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# 1

## INTRODUCTION

The Royal Audit Authority (RAA) is mandated to audit and report on the Economy, Efficiency and Effectiveness in the use of public resources. Therefore, the RAA is required to examine whether the Government ministries and agencies are doing the right things and doing this in the right and the least expensive way. The role of RAA is confined not only to “**what has been done**” but also to “**what has not been done**” to achieve its ultimate objective.

*There shall be a Royal Audit Authority to audit and report on the Economy, Efficiency and Effectiveness in the use of public resources*  
(Article 25.1 of the draft Constitution of the Kingdom of Bhutan)

While ‘doing the right things’ would entail examining the policies, objectives and outcomes, ‘doing it in the right and the least expensive way’ requires examining the compliance, adequacy, practicality and timeliness of the systems, rules and regulations and adequacy of planning, monitoring and evaluation mechanism as well as effectiveness of internal control system.

The RAA has been reporting on the above aspects through its various reports with appropriate recommendations. The significant issues and recommendations are finally compiled at the year end and submitted to the Druk Gyalpo, the Prime Minister and the Parliament in the form of Annual Audit Report.

Accordingly, the RAA has been receiving increasing attention from the various Government ministries, agencies and the authorities concerned.

The Article 44 (c) of the Audit Act of Bhutan 2006, specifically states that “**It shall be the duty of the Authority to promote economy, efficiency and effectiveness in the use of public resources through its reports and recommendations**”. Therefore, the RAA felt that certain pertinent issues with larger impact on the Government resources and which can impede the economy, efficiency and effectiveness in the use of limited Government resources if not addressed timely and effectively, have to be brought to the attention of the Government separately. In this way, the RAA can present the overall scenario of the nature of problems and their impacts and thereby draw due attention of the Government.

Over the years, the Government has been spending huge sums of money on the procurement and constructions. During the 9<sup>th</sup> Five Year Plan alone, the Royal Government of Bhutan incurred an expenditure of Nu. 26, 925.604 million on construction works and procurement of goods and services, as summarised below;

Particulars	2002-03	2003-04	2004-05	2005-06	2006-07	Total
<b>Constructions</b>						
Construction	1,940.057	2,221.2	2,844.571	3,979.517	4,817.628	15,802.973
Maintenance	162.022	156.107	189.861	216.072	224.362	948.424
<b>Total</b>	<b>2,102.079</b>	<b>2,377.307</b>	<b>3,034.432</b>	<b>4,195.589</b>	<b>5,041.990</b>	<b>16,751.397</b>
<b>Procurements</b>						
Mach./Equip, vehicles etc	682.465	801.73	801.869	1,069.323	891.037	4,246.424
Office supplies, medicines, others	546.240	683.842	796.423	771.069	868.777	3,666.351
<b>Prof. Services</b>	<b>356.740</b>	<b>169.036</b>	<b>154.794</b>	<b>244.173</b>	<b>305.928</b>	<b>1,230.671</b>
Maintenance of vehicles, office equipment etc.	176.762	198.973	209.326	215.589	230.111	1,030.761
<b>Total Procurement</b>	<b>1,762.207</b>	<b>1,853.581</b>	<b>1,962.412</b>	<b>2,301.154</b>	<b>2,295.853</b>	<b>10,174.207</b>
<b>Total</b>	<b>3,864.286</b>	<b>4,230.888</b>	<b>4,996.844</b>	<b>6,495.743</b>	<b>7,337.843</b>	<b>26,925.604</b>

The expenditure on construction works and the procurement of goods and services, during the last five years, constitute almost 40% of the total Government expenditure.

Certain studies have indicated that in the Asia Pacific region, the wastage of funds from the construction works could range between 30% - 35% on account of various lapses and shortcomings including unethical practices. In absence of proper studies and lack of availability of basic data, the exact extent of wastage of public resources in the construction works in Bhutan could not be ascertained. However, audit reports amply demonstrate that considerable amount of public resources are wasted annually in various forms. Some of the wastages in these sectors, as per audit reports, are as high as 46 percent of the total cost and running into millions of Ngultrums.

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Therefore, even a conservative estimation of wastage on construction activities between 20% to 30% and on procurement of goods and services between 10% to 20% would indicate that the magnitude of loss to the Government would be very

huge i.e., in the range of between Nu 4,367.700 million to Nu 7,060.260 million in the 9<sup>th</sup> Five Year Plan as indicated below:

Particulars of expenditure	Expenditure (Nu. million)	Wastage at various levels (Amount in Nu. Millions)		
		20% Construction 10% Goods & Services	25% Construction 15% Goods & Services	30% Construction 20% Goods & Services
Construction	16,751.397	3,350.279	4,187.849	5,025.419
Goods	8,943.536	894.354	1,341.530	1,788.707
Services	1230.671	123.067	184.600	246.134
<b>Total</b>	<b>26,925.604</b>	<b>4,367.700</b>	<b>5,713.979</b>	<b>7,060.260</b>

Therefore, the RAA felt it very much necessary to highlight some of the major implementation issues in these sectors so that the Government can take appropriate decisions on the recommendations provided by the RAA. Timely action from the Government could save millions to the Government exchequer since these sectors will continue to receive priorities in the 10<sup>th</sup> Five Year Plan and beyond. All the recommendations provided by the RAA are aimed at improving the public sector accountability by doing the right things in the right and least expensive way. Such improvements in the accountability will ultimately benefit the country in terms of quality outputs with minimum expenditure.

As we are in the period of transition and preparing for the constitutional democratic system of Governance, it is even more important that the existing systems, procedures, rules and regulations are reviewed and fine tuned to meet the changing needs and aspiration of the Bhutanese society.

Given the nature and importance of the issues reported it was inevitable that the Royal Audit Authority may have touched certain policy issues solely with the objective to help the Government take informed decisions. Therefore, the RAA in no way intends to undermine the existing Government policies by indicating possible areas of improvement.

Based on the review of audit reports issued in the past and the plans, policies and programmes that are currently being implemented, the Royal Audit Authority identified pertinent issues for appropriate attention and action by the Government.

