

Ministry of Finance

The Royal Audit Authority during the year 2003 had issued 4 inspection reports of agencies under the Ministry of Finance. The following officials headed the ministry and the departments under it in the first half of the year 2003:

Sl. No.	Name of Office Bearers	Designation
1.	Lyonpo Yeshey Zimba	Minister
2.	Dasho Wangdi Norbu	Secretary
3.	Aum Y. T. Wangchuk	Director, Department of Aid & Debt Management
4.	Lam Dorji	Director, Department of Budgets & Accounts.
5.	Nima Wangdi	Director, Department of Revenue & Customs
6.	Letho	Head, Administration & Finance Division.

The following officials headed the ministry and the departments under it in the later half of the year 2003:

Sl. No.	Name of Office Bearers	Designation
1.	Lyonpo Wangdi Norbu	Minister
2.	Aum Yangki T Wangchuk	Secretary
3.	Sonam Wangchuk	Director, Department of Budget & Accounts.
4.	Lam Dorji	Director, Department of Planning.
5.	Nima Wangdi	Director, Department of Aid & Debt Management.
6.	Sangay Zam	Director, Department of Revenue & Customs
7.	Letho	Head, Administration & Finance Division.

The following table exhibits the summary of the findings in a consolidated form:

Table 1.23 showing summary of the observations by category code and the amount involved.

Sl. No.	Observation in brief	Amount (Nu. Million)	%	Category code
1.	Short/non-collection of taxes	0.776	68.73	18
2.	Collection of sales tax on hand receipt basis	-	0.00	18
3.	Manipulation of value of goods	-	0.00	18
4.	Outstanding advance	0.031	2.75	1
5.	Loss of revenue	0.063	5.58	4
6.	Irregular waiver of penalty on evasion of income	0.259	22.94	18
	Total	1.129	100.00	

Major findings:

1. Short/Non-collection of taxes - Nu.0.776 million.

A. The Regional Revenue & Customs Office (RRCO), Samdrup Jongkhar had not collected taxes in accordance with the taxation policy of the government. It includes Nu.0.169 million and Nu.0.087 million on account of Business Income Tax (BIT) & Bhutan Sales Tax (BST) respectively.

Auditee's response: *With regard to BIT the RRCO, S/Jongkhar had not responded till date. For non-collection of BST it was stated that the items on which BST was not levied was treated as parts of machinery, which is exempted.*

Who is accountable?: *The justification is not tenable in audit since the materials used for construction of sheds for the plant and machineries cannot be termed as peculiar and directly related to the manufacture of final product. However, the RRCO may produce clarification from the competent authority.*

B. The RRCO, Phuntsholing had short levied BST and Custom Duty amounting to Nu.0.520 million by wrong application of the method/formula to derive the Free On Board (FOB) value.

Auditee's response: *The RRCO, Phuntsholing had submitted that the rule was not very clear on the method of working out the FOB value based on the CIF and that officials were not well versed in applying certain rules. It was also informed that the CIF value provided by the importers were ignored and reassessed by the office on the higher side.*

Who is accountable?: *The Import Section must work out the differences and recover and deposit the amount into audit recoveries account. The responsibility to do so is fixed on the Regional Director, RRCO, Phuntsholing.*

2. Collection of sales tax on hand receipt basis.

It was noted that the RRCO, Samdrup Jongkhar had collected/ realized BST on goods/consignments at the entry point based on the hand receipts produced by importers. Collection of BST on hand receipts must not be entertained since it creates avenue for manipulation/evasion of taxes.

Auditee's response: *It was submitted that they have been insisting and educating the importers on this issue and that they would put in every effort to do away with this kind of unhealthy practice.*

Who is accountable?: *The RRCO, S/jongkhar is held accountable to institute appropriate system.*

3. Variation/manipulation of value of goods.

On cross examination of the Check Post Records of goods imported by individual importer vis-a-vis purchases shown in the Profit & Loss Accounts 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.

Auditee's response: *The RRCO, S/jongkhar is yet to respond on this issue.*

Who is accountable?: *The RRCO S/jongkhar is held accountable to identify the root cause of such variations and institute remedial measures to mitigate such variations.*

4. Outstanding advance - Nu.0.031 million.

The then Planning Commission now under the Ministry of Finance had an outstanding advance of Nu.0.031 million against government officials and private agencies. Almost all the advances stood unadjusted since 1997-1998.

Auditee's response: *It was submitted that some advances were reflected in the Last Pay Certificate (LPC) of those who were transferred, some payees could not be traced out, a reminder was sent to some and so on.*

Who is accountable?: *All over due amount must be deposited into audit recoveries account with commercial interest of 16% p.a. The responsibility for this is fixed on the Director & Finance Officer. Had the amount been mentioned in the LPC it should be adjusted accordingly.*

5. Loss of revenue - Nu.0.063 million.

The Royal Government had lost the revenue of Nu.0.063 million because RRCO, Phuntsholing had not levied duties on imported goods. Summary of each transactions are as under:

A. The verification of the import declaration documents disclosed that BST had not been levied on goods imported either by not producing the Tax Exemption Certificates or whose validity of Tax Exemption Certificate were already expired. The transactions amounting to Nu. 0.044 million were not within the perimeters of the promulgated Rules on the Sales tax, Customs and Excise Act of the Kingdom of Bhutan 2000.

Auditee's response: *The RRCO, Phuntsholing submitted that Tax Exemption Certificate which could not be produced during the auditing process would be traced out and furnished to audit.*

Who is accountable?: *Until such time the required documents are furnished to the audit the Regional Director, RRCO, Phuntsholing is held accountable.*

B. An examination of import documents of goods declared on producing the Tax Exemption Certificates revealed that the parties who were exempted from payment of Bhutan Sales Tax had imported goods more than the quantity admissible. Therefore, the tax amount and the fines applicable on such account amounted to Nu. 0.019 million.

Auditee's response: *The RRCO, Phuntsholing had informed the RAA that the observation on misuse of exemption certificate pertain to M/s Larsen & Toubro Limited who had not used one of the exemption certificates issued to them. It was also stated that the concerned party was intimated to deposit the calculated tax amount along with fine and penalty on coir mattress to the Royal Audit Authority.*

Who is accountable?: *The tax and duty so calculated must be deposited into audit recoveries account. Therefore, the accountability to do so is fixed on the Regional Director, RRCO, Phuntsholing.*

6. Irregular waiver of penalty on evasion of income - Nu.0.259 million.

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

The company appealed to the Tax Appeal Committee on the pretext 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 abide by the appeal committee's decision and further appealed to the Hon'ble Minister, Ministry of Finance and based on the recommendation waived off 50% of the remaining 25%.

The RAA felt that there were no concrete, valid and justifiable reasons to waive off 75% penalty by the Tax Appeal Committee and the note submitted by the Tax Appeal Committee to the Hon'ble Finance Minister was not made available to the RAA.

***Auditee's
response:***

The RRCO, Phuntsholing submitted that the Tax Appeal Committee after hearing and discussing the case waived off 75% of the amount and the balance 50% of the remaining 25% by the Hon'ble Finance Minister based on the recommendation of the Department of Revenue and Customs.

***Who is
accountable?:***

The Department of Revenue and Customs had initially out rightly rejected the company's appeal for the waiver of 25% balance but later recommended to the Hon'ble Minister for waiver. The rationale for the switch in the decision for the waiver by the Department of Revenue & Customs needs to be elaborated and explained to the RAA. Until such time the accountability is fixed on the Tax Appeal Committee.