ministry of Works & Human Settlement	0.642
	Total	102.084

The RAA always stressed that all over due revenue beyond the permissible time must be recovered with penal interest of 24% per annum.

All old and irrecoverable revenue should be reviewed and appropriate action taken.

The RAA had noticed a huge amount of outstanding debtors pertaining to Bhutan Board Products Limited (BBPL) & State Trading Corporation of Bhutan Limited (STCBL) with Nu. 82.685 million and Nu. 6.153 million respectively. It mostly relates to sale of boards, furniture, vehicles, spare parts, construction materials etc. In both the agencies the amount of such a magnitude got accumulated due to a lack of sound credit policy and debtor management.

The corporations should streamline debtor management and credit rating systems.

3. Procurement without tendering.

Despite being repeatedly pointed out by the RAA few agencies are still found procuring goods and services without complying to the procurement formalities. The aggregated value of such procurements in this report is Nu.1.594 million. Although the RAA is witnessing a decreasing trend in this irregularity, it still tantamount to non-compliance to Procurement Norms. The three agencies that had this irregularity are as given below:

Sl. No.	Agencies responsible	Amount (Nu. Million)
1.	Ministry of Home & Cultural Affairs	1.040
2.	Autonomous agencies	0.347
3.	Corporations & Financial Institutes	0.207
	Total	1.594

Agencies should strictly respect and enforce Procurement Rules.

4. Wasteful expenditure/avoidable purchases.

Expenditure for which its actual requirement was not properly assessed or purchases which could have been avoided were still found to have been made. Such wasteful/avoidable expenditure amounted to Nu.0.595 million. The two sectors that had such cases are Ministry of Home & Cultural Affairs & Corporations.

The agencies should properly assess the requirement to avoid such occurrences in future.

5. Over/excess/double payment.

It is painful to report yet again that despite the strong concerns raised in previous AARs the instances of excess/double/over payment is still found to be a norm in almost all the audited agencies reported in this Annual Audit Report. The value of such payments amounted to Nu. 7.445 million. The three sectors which accounted for more than 95 % of such payment are elucidated in the Table below:

Sl. No.	Agencies responsible	Amount (Nu. Million)
1.	Ministry of Home & Cultural Affairs	3.722
2.	The Ministry of Works & Human Settlement	1.847
3.	Corporations & Financial Institutes	0.749
	Total	6.318

Proper scrutiny of payments & adequate supervision should be ensured by all the officials responsible for management and control of public funds and resources.

6. Irregular contract management.

The RAA is satisfactorily witnessing a decrease in value of goods and services procured without tendering. However, the paradoxical situation is that the irregularities in contract management denoted in monetary term are increasing at a very alarming rate. Such irregularities included termination of contract but without settlement of advances, evaluation & award of work beyond the authority specified, inadequate notification time for tendering, award of work on cut-off point basis, non-enforcement of contract terms. The value of such irregularities aggregated to Nu.43.923 million. The three agencies that accounted the highest percentage are as given in the Table below:

Sl. No.	Agencies responsible	Amount (Nu. Million)
1.	Ministry of Home & Cultural Affairs	36.656
2.	Ministry of Works & Human Settlement	6.615
3.	Ministry of Education	0.364
	Total	43.635

Greater and cautious implementation of contractual terms and conditions to improve the contractual management is recommended.

7. Irregular/inadmissible payment.

Payments, which were not in accordance with its admissibility covered under various rules, circulars and office orders, were still found to have made. Such payments aggregated to Nu.11.861 million. The three agencies that had the highest of such cases are as given below:

Sl. No.	Agencies responsible	Amount (Nu. Million)
1.	Ministry of Foreign Affairs	4.382
2.	Ministry of Works & Human Settlement	3.864
3.	Corporations & Financial Institutes	2.414
	Total	10.660

Proper scrutiny of payments & adequate supervision should be ensured.