# 2

## SUMMARY OF CORE ISSUES AND PROBLEMS

While detailed deficiencies and lapses are given later in this report, the major and common issues and problems in the construction activities and procurement of goods and services are briefly summarised as given below;

### **2.1 Rules and Regulations**

Procurements of goods and services are regulated by the Procurement Manual of the Royal Government. Bhutan Schedule of Rates and Standard Specifications issued by the Ministry of Works and Human Settlement prescribe methods for preparing estimates, specifications and designs & drawings. Considering the importance of these documents it is imperative that relevance, reliability and practicability of these documents are ensured through institution of regular reviews, feedback mechanisms and periodical revision. Certain provisions of the existing Procurement Manual, BSR and Construction Manuals are found to be deficient, ambiguous and inappropriate requiring review and modification. Lack of standards for the restoration and conservation of traditional works have also led to several problems and complications.

While the Ministry of Finance had initiated the revision of the procurement rules and regulations, there is a need to have a wider stakeholder consultation and participation for dissemination of information to all organisation and officials involved in the procurement.

### **2.2 Inadequate planning, feasibility studies, survey, consultations and co-ordinations**

Inadequate planning, lack of proper feasibility studies and survey as well as consultation and co-ordination amongst agencies had resulted in inappropriate designs, unrealistic estimations & abnormal deviations, frequent changes & overlapping and duplications thereby impeding the quality and economy of construction activities. A very vivid example is the Tashichho Dzong - Babesa

Expressway Project where inadequate planning, feasibility study, survey and consultation is the major cause of most of the problems associated with the project.

Besides, the goods and services are also procured without adequate assessment of the qualitative and quantitative requirements. Exact specifications of goods to be procured are not ascertained and identified. Existence of excessive unused materials and equipment indicate procurement in excess of requirement or procurement of inappropriate/unsuitable materials. An example of excessive procurement from one of the Government Central Stores at Phuentsholing is illustrated below:

Year	Stock worth (Ngultrum in Millions)					Percentage (%)
	Opening	Purchases	Total	Sales	Year End Balance	
2000-01	3.627	12.480	16.107	10.367	5.740	45.99 %
2001-02	5.740	13.267	19.007	9.812	9.190	69.26%
2002-03	9.190	2.200	11.39	10.357	1.03	46.81%
<b>Total</b>	<b>18.557</b>	<b>27.947</b>	<b>46.504</b>	<b>30.536</b>	<b>15.96</b>	

There are also several cases of old stocks being written off with the approval of competent authorities.

### **2.3 Ad-hoc and unrealistic estimation**

In many cases, estimates were prepared on ad-hoc basis without detailed scrutiny of designs, drawings, site conditions etc. Even mega construction projects like the Tashichho Dzong - Babesa Expressway Project was implemented before getting the detailed design from the consultant, which later led to major changes in the scope of work after signing the contract.

When estimates were prepared or projects implemented prior to the detailed scrutiny of the design, drawings and site conditions, the quantities of works actually executed varied abnormally as compared to the estimated quantities leading to substantial cost overruns. Variations in some of the items of works were as high as over 1000%. Such ad-hoc approach and unrealistic estimation is not only against the budgetary norms but would also lead to several complications including avoidable additional payments to the contractors.

## **2.4 “Fit for all” Designs**

Several cases were observed where the concerned agencies have prepared one design, drawing and estimate for similar constructions in various places irrespective of the type of site and weather conditions. Some of the examples of ‘fit for all’ designs were found especially in the case of construction of schools, BHUs, Gup’s offices, NWF dwellings etc. While time and cost could be saved in the design of the constructions, such practices have led to several complications during the implementation process. For example, soon after signing the contract, the location was changed. The new location requires approach road, retention walls etc. and other related problems which ultimately lead to delays and high cost of construction.

Therefore, the saving in the time and cost of design, when compared to the actual implementation problems, issues and the high added costs, could be very negligible.

## **2.5 Defective Contract Agreements**

The RAA also observed many cases of unclear and defective clauses in the contract agreements. Very important clauses relating to penalty provisions were also missing from some of the contract agreements. Such loopholes in the contract agreements had been exploited by the contractors to their advantage which ultimately resulted in high costs and poor quality of works, goods and services.

While many of contract agreements have the requisite clauses, they do not specify the actions in case of non adherence to those clauses by the parties.

## **2.6 Inadequate supervision and monitoring of works**

There were large instances of payments made for works not executed or excess of works executed, acceptance of defective works etc. Inadequate site supervision and monitoring of works by the site engineers and supervising officials had led to such instances thereby leading to poor quality works and high cost of constructions.. There were also many instances of an engineer supervising several constructions, at various locations, at a time thereby leading to ineffective supervision and poor quality of works.

## **2.7 Unauthorized subcontracting and Fronting**

There were several instances of works being actually carried out by subcontractors of lower class or even non-licensed contractors with or without the knowledge of the procuring agencies. In reality, the works could be carried out by those who do not have requisite expertise and experience leading to low quality works, delays and rise in the cost of constructions.

There is no proper system of identifying such acts of violations. In many instances such practices are known by the executing agencies; however no actions have been taken. Therefore, there is no recorded evidence of unauthorized subcontracting or fronting.

## **2.8 Inadequate system of check and balance**

Inadequate financial control and lack of effective system of check and balance had resulted in large number of financial improprieties, irregular and excess payments. Existence of numerous claims on false certification by site engineers and others indicate that the existing system of check and balances is not effective. There were also several cases of huge and lavish advances being paid to the contractors. Such payments include of inappropriate mobilisation advances, payment of disproportionate secured advance against the materials brought to site, advances paid against inflated running bills etc. There were cases where total advances have gone beyond the actual cost of construction and therefore remained unadjusted.

Therefore, it evident that controls at all levels viz., administrative, financial and technical levels were generally lacking.

## **2.9 Private Consultancy Firms not providing value for money**

In many instances, the works awarded to consultants did not provide value for money and the need for engaging private consultancy firms vis-à-vis internal capacity within the agencies were not adequately analysed. Moreover, many of the Consultancy firms lacked adequate capacity and competence to render the services satisfactorily. Method of pricing and absence of effective competition had also contributed in high cost of consultancy services.

