

SUMMARY OF AUDIT FINDINGS

4.1 Budgetary Agencies

The RAA issued a total of 266 Inspection Reports of the Government and its instrumentalities as against 210 reports issued during 2005, indicating an increase of 26.67%. Agencies comprised of Ministries, Departments, Divisions, Units, Dzongkhags, Autonomous Agencies, Judiciary, and Armed Forces. Total unresolved significant irregularities in the budgeted agencies amounted to Nu.105.932 million. The summary of findings are presented hereunder and depicted in the Table – 4.1.

4.1.1 Reduction in overall unresolved irregularities in budgetary agencies

The total amount of unresolved irregularities in the Government budget agencies in the Annual Audit Report 2006 in financial terms, had reduced by Nu.15.472 million (12.74%) i.e., from Nu.121.404 million in 2005 to Nu.105.932 million in 2006 as presented graphically shown below:

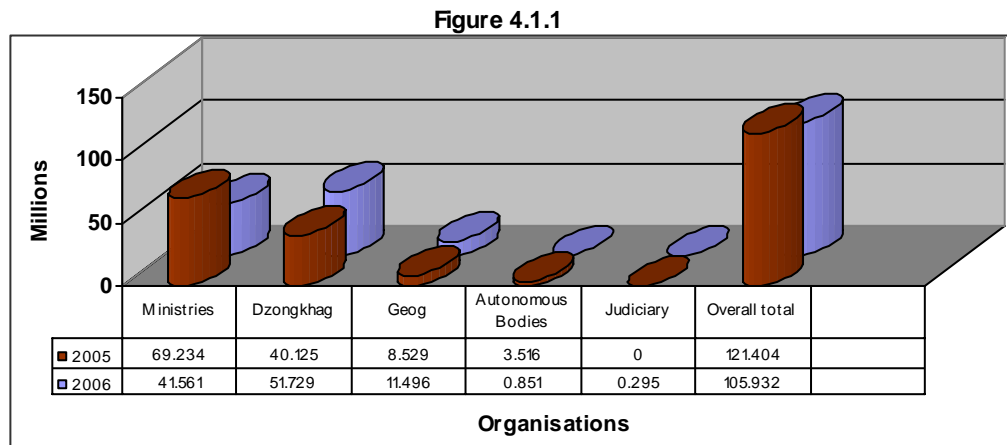


Table showing comparative figures (Nu. in million)

SL. No.	Category of Agencies	Amount 2006	Amount 2005	Amount difference	%
1	Ministries	41.561	69.234	(27.673)	(39.97)
2	Dzongkhags	51.729	40.125	11.604	28.92
3	Gewogs	11.496	8.529	2.967	34.79
4	Autonomous Bodies	0.851	3.516	(2.665)	(75.80)
5	Judiciary	0.295	0	0.295	
	Total	105.932	121.404	(15.472)	(12.74)

Reduction in the amounts of unresolved irregularities despite increase of over 26% in the numbers of reports issued was mainly due to improved compliances reported by the agencies particularly after issuing the excerpts of draft Annual Audit Report 2006 to the Ministries and Agencies concerned. Besides improved compliances, vigorous follow up by the RAA and effective role being played by the Public Accounts Committee in the follow up of AAR 2004 and AAR 2005 also contributed in settlement of large number of irregularities included in the draft Annual Audit Report 2006. Moreover, after circulating the draft Annual Audit Report 2006 in February 2007, extensive discussions were held with various Ministries and Agencies who submitted clarifications and justifications leading to settlement of large numbers of observations. While in reality significant irregularities reported in the draft Annual Audit Report 2006 had increased substantially as compared to the irregularities reported in the AAR 2005, primarily due to increase in the numbers of reports issued, collective efforts from all quarters concerned made it possible to resolve many irregularities reported therein.

The RAA is of the opinion that the irregularities occurred mainly due to the following reasons:

Lack of effective internal control system. The systems of check and balances including supervisory, accounting and financial controls were not functioning effectively.

Internal audit is yet to get due prominence to render it effective. Internal audit is confined to Ministries only and the present strength of one to three auditors in each Ministry is too restrictive for the internal auditors to adequately and effectively carry out their functions.