8. Misappropriation/misuse of RGoB fund, revenue.

Misappropriation of RGoB fund and revenue were detected by the RAA. The cumulative total of all these amounted to Nu. 0.985 million. The agencies responsible for the amount were the Ministry of Home & Cultural Affairs and Judiciary with Nu.0.913 million and Nu.0.072 million respectively.

Strengthening of check and balance system including supervisory control to avoid such cases should be ensured.

9. Shortage of cash, revenue & stores.

Shortages of cash/stores/stationery were also detected which logically should also fall under the category of misappropriation. The total value of all these shortages aggregated to Nu.2.626 million. The three sectors that accounted the highest percentage are as given in the Table below:

Sl. No.	Agencies responsible	Amount (Nu. Million)
1.	Armed Forces	0.930
2.	Ministry of Agriculture	0.915
3.	Corporations & Financial Institutes	0.497
	Total	2.342

Strengthening of check and balance system including supervisory control to avoid such cases should be ensured.

10. Fictitious booking of expenditure.

Though the procedures for reporting expenditures are clearly laid out in the Financial Rules & Regulations some expenditure were found fictitiously booked without incurring it, thus defying the financial discipline expected from the finance personnel. The amount of expenditure reported in this category was Nu.0.419 million. The Ministry of Home & Cultural Affairs was responsible for this.

Strengthening of check and balance system including supervisory control to avoid such cases should be ensured.

11. Non-levying of liquidated damages.

Though the contractual terms and conditions stipulated that in the event of a failure of contractor to complete the contract on time it shall be liable for a liquidated damages at pre-determined rates, but it was found not levied resulting in undue favor to the contractor. Time extensions were found granted without justified hindrances as required. Hindrance Registers were mostly not found maintained as well. Liquidated damages for construction works not completed within the stipulated time amounted to Nu.5.218 million. The three sectors that accounted for the highest amount of liquidated damages not imposed were as follows:

Sl. No.	Agencies responsible	Amount (Nu. Million)
1.	Ministry of Works & Human Settlement	2.167
2.	Ministry of Home & Cultural Affairs	1.914
3.	Armed Forces	0.497
	Total	4.578

Penal provisions laid down in the contract documents must be enforced to serve as deterrent against non-enforcement of contractual arrangements.

12. Payment for works not executed.

Though the number of instances of payments made without executing of works had substantially reduced as compared to the previous years the audit detected a sum of Nu.0.199 million paid on this account. Agencies responsible for this amount are as under:

Sl. No.	Agencies responsible	Amount (Nu. Million)
1.	Ministry of Home & Cultural Affairs	0.118
2.	Armed Forces	0.056
3.	Ministry of Agriculture	0.025
	Total	0.199

Proper check and balances must be put in place to prevent such occurrences.

13. Non-deduction/short deduction of taxes.

Though the requirement to deduct taxes are explicitly laid out in the Taxation Rules some of agencies still disregard the provision either by non-deduction or short deduction of taxes. The total of taxes not deducted or less deducted aggregated to Nu.0.528 million. The three sectors that accounted the highest percentage are as given in the Table below:

Sl. No.	Agencies responsible	Amount (Nu. Million)
1.	Ministry of Home & Cultural Affairs	0.243
2.	Ministry of Agriculture	0.205
3.	Ministry of Health	0.040
	Total	0.488

Deduction should be made as per the Taxation rules of the Kingdom.

14. Non-accountal of advances/equipment.

Various agencies whether advertently or inadvertently had not accounted payment of advances in the relevant books of accounts as required under the accounting norms. Similarly equipment/books/other inventory as stated to have purchased were not accounted for. The total aggregated value of such lapses amounted to Nu.0.488 million. The three sectors who accounted for more than 95 % of the non-accountal are as under:

Sl. No.	Agencies responsible	Amount (Nu. Million)
1.	Ministry of Agriculture	0.360
2.	Ministry of Home & Cultural Affairs	0.087
3.	Ministry of Works & Human Settlement	0.041
	Total	0.488

Accounting and Inventory control need to be strengthened.

