

The RAA detected millions of government fund blocked due to excessive procurement by the Central Stores, paying over and above the MRP, huge consumption of time, loss of useful life of medicines etc were some of other findings.

The Government Policy freezing the procurement of pool vehicles was found eventually lifted as numbers of vehicles costing a total amount of Nu.243.461 million were seen procured. A total of 156 number of third country vehicles (101 funded through RGoB) and 96 number of Indian make were found procured.

The Royal Audit Authority had carried out the audit of Personnel Actions such as Promotions, Out-of-turn promotions, training etc to assess the fairness and transparency in the system. However, the Royal Civil Service Commission, the guardian of all the civil servants refused access to records by audit for fair assessment. All observations reflected in the reports are thus results of cooperation rendered by line ministries and agencies.

The findings of rural water supply scheme included non-implementation of some rehabilitation schemes, the normal survey required to be carried out during the lean season of the year was found conducted during the monsoon season, survey team selecting the wrong source of water supply, non-construction of sedimentation tank and non-carrying out of Bacteriological testing as per WHO Guidelines were some of significant findings.

Audit findings 2004

The audit findings are classified under different categories of observations. Attempts have been made to accommodate all the findings under relevant categories but it may be noted that the observations which do not fall under any of the main categories, it is put under category 'others'. The tabulated summary of the AAR 2004 is shown in the Table 1.2. As can be seen from the Table the total irregularities in monetary terms amounted to Nu.369.339 million which is a reduction by 28.097% from that of the AAR 2003, 42.099% from AAR 2002 and 54.370 % from AAR 2001 which had a reported figure of Nu. 513.665 million, Nu. 637.88 million and Nu.809.420 million respectively.

Table 1.2 showing summary of AAR 2004 agency wise, category wise and the amount involved (Nu. million)

Code No.	Category of Irregularities	MoHCA	MoA	MoE	MoF	MoH	MoFA	MoIC	MoWHS	MTI	MoLHR	Armed Forces	Corp. & Fin. Inst.	Auto. Agencies	Judiciary	Geogs	Total
1.	Outstanding advance/loan	52.256	5.989	0.037	0.370	4.725	15.083	0.894	4.185	0.024	3.949	8.076	66.553	2.360	0.107	0.024	164.632
2.	Outstanding revenue/debtors	0.645	0.272	-	1.417	-	-	0.033	-	-	-	-	12.546	0.332	0.689	-	15.934
3.	Procurement without tendering	-	-	-	-	-	-	-	4.388	-	-	3.293	51.237	-	0.161	-	59.079
4.	Loss of revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.000
5.	Avoidable/wasteful purchases/expenditure	2.309	-	-	-	-	-	-	4.251	-	-	-	-	-	-	-	6.560
6.	Over/excess /double payment	2.661	0.030	-	-	0.115	0.596	-	0.850	0.070	0.221	-	0.162	-	-	0.007	4.712
7.	Irregular contract management	5.548	-	-	-	-	-	-	7.198	-	-	0.165	4.000	-	-	-	16.911
8.	Irregular/inadmissible payment	2.363	0.477	0.236	0.750	-	10.172	-	0.085	-	-	1.308	0.359	-	0.121	0.061	15.932
9.	Misappropriation/misuse of revenue	0.157	0.060	-	-	-	-	-	-	-	-	-	0.500	-	-	-	0.717
10.	Shortage of cash/materials/equipment	1.070	0.284	-	-	-	-	-	-	-	-	1.243	0.000	-	-	0.386	2.983
11.	Non-levying of liquidated damages	2.087	-	-	-	-	3.375	-	-	-	-	0.272	0.000	-	-	0.019	5.753
12.	Payments for works not executed/materials not received	1.433	-	-	0.083	-	-	-	-	-	-	-	0.000	-	-	0.009	1.525
13.	Short/Non-deduction of taxes	0.166	-	0.127	-	0.040	-	-	-	-	-	0.869	0.000	-	-	0.084	1.286
14.	Non-accountal of advances/equipment	0.110	-	-	-	-	-	-	-	-	-	-	0.000	-	0.026	-	0.136
15.	Fictitious booking of expenses	-	-	-	-	-	-	-	-	-	-	-	0.000	-	-	-	0.000
16.	Others	-	-	-	0.258	-	-	-	15.547	-	-	10.567	41.980	-	-	4.827	73.179
	Total	70.805	7.112	0.400	2.878	4.880	29.226	0.927	36.504	0.094	4.170	25.793	177.337	2.692	1.104	5.417	369.339

