

II. Bhutan Development Finance Corporation Limited

Apart from the statutory audit being conducted by a firm of Chartered Accountants empanelled with the Royal Audit Authority the RAA also conduct propriety audit.

The BDFC in the year 2004 was administered and managed by the following:

Sl.No	Name of official	Designation
1.	Lyonpo Wangdi Norbu	Chairman (1.4.01 to 3.9.03)
2.	Aum Yangki T Wangchuk	Chairperson (From Sept. 03 till date)
3.	Sangay Khandu	Managing Director (18.3.92 to 30.4.97)
4.	Karma Rangdol	Managing Director (1.4.97 to 4.4.02)
5.	Kuenzang Namgyel	Managing Director (23.3.02 to 12.12.03)
6.	Ngawang Gyeltse	Managing Director (Jan. 04' till date)
7.	Ugyen Namgyel	General Manager, Finance & IT (June 03' till date)
8.	Ugyen Dhendup	General Manager, Credit (Inception till date)
9.	Tashi Penjor	General Manager, Branch Operation (Inception till date)

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

Table 1.43 showing summary of the observation by category code and the amount involved.

Sl.No	Observations in brief	Amount (Nu. Million)	%	Category code
1.	Undue delay in resolving the litigation cases	22.824	55.07	16
2.	Writing off of loans	12.625	30.46	16
3.	Irregular sanctioning of loan	4.000	9.65	7
4.	Overdue loan balances	1.180	2.86	1
5.	Outstanding loans	0.652	1.57	1
6.	Excess payment	0.162	0.39	6
	Total	41.443	100.00	

Major findings:

1. Writing off of loans - Nu.12.625 million

The BDFC had written off irrecoverable loans amounting to Nu.12.625 million accumulated during the years 2000 to 2002. The RAA had advised the management to thoroughly review the write-off cases so as to ensure that no undue benefit has been given to loanees and intimate the result to RAA.

Auditee's response: *The write-off under Agriculture and Loan Department (ALD) were mainly because of the "Arrears Recovery Strategy" which was indeed an interim policy initiated by the management to resolve and clean up the old and bad loan cases. The write-offs under Industrial Loan Department (ILD) was all as per the decision of the courts which do not write-off loans arbitrarily.*

Who is accountable?: *Managing Director and Project Officers are held accountable to produce relevant and satisfactory court verdicts/ justifications for write-offs of such huge amount of money.*

All cases of the above write-off amount were reviewed and found some pertinent issues that warrant further publication in the Annual Audit Report. Some of such issues are briefly discussed hereunder:

A. The Board of Directors owing to huge default in the repayment of loans by M/s Bhutan Dairy Limited had proposed to write-off Nu.1.500 million provided the loan amount was

reduced by Nu.2.500 million. Without fulfilling the obligation of depositing Nu.2.500 million, the Managing Director had written off Nu.1.500 million. When the case for recovery was in the court of law the proposal of the management to consider write-off of Nu.1.500 million was found not rational.

Auditee's response: *As per the agreement the case was forwarded to Legal Division for further action. With the persuasive follow-up by Legal Division the client had paid the entire defaulted amount and currently his account is regular and up to date.*

Who is accountable?: *Karma Rangdol, the then Managing Director is held accountable for the lapses. The Board of Directors may comment on the rationality behind such write-off cases.*

B. Mr. Nagphel Kencho had defaulted the loan amounting to Nu.1.684 million and the management had seized the workshop establishments on the basis of the recommendation of National Commission on Loan and realized Nu.0.856 million being the cost of nine sheds of workshop leaving the balance of Nu.0.991 million. The Board during its 47th meeting decided to drop off the recommendation of the Commission and had unjustifiably written off Nu.0.991 million. On the other hand this loanee also had litigation on loan misuse cases in Dzongkhag Court, Paro amounting to Nu.0.225 million.

Auditee's response: *The EDP loan scheme was specially initiated by the Royal Government under which loans were given without any tangible assets to secure the loan. When this project failed miserably, BDFC had no option but to take over the project assets and dispose it off. Since the above loan was unsecured and there was definitely no way to recover the loan, management had no option but to write-off and close the case.*

Technically the management cannot include the above loan balance with the rural credit loans purely on legitimacy of the EDP loan scheme and the rural credit loans. Thus EDP loan balances was written-off and rural credit loan is currently being litigated presently in Royal Court of Justice, High Court, Thimphu

Who is accountable?: *Karma Rangdol, the then Managing Director then is held accountable for the lapses. Any project big or small needed to be appraised through proper study. The Board of Directors may comment the rationale behind such write-off cases. The RAA shall also be intimated on the outcome of the court cases.*

2. Undue delay in resolving the litigation cases valuing - Nu.22.824 million

As many as 338 litigation cases including 51 pertaining to the Head Office involving Nu.22.824 million were pending as per BDFC's records. The litigation cases were filed mainly for non-recovery of loans from the beneficiaries. It warrants timely action by the management for recovery.