## **2.10 Non imposition of Liquidated Damages**

It is only through this clause that can ensure the timely completion of constructions, supplies and services. However, the RAA observed that there is a general tendency of leniency on the part of the various ministries and agencies in

incorporating or in following this particular clause. Therefore, the contractors, suppliers and consultants are not so keen into looking at this particular clause while bidding because they feel that they can always write for time extension later which will be favourably approved by the concerned agencies.

### **2.11 Abnormal variation in costs in different places for similar works**

There were abnormal variations in the costs of similar construction works in different places. Such variations were more apparent in the construction of roads. While the cost could depend on the site condition such as type of soil, weather conditions, topography etc. in the case of Bartshem – Ramjar Road and Bartshem – Bidung Road, both lying in the same locality, the cost of construction per kilometre were Nu. 5.63 million and Nu. 2.46 million respectively thereby the former costing almost double of the latter. Many such variations were observed, some costing as high as Nu. 7.2 million per kilometre. Absence of proper system of comparative studies and appropriate mechanisms to address such variations would have caused substantial financial burden to the national exchequer.

### **2.12 Rush of activities towards the end of financial year**

It is common in all Government agencies to have the maximum number of disbursement vouchers for the months of May and June. Many of the activities have been rushed during these two months especially during month of June. In many of the agencies, particularly the Dzongkhags, even the construction works were started during these months. Several procurements have been made in June to avoid lapse of fund.

All these indicate lack of proper planning, coordination and financial discipline, which will ultimately lead to poor quality, excessive procurement and blockage of funds.

### **2.13 Absence of reliable quality assurance system**

Overall quality assurance system is not adequate. Besides, there are no adequate facilities to check the quality and acceptability of various construction materials both imported and manufactured within the country. Further, system of independent monitoring of construction works to ensure adherence to construction standards were not adequate.

#### **2.14 Non-observance of professional and ethical code for engineers**

Engineering professionals must subscribe to and adhere to high professional and ethical codes which are subject to effective monitoring. This would promote their commitment towards public service and maintain high standards of works. Non-observance of such requirements may increase the possibility of some engineers indulging in unethical and corrupt practices.

Besides, the present practice of registration of architectural engineers with the CDB who are civil servants may not only create conflicting interest situations but also appear to violate the existing civil service rules and regulations. There is also absence of proper mechanism to ensure that other engineers, who are civil servants, are not engaged in consultancy works which are prohibited under the BCSR 2006.

# 3

## DETAILED PROBLEMS, DEFICIENCIES & LAPSES IN THE CONSTRUCTION MANAGEMENT

While these detailed problems, deficiencies and lapses are intended to provide a clearer picture of the summarised version in Chapter 2 above, they also provide cases with examples to support the opinion of the RAA relating to the problems, deficiencies and lapses. Wherever the cases are sufficiently explained in Chapter 2 above, they are not repeated in this portion of the report.

The detailed problems, deficiencies and lapses are presented in two parts. This chapter deals with the problems, deficiencies and lapses in the construction management while the problems in the procurement of goods and services are dealt in the subsequent chapter.

### **Construction Management**

Construction activities are carried out in various manner viz., departmentally, deposit works, through contracts or on a turn key project basis. The Financial Rules and Regulations 2001 outlines detailed procedures for implementing construction activities. Construction activities are of utmost importance to any economy both in terms of resource allocation and the need for creating adequate infrastructure. During the 9<sup>th</sup> Five Year Plan, excluding the extended period, more than 25% of the total Government expenditure was incurred on Construction activities.

The review of existing rules and the implementation of the construction activities by the various Government ministries and agencies revealed that there are significant problems, deficiencies and lapses, thereby impeding the economy, efficiency and effectiveness in the uses of public resources. The major and common problems, deficiencies and lapses in the construction sector are explained hereunder:

#### **3.1 Rules not reviewed and updated**

While efforts are already underway to revise the Procurement Manual by the Ministry of Finance, it lacked wider stakeholder participation in the process. The Procurement Rules have not been reviewed and updated properly except some aspects of rules concerning construction activities reviewed and amended by the

Ministry of Works and Human Settlement. Following are some of the specific areas where inadequacy, lack of clarity and inconsistency were apparent.

### ***3.1.1 Threshold levels***

Threshold levels and monetary ceilings for different methods of bidding specified in the Procurement Manual become impracticable if not reviewed and revised periodically. The threshold levels have to be reviewed and revised timely and systematically as provided for in the Procurement Manual. Though the Ministry of Finance is already in the process of reviewing the threshold level, the process needs to be expedited and such review has to be undertaken from time to time.

### ***3.1.2 Works executed in remote areas (17)2.4.3(f)***

The Procurement Manual provides flexibility of direct contracting of works not exceeding Nu. 300,000.00 in remote areas where potential contractors are not available. However as per clause 17.2.4.3(a), such flexibility can only be exercised in absence of bids or responsive bids or suitable bids following open or limited bidding. Such a clause may not be appropriate because:

- ≈ If the conditions in clause 17.2.4.3(a) are fulfilled, direct contracting procedures are available irrespective of areas of location of works. As such, inclusion of this clause does not serve any purpose; and
- ≈ Instead of providing flexibility, the clause 17.2.4.3(f) puts ceiling of Nu. 300,000.00 for carrying out works in remote areas under direct contracting when such ceilings are not provided for in other areas.

If the intention is to provide more flexibility for works executed in remote areas, conditions and ceiling should be lifted. Otherwise, Clause 17.2.4.3(f) per se is adequate.