15. False verification.

One contractor was found paid secured advance of Nu. 2.15 million for materials stated to have brought at construction site. But the site verification revealed that the materials were not brought at site and the one who verified the contractor's claim of secured advance was not the concerned site engineer. The concerned Dzongkhag Administration responsible for this had not responded.

The payment of secured advance must be based on the verification of materials actually brought at site by the concerned site engineers.

16. Manipulation in the Bill of Quantities-Resultant over payment.

The contract for the construction of Hostel Block-1 at Nangkhon Higher Secondary School, Pemagatshel was awarded to M/s Dolma Construction. Verification by the audit team unveiled the manipulation technique used by the contractor, which was not noticed by the tender evaluation team. It transpired from the tender documents that the contractor had manipulated among others the quantity of earthing from 64 numbers to 1 number thus resulting into understatement of Gross Bid amount, whereas the gross bid amount of next lowest evaluated substantially responsive bid was inclusive of the cost for 64 numbers. If there was no manipulation and had the evaluation team exercised its sound judgment with more vigilance the decision could have gone the other way and the Royal Government would have saved Nu.0.729 million. The Dzongkhag Administration, Pemagatshel responsible for this had not responded on this issue as of date.

Proper evaluation of BOQ having regard to the quantity and rate indicated against each item of work should be ensured.

17. Irregular waiver of penalty on evasion of income.

The RRCO, Phuntsholing while carrying out the tax assessment for the year 1999-2001 detected that M/s T & K Company had not disclosed the income amount of Nu. 3.376 million. This amount was added back to taxable income/loss of Previous Year 2000 and the penalty equivalent to double the tax amount evaded was levied. Accordingly demand notice for the tax amounting to Nu. 2.190 million was served.

The company appealed to the Tax Appeal Committee justifying that the evasion was not intentional. The appeal committee waived off 75% of the penalty on the ground that it was the first offence, that the company had settled the undisputed tax and that most evasion cases were from the construction sector because of the subcontracting.

The company did not respect the decision of the committee and further appealed to the Hon'ble Minister, Ministry of Finance. Based on the recommendation of the appeal committee, the Hon'ble Finance Minister waived off 50% of the remaining 25%.

The company was eventually required to pay the tax amount of Nu. 0.375 million only out of Nu. 2.190 million initially raised/ demanded.

The Penal Provision stipulated in the Taxation Rules should be enforced to serve as deterrent against tax evasion. Waiver may be granted if non-declaration of income is proved unintentional.

18. Irregular write-off of loan.

The Royal Audit Authority had found an amount of Nu. 4.273 million being written off by the Board against irregular Medium Term Loan account of proprietor of M/s Choden Chemicals & Industries Limited. It was also learnt from the records that prior to the write-off an amount of Nu.2.265 million were also written off by the Board. The RAA felt that if such kind of relief and concessions were granted time and again it would not only affect the overall profitability of the banking business proprietors may not also give resourceful & enterprising thought to seriously carry on the business.

The Bank of Bhutan had submitted that the said amount of loan was written off on account of company becoming sick for various reasons such as delayed receipt of machinery, shortage of skilled labour, technical snags etc.

The audit opines the justification submitted as simply a managerial problem and not enough to justify write-off of Nu. 6.538 million by the Board.

19. Irregular sanctioning of personal loan.

The RMA's Prudential Regulations 1999 states that "the same Financial Institution is not allowed to extend new loans to a borrower for repayment of arrears on Non- Performing Assets (NPA)" However, it was found that not only the Board of Directors of the Bank of Bhutan had approved the loan even the regulating authority (RMA) had issued the clearance for extending such personal loan to proprietor of M/s Choden Chemicals & Industries Limited.

The RAA found that the Board had approved the loan on the condition that if the borrower defaults repayment of loan including interest component by three instalments in either of the personal loan account or company's loan account, the bank shall take over all the properties mortgaged with the bank. However, it was observed that the borrower had defaulted four installments in both the accounts but for which the bank had not initiated any penal action liable as per the terms and conditions.