Auditee's response: *The delay in the follow-up action of the litigations has not been due to negligence of the BDFC rather reasons all beyond its control.*

One of the few reasons is the appeal cases. When the cases reach to court, people appeal to His Majesty for Kidu after which the process in action is suspended. For instances we have as many as 70 appeal cases under Paro Dzongkhag alone which has very badly affected the litigation process.

The other reason is the seizure order of the court and disposing it off through public auction. However, there is a difficulty in getting those assets sold where outstanding loan amount is more than the value of assets seized.

Next is the financing of EDP clients who are not required to put in mortgage for the loan. Unfortunately when EDP project fails the management has to take over assets which mostly do not fetch good price in the open auction.

In response to the Draft AAR, the management informed the RAA that out of 338 cases 327 cases with monetary value of Nu. 10.097 million have been settled as of 31 December 2004.

Who is accountable?: *The present Managing Director, Legal Officer and Project Officers are jointly held accountable for following up the cases with the Hon'ble Courts. The responses needed to be substantiated with facts and figures to enable RAA to form its final opinion and up date the figures accordingly.*

3. Excess payment - Nu.0.162 million

The management while sponsoring 5 officers for a training on Project Finance and Investment Appraisal course in the Philippines were paid excess DSA amounting to Nu.0.162 million. The management had paid negotiated DSA rate for the training period instead of regulating payment as per the government prescribed rate. One is entitled full DSA of US \$ 130.00 for first 10 days and 50% for balance 16 days but by paying negotiated rate of US \$ 130.00 throughout the training period of 26 days had entailed extra expenditure amounting US \$ 3900.00.

Auditee's response: *It was stated that according to service rules the trainees should have been paid DSA of USD of 130/- for Phillipines. Since there was no external funding the corporation negotiated and paid USD 120/- per person less USD 10/- and saved a total of USD 1250/-equivalent to Nu.0.061 million.*

Who is accountable?: *The reply is not tenable. The management should have applied the RGoB rates for the regulations of the DSA claim so as to generate more savings. The excess payment should be recovered from the concerned officials and the responsibility to do so shall be fixed on Ugyen Namgyel, Finance Manager.*

4. Irregular sanctioning of loan - Nu.4.000 million

Ugyen Wangdi, Managing Director of M/s Bhutan Dairy Limited was sanctioned two project loans including Over Draft facilities amounting to Nu. 4.000 million. When they had already defaulted the repayment of the loan amounting to Nu.6.586 million, granting of further loan for new two projects was not justifiable. It was also found that land – part of mortgage was already sold to 4 persons. A report to this extent submitted by Legal/Recovery officer was not given any due regard.

Auditee's response: *Mr.Ugyen Wangdi had availed a total of Nu.4.000 million under three separate loan accounts of Hotel projects, house renovation project and Over Draft. While OD loan has been closed, two accounts are up to date with excess payments in both the accounts.*

Who is accountable?: *The response is not to the points raised. Karma Rangdol, the then Managing Director is held accountable for the lapses. The Board of Directors may comment on this issue.*

5. Overdue loan balances - Nu.1.180 million

It was noticed that in a good number of cases the loans had matured long back and huge balances were outstanding against the loanees. In some cases the borrowers (***Names reflected under Auditee's response***) had not deposited even a single installment towards the repayment of the loans though the loans had matured long back. There are instances where loans had been sanctioned and paid between the years 1991 to 1993 and had matured between the years 1997 to 1999.

Auditee's response: *BDFCL could not recover the loan from Mrs. Sangay Buddha because of the natural calamity which washed away all her mortgaged assets by the flood in Phuntsholing in the year 2001. The client had at least paid Nu.0.100 million collected from her friends and relatives. She is given some time to pay at least the principal amount.*

With Dawa Tshering the Legal Division is constantly following up with the client. The guarantor upon being pressurized by the BDFCL had brought the heir of the client and made an arrangement to pay Nu.2500 per month.

With Dorji Wangchuk the management had already received the seizure order of the mortgaged assets and had conducted auction twice.

With Thinley Jamtsho the loan has been up dated and regular.

With Kado since the management has exhausted all the ways and means to recover the loan the case was put up to the Royal Court of Justice, Dzongkhag Court, Thimphu.

Who is accountable?: *Managing Director, Legal and concerned Project Officers are jointly held accountable to resolve the cases.*

6. Outstanding loans – Nu. 0.652 million

The BDFC, Samdrupjongkhar had the outstanding loans amounting to Nu. 0.652 million. However, some of the cases have been already forwarded to the court.

Auditee's response: *The management submitted that they have introduced PAR_(Portfolio at Risk) strategy to clear off the old defaulted loans and that they are following up cases forwarded to the Hon'ble courts.*

Who is accountable?: *Till the management follows up and expedites the cases for early settlement, Tenzin Wangdi, Dzongkhag Credit Officer, Samdrupjongkhar is held accountable.*