### ***3.1.3 Responsive bids (17.6.1)***

The present system of allotting points or Two Envelope System is subjective and has raised many eyebrows. The Construction Development Board (CDB) has already classified the contractors into A, B, C and Petty based on prescribed conditions which are similar to the conditions in allotting the points. Besides, the following ambiguities have also been observed;

- ≈ It is not clear as to whether offers made by bidders for technically superior and suitable items at lower rates should be regarded as non-responsive bids for being different (technically superior) than specification. If such offers are regarded as non-responsive bids, procuring agencies may be buying goods of lesser technical merit at higher cost.
- ≈ Many agencies procure goods and services usually based on three or more quotations even if the responsive bids are less than three in number, thereby impairing the effective competition. The implementing agencies generally argue that they only have to receive a minimum of three bids, irrespective of whether they are responsive or non-responsive. Therefore, even non-responsive bids are included in the Comparative Statement during the process of tender evaluation and thereafter rejected as non-responsive bids.
- ≈ It is not clear as to when the bid can be rejected. Bids are usually rejected on the grounds of non-submission of experience certificates, non-renewal or non-furnishing of trade license and CDB certificates, non-signing of bid documents by the witness, non-attending of tender opening by the representatives, past delays even if liquidated damages had been imposed and work was completed and taken over, increased contract duration than specified in the tender documents etc.

#### ***3.1.4 Tender Committee (17.5.1 to 17.5.3)***

Tender Committees should implement the related provisions of Procurement Manual. The RAA found that the Tender Committees making decisions beyond those specified in the rules or apply different procedures such as:

- ≈ Adoption of arbitrary cut-off procedures or for bid evaluation. For example one of the Dzongkhag Tender Committee, had awarded 19 works valuing Nu.33.756 million by fixing cut-off point. The works were found awarded to the bidders whose bid value is nearest to the cut-off percentage arbitrarily set up by the tender committee.
- ≈ Adoption of lottery system in awarding works.
- ≈ Setting conditions not originally included in tender terms which put some bidders in advantageous position.

The Procurement Manual does not contain specific limits within which the Tender Committees should operate.

### ***3.1.5 Pricing and Methods (17.7.2(b))***

Besides various pricing methods, Cost plus fee method has also been provided for in the case of services contracts. However, it does not elaborate adequately to indicate what type of services contracts this would be appropriate as well as precise way of calculating cost plus fee. A fixed % on actual or estimated cost is commonly used method in charging the fee for consultancy services. It is not clear whether the cost means the cost incurred by the contractor or the procuring agencies. In some cases costs incurred by the providers of services contract are taken while others (in the case of consultancy contracts for designs, drawings and supervision) have taken costs incurred by the procuring agencies. Costs of procuring agencies will not necessarily reflect the time and efforts of the service providers.

Moreover, the cost-plus fee or cost based % would encourage Consultants to inflate estimates or increase costs through inefficiencies, wastages and use of expensive materials. System of fixing a maximum limit has not been made mandatory.

Payment of a fixed % on the estimated or actual costs of construction works for design, drawing and supervision contracts which are generally being adopted prove expensive for the Government.

Many works executed in the past had such problems. Construction of SAARC Conference building, RIM building, Chukha Dzong Construction Project are some of the examples of Consultancy fee charged on cost plus or fixed % on actual or estimated cost of the projects.

## **3.2 Bhutan Schedule of Rates**

Like the Procurement manual, the anomalies, inadequacies and lack of clarity are also found in the Bhutan Schedules of Rates as detailed below.

### ***3.2.1 Ambiguity in Base Rate calculation***

There is some ambiguity in the calculation of Base Rate of the border areas. Base rate in border areas should include materials that are produced in the border areas or imported and required to be transported to other

construction areas in different parts of the country. However, materials like timber, sand and boulders which are available in all areas are also considered for calculating Base Rate of boarder areas.

### ***3.2.2 Traditional works and restoration and conservation of traditional works***

The existing BSR cannot be strictly applied for traditional structures. Standards are necessary for all types of works for quality assurance, controlling and monitoring and thereby the affecting economy in all such works. There is a need to develop requisite standards for such works.

The same issue was pointed out in the Audit Report of Semtokha Dzong Conservation Project as well as Annual Audit Report 2006.

### ***3.2.3 Provision for Contingencies***

Work estimates usually include provision for contingencies. Irrespective of the fact that such contingencies arise or not, the provision kept are shown as expended particularly in works executed departmentally or through contracts awarded directly on lump-sum contracts. It is felt that unless events giving rise to legitimate circumstances for utilization of contingencies occur, payments of provision for contingencies may not be appropriate.

## **3.3 Planning and Supervision of Construction Works**

### ***3.3.1 Inadequate planning and consultation***

Construction projects usually lacked adequate planning. There were no enough thought and time given during planning phase. Besides, consultation amongst architects, engineers, supervisors and stakeholders were not apparent during planning process. There were no proper need assessment and determination of exact specification at planning phase of the projects resulting in unnecessary changes, curtailment in the scope of work, delays and additional costs. As pointed out in Chapter 2, a living example is the Tashichho Dzong - Babesa Expressway Project where inadequate planning and consultation had led to several complications leading to delays and cost escalations.

### ***3.3.2 Inadequate feasibility studies***

Proper feasibility study is a must for large and complex construction projects. The technical and financial viability, geo-tech suitability etc. would depend on the extent of in-depth study and analysis of facts and information. Due to inadequate studies being carried out, project activities, at times, are brought to a halt causing uncertainties, delays and cost over-run or even eventual abandonment of works. The Chukha Dzong Construction Project is an ideal example of inadequate feasibility study.

### ***3.3.3 Supervision of works***

Works were generally not properly and adequately supervised. Lack of adequate technical staff i.e., engineers are normally cited as the reasons. While this may be true to some extent, the lack of supervision was primarily due to taking up of more works than one can technically support. There were generally ad-hoc approach to supervision and lack of proper planning and allocation of time of engineering officials.

Lack of adequate supervision, adversely affected the quality of works executed in the field.

### ***3.3.4 Deficiencies in designs***

Most of the implementation problems have cropped up mainly because of the deficiency in the design, while improper feasibility study and competency of consultants have mainly attributed to deficient designs. The RAA has observed several cases where there were deficiencies in the designs like the design of M/S Rites for the Expressway Project including the design of the bridges for the Expressway by M/S Gyaltshen Consultancy, Construction Catalyser, Schlaich Bergman & Partners, M/S Green Peace Pvt. Ltd and ACECOMS.