Barring some organizations, there are indications that the Finance personnel as well as Heads of Organizations and Tender Committees have not been functioning effectively resulting in increasing incidences of violation of procurement norms.

Irregularities have also occurred as a result of fund release procedures for activities not covered under the normal LC or GPLC. Funds were released directly to the Sector Heads concerned that impeded effective supervisory controls by the Dzongkhags.

In some cases release of funds were made at the fag end of the financial year that prompted agencies to book the expenditure without carrying out the activities. Such practices were fraught with risk of fraud and corruption.

The RAA had conducted increased numbers of theme based audits particularly in risk prone areas; as a result more cases and amounts of irregularities were detected in some organizations.

4.1.2 Dzongkhags, MoLHR and MoHCA recorded highest amounts of irregularities

In terms of amount of irregularities Dzongkhags had the highest amount of Nu.51.729 million followed by the Ministry of Labour and Human Resources (Nu. 15.413 million) and Ministry of Home and Cultural Affairs (Nu. 12.744 million). In total inspection reports of sixteen Dzongkhags were incorporated in the AAR 2006 out of which Tsirang Dzongkhag (included audit report on the construction of Dzong) had the highest irregularities of Nu.22.480 million, Bumthang Dzongkhag Nu.5.924 million, Dagana Dzongkhag Nu.4.004 million and Sarpang Dzongkhag Nu.3.941 million. Wanduephodrang Dzongkhag had lowest irregularities amounting to Nu.0.280 million followed by Pemagatshel Dzongkhag amounting to Nu.0.544 million.

4.1.3 Irregularities in advances and payments continue to feature as most significant findings

Irregularities in advances, procurements, constructions and over, irregular & inadmissible payments still featured as most significant and prominent issues which require urgent attention of the Government.

4.1.4 Fraud, Corruption and Embezzlement

Cases of strong indicators of fraud, corruption and embezzlement included payments disbursed for activities not carried, forgery and tampering of documents, payments disbursed without execution of works, payments made for materials not received, acceptance of inferior goods, acceptance of substandard works, misappropriation of cash balances etc. Such cases reported during the year aggregated to Nu.13.559 million as against Nu. 3.715 million reported in 2005. Significant cases strong indicators of fraud, corruption and embezzlement reported by amounts are summarized agency-wise as below:

Table showing the agency responsible for fraud, corruption and embezzlement (Nu. in million)

Sl. No.	Agency Responsible	Amount
1	Ministry of Education	2.755
2	Ministry of Agriculture	0.631
3	Ministry of Home & Cultural Affairs	0.488
4	Ministry of Health	0.014
5	Judiciary	0.252
6	Dzongkhag Administration, Sarpang	0.466
7	Dzongkhag Administration, Gasa	0.938
8	Dzongkhag Administration, Tsirang	4.799
9	Dzongkhag Admin, Bumthang, Chukha, Lhuentse, Mongar, Paro Punakha, Sarpang and Trongsa	0.651
10	Shaba Gewog	0.389
11	Samar Gewog	0.428
12	Other Gewogs	1.748
	Total	13.559

While a more focused approach applied in auditing of risk prone areas had helped the RAA detect such cases, absence of adequate internal controls and check and balance mechanism in the agencies had facilitated perpetration of fraud, corruption and embezzlement. Proper system of check and balance including financial and supervisory controls as well as presence of strong internal audit and greater transparency in procurements would have minimized the scope of possible corrupt practices in the organizations.

4.1.5 Mismanagement

This included mismanagement of funds, properties, human resources, revenue & taxes including short and non-collections etc. During the year unresolved cases of mismanagement aggregated to Nu.2.427 million. Mismanagement mainly occurred in agencies like the Ministry of Agriculture, Ministry of Finance, Ministry of Health, Ministry of Information and Communication, Ministry of Works and Human Settlement and the Dzongkhags.

4.1.6 Violation of Laws, Rules and Regulations

This included violation of service rules, violation of budgetary and accounting norms, violation of procurement norms, violation of Acts, Directives & Polices etc. The unresolved cases of violation of Laws, Rules and Regulations aggregated to Nu.7.593 million as shown in table below. Of the total unresolved cases of Nu.7.593 million, Violation of Procurement norms aggregated to Nu.6.096 million.