1. Outstanding advance/ Over due loan

The amount aggregating to Nu. 164.632 million had been lying outstanding against various official and third parties. The outstanding advance/ loan amount accounted for 44.57 % of the total amount reported in this report. The irregularities such as money lying in the private hands pending recoveries, time expired loans, outstanding costs etc. are featured under this category. The agencies which accounted for more than 89% of the total outstanding advance are shown in the table below:

Sl.No	Agencies responsible	Amount (Nu. Million)
1.	Corporations & Financial Institutions	66.553
2.	Ministry of Home & Cultural Affairs	52.256
3.	Ministry of Foreign Affairs	15.083
4.	Armed Forces	8.076
5.	Ministry of Agriculture	5.989
	Total	147.957

Of the Nu. 66.553 million reflected against the Corporations & Financial Institutions, Nu. 56.040 million is the amount of loan outstanding/over due term loan for the Royal Insurance Corporation of Bhutan Limited and the other portion is the overdue loan amount pertaining to other financial institutions and advances outstanding of the corporations. The advances reflected against other agencies are the advances which are lying outstanding against the officials, suppliers and contractors.

The concerned agencies are advised to make concerted efforts to recover all the overdue advances with the commercial interest of 16% p.a.

2. Outstanding revenue/ debtors

The RAA detected that the revenue and debtors amounting Nu. 15.934 million have been accrued but not realized. The five agencies which have the highest amount of outstanding revenue/ debtor are as shown below:

Sl.No	Agencies responsible	Amount (Nu. Million)
1.	Corporations & Financial Institutions	12.546
2.	Ministry of Finance	1.417
3.	Judiciary	0.689
4.	Ministry of Home & Cultural Affairs	0.645
5.	Autonomous Agencies	0.332
	Total	15.629

The RAA noted that the Bhutan Postal Corporation Limited had not realized the amount of Nu. 7.863 million. The revenue had been accrued on account of supplies of newspapers and magazines, Special Drawing Rights, Post Shop revenue and royalty.

All corporations are recommended to streamline debtor management and credit rating systems.

3. Procurement without tendering

The irregularities under this category aggregated to Nu. 59.079 million is the second highest amount reported in this report, only behind the amount reported for outstanding advance/loan. The four agencies which had such irregularities are as given in the table:

Sl.No	Agencies responsible	Amount (Nu. Million)
1.	Corporations & Financial Institutions	51.237
2.	Ministry of Works & Human Settlements	4.388
3.	Armed Forces	3.293
4.	Judiciary	0.161
	Total	59.079

The amount reported under Corporations and Financial Institutions has been singly represented by the Bhutan Telecom Corporation. This observation pertains to the direct procurements of transmission equipment and DR MASS from Mitsui & Company, Japan in contravention to the procurement rules. It was observed that Bhutan Telecom Corporation during the year 2000-2001 had directly procured Transmission Equipment and DR MASS valuing Nu.51.237 million from Mitsui & Company, Japan without inviting tenders. The procurements were done on the basis of sale agreement drawn at the time of placing supply orders without creating avenues for any long-term agreement.

The approach for exception to the procurement rules and Government Policy on de-monopolization and procurements were found violated

The agencies should ensure that such formalities are not overlooked so as to offer privilege to the government to obtain competitive rates.

4. Avoidable/ wasteful purchases/ expenditure

Some of the agencies had made avoidable/ wasteful purchases/ expenditure aggregating to Nu. 6.560 million. Such irregularities are the result of improper assessment of requirements in purchases and inadequate exhibition of technical expertise of engineering profession in the construction sector. The only two sectors which accounted for this category are the Ministry of Works & Human Settlements and Ministry of Home & Cultural Affairs with Nu. 4.251 million and Nu. 2.309 million.

Proper material requirement planning and judicious demonstration of field expertise are inevitable to avoid such occurrences in the future.