### ***3.3.5 Changes made by senior officers during inspection***

There were several instances of changes being made during the actual construction based on the instructions of some of the senior Government officers visiting the construction sites. One such example is curtailment of a crucial item of sand bedding in the Expressway project which has affected the outcome of the project. Many such changes were in total

deviation to the original design and had led to several other changes due to their chain effect thereby inflating the total cost of the construction.

If those visiting officers were so keen on the project, then it is not understood how they failed to participate in the process of preparing the design and drawings. Making changes during the implementation had led to several complications and cost escalations like in the case of Chukha Dzong Construction Project.

### **3.4 Deficiencies and ambiguities in Contract agreements**

There were several cases of contract agreements containing ambiguities and defective clauses, which were exploited by the contractors to their benefit. In some cases penal provisions are not incorporated for breach of contractual terms including delay in completion of work. At times some important matters are left out thereby not being able to hold the contractors accountable in the event of losses or damages arising during the implementation of works. It is difficult to ascertain whether such ignorance are intentional or due to lack of in-house expertise to review the legality and implications of various provisions incorporated in the agreement.

As contract agreements are legally binding documents and enforceable in the Court of Law, it is necessary that these are prepared properly by knowledgeable and experienced persons.

### **3.5 Implementation**

#### ***3.5.1 Contracts awarded without competitive biddings***

There were large number of cases of awarding of contracts without tenders/quotations or through limited biddings which lacked transparency, fairness and impaired economy in construction works. Despite being pointed out by the RAA as violation of rules, these are generally taken as procedural lapses and no actions are taken against the defaulting officials.

For example the River Training Work was awarded directly at the estimated cost of Nu.5.185 million. Further, during the past financial years i.e.2001-2003 and 2003-2004 similar works were awarded at the estimated costs. The total value of works all put together arrived at Nu.13.000 million approximately. Similar river training works in the same vicinity and locality were executed through tenders at much lower prices than the estimated cost. It was apparent from the quoted price of the various bidders

that the prevailing market rates for such works were lower than the estimated costs. As a result the Government had sustained estimated financial loss of Nu.4.388 million.

Likewise the various Dzongkhags have cost Nu. 2.751 million extra to the Government on account of such irregularities.

### **3.5.2 Lowest Evaluated Bids determined on inappropriate criteria**

Offers from the lowest bidders were rejected without giving proper reasons or on criteria that are not supported by adequate documentation of evidences or by imposing additional criteria. The usual reasons for rejection of lowest/lower offers were non-signing of bid forms, delays in the past, deciding on the overall lowest bid, etc. Some of the prominent instances of rejecting the bids on inappropriate criteria and non-competitive bidding are:

- 1) *In one agency work was awarded to sixth lowest (highest) bidder by treating the first to fifth lowest bidders as non-responsive. If there was only one responsive bid (highest bidder), there was no effective competition and hence the work should have been re-tendered, difference between lowest and winning bid was Nu. 0.929 million)*
- 2) *In one agency, out of six bids received, first and the second lowest were considered non-responsive bids on the ground that the bidders had not signed the Bid Forms. The Contract was awarded to the third lowest bidder who had not submitted the bid analysis which was required to be submitted at the time of bid opening as per tender document. Resultant extra financial burden was Nu. 0.327 million.*
- 3) *The work estimated at Nu. 7.719 million in one agency was awarded to the lowest evaluated bidder for Nu. 10.635 million, other 3 bidders were disqualified on the grounds of submission of incomplete documents. There was no effective competition as 3 bidders were disqualified and there should be three responsive bids. Extra financial burden by awarding the work 38% above the estimated cost amounted to Nu. 2.912 million.*
- 4) *The Dzongkhag Tender Committee had awarded the timber extraction contract on overall lowest rate in one of the Dzongkhags. The timber included Bumthang Bluepine, Trongsa Hemlock and Wangdue Chirpine. The other bidder had quoted the lowest for the*

*Trongsa Hemlock timber. Had the contract for this particular item awarded separately to the lowest bidder the Government would have saved Nu.0.356 million.*

### ***3.5.3 Unauthorized subcontracting and Fronting***

Works in many instances were actually carried out by sub-contractors of lower class or even non-licensed contractors with or without the knowledge of the procuring agencies. Such practices constitute violation of procurement norms and the works could be carried out by those who do not have requisite expertise and experience leading to low quality works, delays and rise in the cost of constructions.

There is, however, no proper system or effective supervision to identify, and act on violations. In many instances, such practices are known by the executing agencies, however no actions have been taken. Therefore, there is no recorded evidence of unauthorized subcontracting or fronting.

### ***3.5.4 Excess and inadmissible payments to contractors***

There were numerous instances of measurements of works shown in excess of actual quantity of works executed at site with resultant excess payments to contractors. Such instances could have appeared either through possible collusion with the contractors by falsely verifying the bills or by negligence on the part of site supervisors. Payments were also made beyond the provisions of the contract documents. Some prominent cases of excess payments made during the 9<sup>th</sup> Five Year Plan are:

- 1) The RAA detected an overpayment of Nu. 25.250 million in the construction of Highway Widening.*
- 2) The contractor in a mega project was paid for 100mm thick Dense Bituminous Macadam and Asphalt Concrete while the actual execution was only 70mm, thereby leading to an excess payment of Nu. 10.121 million.*
- 3) Length of roads and parking as per joint measurement indicated 556 meters as against 758.50 meters paid for resulting in excess payment of Nu. 0.213 million in one of the agencies.*
- 4) As against 600 fencing posts and 64 angles recorded in the MB in respect of barbed wire fencing, 330 fencing posts and 33 angles were*

*actually found on physical verification of site thereby resulting in excess payment of Nu. 0.360 Million.*