The Bank of Bhutan submitted that deviations will have to be allowed in specific instances and that the loan was sanctioned in accordance with the approval of the Royal Monetary Authority.

20. Settlement of Insurance claims without police report.

The RAA had observed that the claims department of the Royal Insurance Corporation of Bhutan had settled claims of Nu. 2.694 million without insisting for the mandatory requirement of Police Verification Report. In most cases police report is waived off as a special case and further verification from the insurer's side were never carried out even when the client did not produce the Police Report.

The issue here is whether the requirement is one of law or management need. If it is not the one of law that is mandatory, the requirement must be made mandatory for all claims for accident.

The RAA felt that the management by exercising their authority to choose which accident requires a Police Report had only given the management a room to manipulate and connive.

Until a legal opinion is provided all claims should be supported by mandatory requirement of the Police Verification Report in the public interest and fairness.

21. Variation/manipulation in the value of goods.

On cross examination of the Check Post Records of goods imported by individual importer vis-à-vis purchases shown in the Profit & Loss Account revealed variations in the value of goods. Despite similar observation raised in the earlier audits, the RRCO, S/Jongkhar had not initiated any remedial action.

RRCO should cross-verify the returns submitted by the importers with that of information collected independently from other sources to ascertain the correctness of information.

Besides corrective/ preventive measures as recommended above against each observation, administrative/ legal action should also be initiated where appropriate.

22. Non-collection of hire charges.

The Power Chain saw procured by the Dzongkhag Administration, Thimphu were taken by the Engineer-In Charge at site for felling of trees, cross cutting etc. But the records revealed that such works were awarded on contract immediately after the royalty was paid. No hire charges were collected from the contractor who used the equipment for 7 months.

23. Non-derivation of utility from Depot office.

The Integrated Forest Management Project (IFMP) as depot office in Shingkar village, Ura, constructed a two-storied building with four units. The construction had not been completed when the IMF Project was terminated. The building was around 90% complete when it was handed over to the Park Management. However, the building as of now remained idle with the paneling and the flooring of the ground floor dismantled and few ekra walls damaged.

24. Loss of X-ray film.

M/s Morgan Ward Limited was appointed to carry out the Non-Destructive Test for the Wing Area's BAe 146 A/C: A5-RGE. During their testing of the wing, the x-ray films were stolen by the security personnel in the Air Port. Since the stolen films were exposed, the desired result could not be achieved. Though the Maintenance Manager had reported the case to the management, suitable administrative action was not found taken against the employees involved. The management had to pay 50% of the total cost amounting to Nu.0.451 million.

25. Spares lying idle.

On verification of the Engineering Store, Druk Air Corporation, Paro it was noticed that expendable parts & rotable slow moving parts valuing Nu.66.31 million were found lying idle in the store. It was also seen that some parts were purchased as far back in 1988 and not utilized till date of audit.

26. Unjustified waiver of late fee.

It was found that the Board during 131st Board Meeting had waived of late fee amounting to Nu.0.674 million against Miscellaneous Overdraft A/c of M/s Dendup Group of Companies.

It was mentioned in the above minutes of the meeting that the late fee was waived off based on the request submitted by the borrower citing reasons of the poor performance of the company and closure of some of the units due to circumstances beyond the company management's control. However, from the available records it was evident that the Bank had not carried out detailed study to justify making such decision.

27. Sale of vehicle salvages below the reserve price.

The sale of vehicle scraps & salvages were made through open auction to the general public. However, it was noticed that some of the salvages were sold to public below the company's reserve value resulting into a loss of Nu.0.753 million.

28. Irregular payment of demurrage.

As per the terms and conditions with the clearing agent any demurrage charges incurred resulting from negligence and delay in clearing the cargo will be recovered from the clearing agent. However, demurrage charges amounting to Nu.1.323 million were paid to the clearing agent without properly verifying as to who was responsible for the delay. Loading of such charges without properly verifying the causes of delay to Bhutanese Customer is not fair.