5. Over/ excess/ double payment

The amount of Nu. 4.712 million were found paid in excess or double by the various agencies. The four sector which accounted for more than 91 % of the total amount reported for this category are given in the table:

Sl.No	Agencies responsible	Amount (Nu. Million)
1.	Ministry of Home & Cultural Affairs	2.661
2.	Ministry of Works & Human Settlements	0.850
3.	Ministry of Foreign Affairs	0.596
4.	Ministry of Labour & Human Resources	0.221
	Total	4.328

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 amount reported for this category is Nu. 16.911 million. The irregularities such as overlooking the formalities in awarding the contract, non rectification of defective works within the defect liability period, unjustified rejection of bids, providing inferior quality of materials,

acceptance works other than specifications, blockage of government funds etc. feature under this category. The four agencies which were responsible for such irregularities are given in the table:

Sl.No	Agencies responsible	Amount (Nu. Million)
1.	Ministry of Works & Human Settlements	7.198
2.	Ministry of Home & Cultural Affairs	5.548
3.	Corporations & Financial Institutions	4.000
4.	Armed Forces	0.165
	Total	16.911

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

7. Irregular/ inadmissible Payment

Most of the agencies reported in this report have made irregular/ inadmissible payment amounting Nu. 15.932 million. Such payments were not in accordance with the admissibility covered under various rules, circulars and orders. The four agencies which have the highest amount reported are given below:

Sl.No	Agencies responsible	Amount (Nu. Million)
1.	Ministry of Foreign Affairs	10.217
2.	Ministry of Home & Cultural Affairs	2.363
3.	Armed Forces	1.308
4.	Ministry of Finance	0.750
	Total	14.638

The agencies should ensure that financial discipline is maintained in respect of various government circulars, rules and orders.

8. Misappropriation/ misuse of revenue

The RAA had detected that the government fund/ revenue of Nu. 0.717 million had been misappropriated or misused. The three agencies responsible are the Bhutan Power Corporation, Ministry of Home & Cultural Affairs and Ministry of Agriculture with Nu. 0.500 million, 0.157 million and 0.060 million respectively. With regard to the embezzlement of Nu.0.500 million pertaining to Bhutan Power Corporation, the Royal Court of Justice, Trashigang pleaded the suspect guilty and imprisoned him for 7 years. However, on appeal to the High Court there was a reversal of verdict and the suspect was pleaded not guilty. The chapter is still not closed and the matter is now referred to the Office of Legal Affairs with permission from the Co-ordination Committee Meeting (CCM).

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

9. Shortage of cash/ materials/ equipment

The shortage of cash/ material/ equipment aggregated to Nu. 2.983 million. The four sectors which are reported for these irregularities are given in the table:

Sl.No	Agencies responsible	Amount (Nu. Million)
1.	Armed Forces	1.243
2.	Ministry of Home & Cultural Affairs	1.070
3.	Geogs	0.386
4.	Ministry of Agriculture	0.284
	Total	2.983

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

10. Non-levying of liquidated damages

The RAA found that the liquidated damages amounting Nu. 5.753 million were not levied for the delay in supplying the materials and delay in completion of the works. It was also noticed that the hindrance registers were not maintained to justify the delay. The four sectors reported in this report are as shown below:

Sl.No	Agencies responsible	Amount (Nu. Million)
1.	Ministry of Foreign Affairs	3.375
2.	Ministry of Home & Cultural Affairs	2.087
3.	Armed Forces	0.272
4.	Geogs	0.019
	Total	5.753

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

11. Payments for works not executed/ materials not received

The payments of Nu. 1.525 million were reported to have been made for the works not executed/ material not received. The three sectors responsible for making such payments are produced below:

Sl.No	Agencies responsible	Amount (Nu. Million)
1.	Ministry of Home & Cultural Affairs	1.433
2.	Ministry of Finance	0.083
3.	Geogs	0.009
	Total	1.525

The agencies should ensure that proper check and balance systems are in place to avoid such lapses.

12. Short/ Non-deduction of taxes

The RAA found out that Nu. 1.286 million accrued to the government were either not deducted or deducted less in contravention to the Taxation Rules of the Kingdom. The three sectors which account for more than 90% of the amount reported are given below:

Sl.No	Agencies responsible	Amount (Nu. Million)
1.	Armed Forces	0.869
2.	Ministry of Home & Cultural Affairs	0.166
3.	Ministry of Education	0.127
	Total	1.162

Deductions should be made as per the Taxation Rules of the Kingdom.

13. Non accountal of advances/ equipment

The amount of Nu. 0.136 million was reported for non-accountal of advances and equipment. The three sectors which are reported are the Ministry of Home & Cultural Affairs and Judiciary with Nu. 0.110 million and Nu. 0.026 million respectively.

Accounting and Inventory control needed to be strengthened.