- 5) *Site visit and cross checking of measurements with the drawings revealed payments made without executing the work, excess payments and acceptance of sub-standard work involving Nu. 1.357 million.*
- 6) *Excess, inadmissible/double payments were made to contractors apparently due to inefficient contract management (Nu. 1.157 million).*
- 7) *Cases of payments for works not executed, full payment for works not completed, payments for construction materials not received, shortage of construction materials, fake muster rolls in Gewogs under six Dzongkhags (Nu. 2.604 million).*
- 8) *Quantities of various works paid for were more than the actual works executed. Excess paid amount aggregated to Nu. 0.168 million.*
- 9) *Excess and inadmissible payments were made to contractors by paying for more than the quantity of works actually executed or items of works not executed. Amount excess paid aggregated to Nu. 0.169 million.*
- 10) *As against the value of actual work executed of Nu. 225,396.00, an amount of Nu. 365,120.00 was paid to Gup for constructing a Meeting Hall thereby resulting in overpayment of Nu. 0.140 million.*
- 11) *Of the various works awarded on tender, three works with aggregate contract value of Nu. 1.433 million were falsely certified as 100% complete or 40% complete as noted during the joint physical verification of work there-by over compensating the contractors.*
- 12) *The contractor who was awarded the construction work of 4.6 KM farm road was paid excess amount of Nu.1.154 million for works not actually carried out. The payment included Nu.0.613 million for rock stated to have blasted, however joint site verification revealed that the blasting was found not carried out.*
- 13) *The contractor who was awarded the contract work for construction of Science Laboratory and Library of a Middle Secondary School was paid excess amount of Nu.0.214 million for works not executed.*
- 14) *It was observed that the wages for the labourers engaged in the construction works at Lekithang were paid at higher rate than the*

*rate specified in the Chathrim of the Ministry of Home & Cultural Affairs, resulting in excess payment of Nu. 0.393 million.*

- 15) *The joint physical verification of work of development of assembly ground of a school awarded on contract for Nu. 450,000.00 revealed that the work done was 196 metre against the payments made for 227.76 metre resulting into excess payment of Nu. 0.022 million to the contractor.*
- 16) *One reconstruction project had purchased Bhutanese paints worth Nu. 0.581 million. While conducting physical verification of the paints it was noticed that the net weight marked on the packets were varying from 100 grams to 450 grams and some from 1 kilogram to 2 kilograms. The quantity actually received was less than the quantity actually paid for resulting into excess payment of Nu. 0.107 million.*
- 17) *The work of 1<sup>st</sup> class traditional painting was awarded on contract. A bill for the work of Nu. 0.176 million, exactly the contract value was submitted and paid. The contractor had again claimed bills supported by measurement sheet prepared by him amounting to Nu.0.223 million. This claim addressed to Dasho Dzungda was made two months after the initial bill payment on the ground that the Government engineer while measuring the work done had not considered the height of the room and outer portion thus reducing the value of the work done. The engineer had verified the claims and remarked that some portion would be entertained. Later the new Project Engineer who replaced the previous engineers submitted a note sheet to Dzungdag and payment of Nu.0.223 million was made which included those items stated to be inadmissible by former project engineer. This resulted into an excess payment of Nu. 0.170 million.*
- 18) *The construction work of the construction of Additional Guest House was awarded on contract. An excess payment of Nu. 0.229 million was made on account of the earth work in excavation and providing and fixing 15 ltrs. white vitreous china low level cistern as noted during the joint site verification.*
- 19) *The contractor was awarded the work of parquet flooring. Over 65% materials used were old and timbers for making new parquet strips were issued by the procuring agency. The contractor was paid Nu. 0.253 million for old materials which was not payable and Nu.0.083 million for works not executed.*

- 20) *The contractor for the construction of RCC post with barbed wire fencing was paid an excess amount of Nu. 0.070 million on account of work not executed. The joint physical verification conducted revealed that the number of RCC post actually constructed was 329 whereas the number claimed and paid was 390. Similarly the height of RCC post of the boundary wall and fencing were found claimed higher than the actual value of work done at site.*
- 21) *The work of the construction of road was awarded on contract. The contractor was found paid excess amount totalling Nu.0.102 million in terms of over measurement, using wrong specification of wire mesh, payment for non-utilization of excavated materials, etc.*
- 22) *The River Training Work under the Field Road Maintenance Division was awarded at the estimated cost of Nu.5.185 million which included the cost index of 6.82% over the BSR 2001 on some items of work defying the observation earlier raised by the RAA. This had resulted into excess payment of Nu.0.205 million.*
- 23) *The construction of footpath, drains, benches and inner footpaths in the park area was awarded on contract. at the lowest evaluated bid for Nu. 0.83 million. On verification of the records, it was noticed that the thickness of providing & laying stone soling and P/L cement concrete were not executed as per the drawing & specification, which resulted into over payment of Nu. 0.023 million.*
- 24) *A contractor who was awarded the contract for construction of 2 dwelling houses under Sarpang Field Division was found paid excess amount of Nu. 0.053 million for works not executed.*
- 25) *The construction of NWF Dwellings was awarded on contract. The contractor was found paid Nu. 0.032 million for items of works actually not executed.*
- 26) *Comparison of the physical measurement and the billed quantity revealed an excess payment of Nu.0.130 million in respect of the construction of RNR Centre awarded on contract.*
- 27) *Verification of the Measurement Book and the contractor's bills revealed that an amount of Nu.0.027 million was found paid in excess of what was actually admissible.*
- 28) *The contractor who was awarded the of construction work of six-block additional classrooms of a Higher Secondary School was paid excess amount of Nu.0.045 million. This excess payment was found*

*out when the second running account bill was verified in comparison with the measurement book.*