Table showing the agency responsible for violation of Laws, Rules and Regulations (Nu. in million)

Sl.No.	Agency Responsible	Amount
1	Ministry of Agriculture	0.596
2	Ministry of Labour & Human Resources	1.549
3	Ministry of Works & Human Settlement	0.588
4	Ministry of Home & Cultural Affairs	0.025
5	Ministry of Trade & Industry	0.120
6	Judiciary	0.043
7	Gewogs	4.071
8	Dzongkhags	0.601
	Total	7.593

Inadequate supervisory controls, complacency and segregation of duties could have attributed to such irregularities.

4.1.7 Shortfalls, lapses and deficiencies

The shortfalls, lapses and deficiencies involving Nu.82.353 million during the year included over, excess, inadmissible, irregular, double payments, irregularities in advances, non-maintenance and improper maintenance of records, improper recording and non-reconciliation of accounts. Out of the total amount unresolved cases of Nu.82.353 million, irregularities in advances alone aggregated to Nu. 59.714 million.

Table showing the agency responsible for shortfalls, lapses and deficiencies (Nu. in million)

Sl.No.	Agency Responsible	Amount
1	Dzongkhags	43.735
2	Ministry of Labour & Human Resources	13.864
3	Ministry of Home and Cultural Affairs	12.231
4	Ministry of Agriculture	1.642
5	Ministry of Works & Human Settlement	0.936
6	Ministry of Education	1.703
7	Ministry of Trade and Industries	0.634
8	Ministry of Finance	1.500
9	Ministry of Information & Communication	0.374
10	Ministry of Health	0.023
11	Autonomous Bodies	0.851
12	Gewogs	4.860
	Total	82.353

Inadequate internal controls particularly supervisory and accounting controls as well as absence of proper instructions and accountability resulted in such lapses.

4.2 Corporations, Financial Institutions and NGOs

The Royal Audit Authority during the year had issued 58 inspection reports in respect of the Corporations, Financial Institutions and NGOs. The total unresolved significant irregularities aggregated to Nu.80.843 million as summarized below and depicted in Table – 4.2.

SL. No.	Category of Agencies	Amount 2006	Amount 2005	Amount difference	%
1	Corporations	19.846	15.188	4.658	30.67
2	Financial Institutions	49.342	110.600	(61.258)	(55.39)
3	NGOs	11.655	4.926	6.729	136.60
	Total	80.843	130.714	(49.871)	(38.15)

4.2.1 Unresolved significant irregularities reduced by 38.15%

Unresolved irregularities in Corporations, Financial Institutions and Non-Government Organizations reduced from Nu.130.714 million in 2005 to Nu. 80.843 million in 2006 representing a reduction of 38.15% in the aggregate amount of irregularities. Financial Institutions had the highest amounts of unresolved irregularities amounting to Nu.49.342 million followed by Corporations Nu.19.846 million and NGOs Nu.11.655 million.

4.2.2 Unresolved irregularities in Corporations and NGOs increased while unresolved irregularities in Financial Institutions reduced

As compared to the AAR 2005, unresolved irregularities reported in the Corporations and NGOs increased by 30.67% and 136.60% respectively. Increase in the amounts of unresolved irregularities in respect of corporations was mainly due to more numbers of audits conducted and reports issued where as unresolved irregularities in NGOs had increased due to absence of proper system of check and balance.

Unresolved irregularities in the Financial Institutions reduced from Nu. 110.600 million to Nu.49.342 million, indicating a reduction of Nu.61.258 million i.e., by 55.39% as compared to AAR 2005. Loans and advances granted by the financial institutions in the normal course of business constituting their main activities which are subject to adequate follow-up procedures for recoveries were not reported in the AAR except those sanctioned without completing prescribed procedures and where adequate documentations were lacking.

4.2.3 Unsettled irregularities in advances and irregular loans constituted as most significant findings

Of the total amount of unresolved significant irregularities of Nu. 80.843 million, irregularities pertaining to loans and advances amounted to Nu. 56.355 million i.e. 69.71% of the total irregularities reported.