14. Violation of laws, rules and regulations

To strengthen the capacity of the task force, the Monitoring & Evaluation Division of the Department of Planning proposed training for its members, who were duly approved by the Director, Department of Planning. Subsequently, the identity of the proposed nominees was submitted to the Royal Civil Service Commission. The RCSC however, revoked the candidature of Gaki Tshering, System Analyst, Ministry of Health and Kunzang Norbu, Project Coordinator, DoP. The former was under the probation period and the latter was to proceed on secondment to SNV, Thimphu. However, on scrutiny of the disbursement vouchers, the above two officials were sent for training to Thailand.

Rules should be applied to all without exception. The concerned agencies should have adhered to the instruction of the Royal Civil Service Commission and the latter should have ensured compliance.

15. Non recording in the measurement book

The City Corporation, Phuntsholing had executed dredging work of riverbed at Dhutikhola and shown an expenditure incurred of Nu.1.602 million as against the estimates of Nu.1.805 million. The actual quantities/value of work done was not recorded other than the number of days worked by the machineries.

16. Illegal construction on the government land

Verification of the survey reports on illegal construction on Government land revealed that there were 134 cases of illegal/unauthorized constructions on Government land. The duration of the occupants ranged from five to thirty five years.

17. Non enforcement of Acts

On verification of the transfer of land ownership, it was found out that 180 applications were received by TCC for transfer of ownership during 2002-2003. The following lapses were observed:

- The applications were not recorded in chronological manner as per the date of application received. Applications received in 2002 were entered with 2003 application and vice versa;
- In some cases applications received late were processed earlier and accorded early approval and reasons for the same were not mentioned;
- As per Land Act, the applications were to be kept for one month and then to be processed thereafter. But in some cases applications were approved within one month and some application in one and half month.

18. Award of supervision work on contract

The Department of Roads under Ministry of Works and Human Settlement had awarded the supervision works of the construction of three number Expressway Bridges to M/s Green Peace Enterprise, Thimphu at his quoted amount of Nu.13.945 million. This is a strong indication that the Ministry or the Department had not attempted to derive value from the professional engineers in the Bridge Division.

19. Irregular Diversion of Funds

Pensioners fund of Wing V Shaba, amounting to Nu. 0.068 million were paid to Tshewang Dorji, firewood supplier and Chuma Wangchuk. However, adjustments were made for Nu 0.008 million

leaving a balance of Nu 0.060 million. Further more a sum of Nu. 0.023 million were paid as advances to the officials. This has resulted in reduction of fund balances to the tune of Nu. 0.083 million.

20. Acceptance of undersized uniforms

During the Financial Year 2002-2003 a total expenditure of Nu.10.484 million was incurred for procurement of uniforms for police personnel. It was noticed that supply orders for the uniform were placed on ad-hoc basis without assessing the required sizes of uniforms. On test measurement of uniforms received, issued and balance available in the store it was noticed that the sizes of uniforms received and issued were not as per the sizes specified in the supply order and the standard sizes given against the uniforms. Hence some of the Non-commission officers could not use the uniform received as they were getting under-sized uniforms though it was marked as bigger size.

21. Overdue pending liabilities

The Bank of Bhutan, Samdrup Jongkhar, had the fixed deposit of Nu. 1.034 million which are matured and unclaimed by the depositor. As per the Manual of Instructions, Volume I, Chapter 3, Para 6(C), the dealing assistant should send a letter to the depositors 10 days before the date of maturity informing/ reminding him that a particular deposit receipt is falling due for payment on a given date. If the depositor does not turn up for encashment/ renewal on the maturity date and also does not send his instructions, a reminder should be sent one month after the date of maturity informing him that interest payment on such deposit ceases at maturity. However, as per the records maintained by the bank, it revealed that the bank management had failed to inform some of the clients as per the manual of Instruction. The unclaimed deposits were directly transferred to C/D ledger under account head 'Deposit Call'

22. Writing off of loans

The Bhutan Development Finance Corporation 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.

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 then had written off Nu.1.500 million.

23. Undue delay in resolving the litigation cases

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.

24. Loss sustained by opening the Post Shop

Bhutan Post with approval from the Chairman had started a Post Shop/Hallmark and invested a total fund of Nu.9.134 million. The General Manager, Operation was entrusted the responsibility to manage the business and return the capital investment with interest of 15% per annum. The management for reasons not known to the audit was transferred to one Ramanand Thakur, ex-employee of Bhutan Post. During the business period the Post Shop had refunded Nu.6.543 million only leaving a balance amount of Nu.1.665 million excluding the accrued interest of Nu.1.137 million. The interest amount was later written off by the Chairman on the ground of

business not making profit. The audit had found out that such losses occurred in a situation where proper and comprehensive investment/project appraisal was not usually carried out.