- 29) One Dzongkhag Administration had made an over payment of Nu.0.045 million approximately to various contractors involved in the construction and renovation of toilets and teachers quarters.*
- 30) One Dzongkhag Administration had paid an excess amount of Nu.0.124 million to a contractor for deviated quantities and for item of works paid at different rates ignoring the applicability of the Bhutan Schedule of Rates.*
- 31) For additional works instead of paying at Bhutan Schedule of Rates (BSR) plus/minus contractor's percentage of 2.61% it was actually paid at BSR plus 50% thus resulting into over payment of Nu.0.277 million. On cross checking of the labour escalation payment it revealed that an over payment of Nu. 0.033 million was made due to overstatement of the quantity of work done. Earth work excavation over rock was found paid at the rate other than the BSR plus/minus contractor's offered rate thus resulting in over payment of Nu.0.249 million. Thus in total the Dzongkhag Administration had paid excess amount of Nu.0.559 million to the contractor.*
- 32) One Dzongkhag Administration had paid excess amount of Nu.0.751 million to the contractor. The contractor who was already given cost index of 29.10% was again allowed another 25% Cost Index resulting into over payment of Nu.0.751 million.*
- 33) The Construction of Hostel Block-II (Girls Hostel & Toilet) of a Higher Secondary School was awarded on contract. On verification of measurement of work done as per final bills with the specification of the drawings revealed an over payment of Nu.0.116 million. Though both blocks constructed at the same topographical feature of the land, Block II had shown higher quantum of work done amounting to Nu.0.414 million.*
- 34) The Construction of Hostel Block-I (Boys Hostel & Toilet) of a Higher Secondary School was awarded on contract. The auditors while verifying the value of work done with that of specification found excess payment amounting to Nu. 0.128 million.*
- 35) The contractor had offered rebate of 31.72 % on his quoted rate for the construction of a community school. However, the concerned Dzongkhag Administration while making the payment had not*

*deducted the rebate offered, thus resulting in excess payment of Nu.0.099 million.*

- 36) Construction work of resurfacing and black topping of parking area was awarded on contract. The audit team had found that the engineers had not applied the standard technical formulae of Department of Road (DoR) specification. This had resulted in the excess payment of Nu.0.226 million to the contractor.*
- 37) The compound fencing work of a Farm was found awarded on contract. Verification of paid bills revealed payments for fixing of 810 angle posts as against 766 numbers actually found fixed at the site, thus resulting into over payment of Nu.0.035 million.*
- 38) The construction of Beat Office was awarded on contract. On verification of its relevant records it revealed payment in excess of what was actually admissible. Such over payment amounted to Nu.0.090 million. It included excess payment of Nu.0.019 million due to wrong calculation, Nu.0.020 million for site development, Nu.0.029 million for centering & shuttering for mud wall, Nu.0.022 million on alteration and non-execution of work.*
- 39) The work for maintenance of slaughter house was awarded on contract. As transpired from the documents the tender committee consisting of senior officials of Ministry had re-negotiated the rates with the contractor who had agreed to carry out the work at the estimated cost, without cost index. However, the contractor was paid a cost index of 25% amounting to Nu. 0.053 million.*
- 40) The renovation work of DFO building was awarded on contract. Verification of records revealed payment totalling Nu.0.025 million for works not executed.*
- 41) The construction work of BHU-III with a completion period of 6 months was awarded on contract. The work was not completed till date of audit (24.8.02). The contractor was paid 75% secured advance amounting to Nu.2.15 million for materials stated to have brought at site. But the site verification revealed that the materials were not brought at site and the one who verified the claim of secured advance was not the concerned engineer in charge.*
- 42) Similarly, the contract on construction of Thinleygang Primary School awarded to M/s Druk Ngawang Construction was terminated but outstanding due of Nu.0.470 million was not settled.*

- 43) *Contractor for the construction of BHU had been paid an advance of Nu.3.608 million. However, the total amount of bill was only Nu.3.319 million thereby leaving a recoverable balance of Nu.0.280 million.*
- 44) *During the site visits conducted jointly by the audit team and the Dzongkhag Site Engineer revealed that some works were not executed though payments were made. The value of works not executed but paid for amounted to Nu.0.032 million.*
- 45) *The Dzongkhag Administration had paid Nu.0.016 million to the Contractor for the item of electrification work not actually executed.*
- 46) *The estimated quantity for “providing & fixing dressed wood work in partition with frame” was 1.404 cubic metres. However, the bill claimed and paid was for 14.42 cubic metres resulting into excess payment of Nu.0.070 million. A physical verification of the partition with frame works revealed that actual timber used was only 1.59 cubic metres.*
- 47) *The cost of materials issued to the contractor valuing Nu. 0.115 million was not deducted by the Dzongkhag from the final bill of the contractor.*
- 48) *Excess payments of bonus were made due to incorrect determination of Monthly Deliverable Milestone. Amount of excess payments was not readily ascertainable.*

### ***3.5.5 Abnormal deviation/variation in works***

There were large instances of deviation in the quantities of works executed as compared to estimated quantities of works as per the Bill of Quantities. Lack of detailed planning, study of site conditions as well as intentional underestimation of works to benefit contractors at market rates for deviation beyond 20% could be some of the reasons for abnormal variation in the works. In some cases the variation in the quantity of works exceeded 1000% thereby defeating the very purpose of estimation of works. A few instances are mentioned below:

- 1) *Actual quantity of works executed exceeded 95% in respect of earth work excavation and 162% for stone filling. Additional cost (Nu. 0.187 million).*

- 2) *Abnormal deviation between BOQ quantity and actual quantity of works executed. Variation ranged between 62% to over 1000%. Additional financial implication of Nu. 11.387 million) due to wrong estimation of quantities of works.*
- 3) *Contractor was paid for negative deviation i.e., for works falling short of BOQ quantity after adjustment for 20%. Amount paid for negative deviation amounted to Nu. 0.269 million.*
- 4) *Payment was made over and above the quoted rate. The scope of work was extended and it was agreed that for items in the BOQ quoted rates shall be applied. However, payments were made for items for which rates were available in the original contract by treating the items as deviation quantity. Excess payment of Nu. 0.449 Million was made.*
- 5) *Deviation of certain items of work was as high as above 500%. Total amount paid for deviation in quantities of works at the quoted rate amounted to 5.963 million.*
- 6) *In one instance relating to the removal of excavated soil, the contractor was paid four times the quoted rate of Nu. 33.00 per cubic meter for an every additional lead of 250m beyond 50m up to 1000m and deposit to a level up to 1.5 m ordinary or hard soil. Contractor was paid @ Nu. 132.00 per cubic meter thereby incurring extra financial burden of Nu. 2.141 million. This is a type of policy flaw. By simply keeping such provision in the BOQ without taking pain to ascertain and quantify the actual distance and not considering other economical options for disposal of soil, extra expenditure of Nu. 2.141 million was incurred. Had proper planning and detailed study been carried out, such huge extra expenditure could have been reduced.*
- 7) *In one instance, the road maintenance expenditure exceeded approved budget by Nu. 0.624 million.*