25. Heavy stock balance of vegetable seeds

Druk Seed Corporation, Paro had substantial quantities of vegetable seeds lying in the stock without movement for quite a long period ranging between 1 to 4 years. The total value of these stock amounted to Nu.1.473 million.

26. Fixed assets lying unutilized

It was noticed that Druk Seed Corporation, Paro had fixed assets with a book value of Nu. 1.666 million identified as completely idle or partially used in various units under the company.

27. Non achievement of planned target

On comparison of the planned production target and the actual production of timber, the FDCL, Jakar had not been able to achieve the intended target in the Dawathang Forestry Management Unit (FMU) by 69 % in 2002 and 61% in 2003. Besides non-achievement of the planned target the FDCL, Jakar had incurred additional expenditure of Nu. 0.093 million for transporting spillover timber in 2002 in Dawathang FMU as a result of increase in transportation charges by Nu. 0.75 per cft in 2003. Similarly, a sum of Nu. 0.483 million had been spent in 2004 for transporting spillover production of timber with increase in the rate by Nu. 2.50 per cft in 2004. In addition Nu. 0.145 million were incurred for felling and crosscutting and Nu. 0.038 million for debarking.

28. Non execution of work

The Geog Administration, Kabjisa had purchased the materials worth Nu. 0.568 million for re-roofing of Chorten Ningpo Lhakhang towards the end of the financial year 2003-04. The items were properly accounted for in both the Geog stock register and Dzongkhag MAS Register but were physically not available at the site. Upon enquiry, it was found out that the materials were lying at the Dzongkhag store but the work was not executed.

29. Irregular rescheduling of loan exceeding its security value

The erstwhile M/s Namgail Cement Company which had the loan amount of Nu. 31.383 million in December 2000 (under old management) had its total loan mounted to Nu. 62.409 million as on 31.12.03 (Under new management as M/s Druk Cement Company Limited). During the year 2004 the company had paid a total of Nu.3.000 million leaving the loan balances at Nu.64.258 million which is unusually more than the security value of Nu.56.090 million.

30. Irregular booking

The Geog Administrations, Kabjisa and Shenga Bjime had booked the payment of Nu. 0.013 million and Nu. 0.019 million in anticipation of carrying out work in future.

31. Payment made without signing vouchers

On vouching of the payments made by the Geogs under Dzongkhag Administration, Tsirang, it was seen that most of the Geogs had made the payments without the signature of the Controlling officers i.e respective Gups in the payment vouchers. Such instances of payment amounted to Nu. 4.775 million.

32. Issue of permits for construction of buildings - is the system fair?

The City Corporation, Thimphu is the ultimate authority in the capital vested with the power to issue permits for the construction of buildings within the municipal boundaries. Bhutan Building

Rules 2002 under section 4.2.4 stipulated that “*all city corporations should respond to the application for building permit within 30 days and give final approval within 90 days*”. Owing to its practical problems this stipulation was not implemented rather an internal guidelines were introduced. The Guidelines stipulates that the minimum time for processing and issuing permits was stipulated about seven weeks from the date of registration.

Verification of documents revealed the following deficiencies:

- ∞ The serial number recorded in the register for application were not in chronological order according to the date of application received;
- ∞ The approval dates of the structural design were not in serial number according to the date of application received;
- ∞ Approvals for only structural and architectural drawings were given but the same was not apparent for electricity, water and sewerages;
- ∞ While for some the permits were issued in a matter of one to two days of its applications being received some were cleared after a lapse of one year;
- ∞ There were inconsistencies in the time taken by the divisions involved in clearing the applications. While some divisions took almost a month or two to approve the drawings some had taken only a week; and
- ∞ Reasons for rejection of drawings by particular division and how some drawings could be cleared within a short span of time were not on record.

33. Release of payments without adjustments of advances - Nu 1.100 million

M/s Pinewood Builders was paid the full work done value for the various tendered works in the Royal Bhutan Army. However, advance amount of Nu.1.100 million was not adjusted from its final bill payment. The amount still stands recoverable.

34. Application of Commercial Interest of 16% p.a

The Annual Audit Report 2004 requires Commercial Interest of 16% p.a. to be imposed on all recoverable amounts irrespective of whether it was mentioned in the Inspection Reports. The RAA resorts to this policy as all concerned have been given enough time ranging from 3 to 15 months to settle or take appropriate measures.