### **3.5.6 Under utilization of machinery**

There were cases of under utilization of machinery owned or hired. Lack of proper planning and co-ordination were the main reasons for under utilization of costly equipment and machinery bought or hired. Some of the prominent examples are as given under:

- ≈ *Machinery and equipment were either kept idle or were under repair and hired from the private parties involving possible loss of Nu. 53.172 million.*
- ≈ *The details of utilization of excavator and Bull dozers hired for Nu. 1,359,718.00 were not on record.*

### **3.6 Engagement of Consultancy firms**

Services of Consultancy Firms are usually hired for preparation of architectural designs, drawings, detailed estimates and supervision of works. Fee paid to the consultants amounts to several millions of ngultrum for large construction works. In most cases consultancy fee is charged at certain percentage of estimated or actual costs of construction works.

While the growth of engineering profession and its impact in the private sector promotion within the country may be dependent largely on hiring of services of private engineering firms by Government agencies, it is felt that certain facts particularly the following should be taken into consideration to ensure that public resources are utilized economically, efficiently and effectively.

- ≈ Who are most equipped to undertake the designing, drawings and supervision works, Government technical agencies or private firms?
- ≈ Where is the concentration of expertise i.e., engineers?
- ≈ Is the Government agencies retaining and utilizing services of architects and other engineers who pursued engineering qualifications through Government funding?
- ≈ Do the Consultancy Firms have requisite infrastructure to carry out sophisticated works?
- ≈ Are central technical agencies carrying out detailed cost benefit analysis to ascertain what would be best possible alternative(s) available with them having regard to most cost effective options, optimum use of Government engineers, capacity of private firms, international bidding options for larger and complex works and looking into areas such as;
  - Who actually does the works for private firms?
  - Is payment of several million of Ngultrum a reasonable charge to the Government for works most of which the Government engineers can also render?

- Should there be maximum percentage or limit fixed on the consultancy fee?
- Is such high earning by engineering firms not an example of over compensating engineering firms compared to their colleagues in the Government?
- What measures are in place to ensure that engineers of the Government agencies do not actually participate in the preparation of actual design works?
- Is there any other way to promote private consultancy firms by creating competitive environment?
- Are Bhutanese nationals employed in the Consultancy Firms?
- Would it be economical to employ specialist engineers/architects by technical agencies?
- Should there be categorization of consultants/architects in different classes based on their size, qualifications, experiences and manpower strength?
- Is it possible to identify key areas for Consultancy work?

### ***3.6.1 Government Architects allowed to be registered with the CDB***

The Royal Civil Service Rules and Regulations specifically prohibit civil servants from carrying out private trade. It is however observed that Government architects are being allowed to undertake private consultancy works upon registering themselves with the CDB. They can also bid in the tender.

Since all civil servants irrespective of any professional background are barred from indulging themselves in any form of private trade including the consultancy works, such relaxation of rules by the Ministry of Works and Human Settlement is not rational and proper. It undermines the civil service rules and puts all other non-practicing civil servant members viz., doctors, professional accountants, other engineers etc. in disadvantageous position. Moreover, there will be conflict of interest and they loose focus on their own normal duties and concentrate more on consultancy works.

### 3.6.2 Irregularities observed in consultancy contracts:

Review of consultancy contracts pertaining to construction works indicated that the consultants were paid in excess of amounts payable or disproportionate to the progress of works. A few instances were as below:

- 1) ***Deficient designs and drawings** - The designs and drawings, BOQ and estimates were produced by a foreign Consultant for a mega project except for the three bridges which were awarded to a different Consultancy Firm. There were changes in specifications and methodologies prescribed and curtailment in the scope of work during implementation. The actual quantities of various items of works executed varied significantly some as high as 1000% plus. Thus value for money from the Consultancy services hired at a cost of Nu. 2.3 million was not obtained.*
- 2) ***Excess Payment of Consultancy Fee** - The maximum ceiling for supervision charge in respect of a mega Project was fixed and any additional compensation was payable only in certain specified circumstances. The Consultancy fee was decided to be paid on monthly basis over the duration of the project of 24 months. However, the monthly payments were being continued to be paid beyond 24 months despite not meeting the criteria fixed for the additional compensation. A sum of Nu. 5,217,949.00 was paid for the duration of the project exceeding the maximum amount fixed as per the Contract agreement. Any payments made beyond the ceiling specifically fixed by the contract agreement are irregular. MLTC had approved the excess payments.*
- 3) *The consultant engaged for designing and supervision of work was paid the consultancy fee disproportionate to the progress of work. Total payments made had exceeded Nu. 5.00 million. The consultancy contract work was eventually terminated due to unacceptable works.*

### 3.6.3 Inaccurate BOQ and Estimates

There were cases where the specifications provided in the consultancy report were not followed to the entirety. There were substantial changes and curtailment in the scope of work during implementation of the project for which no rationality or justifications were available on record. There were also other cases of huge deviations in the quantities of works actually

executed as compared to the BOQ prepared by the consultant. Such errors could also lead to wrong evaluation of bids. *Some of the prominent cases related to inaccurate BOQ and Estimates can be found in the Expressway Project where the variations in the actual executed quantities were as high as 1000% plus.*

### **3.7 Delay and liquidated damages**

There were many instances where the agencies have either not imposed the liquidated damages or imposed lesser amounts. Non or short imposition of liquidated damages without justifiable reasons would tantamount to non-enforcement of contract terms and conditions. Some of the prominent instances are as given below:

- 1) *Some of the Dzongkhags had not imposed the liquidated damages amounting to Nu. 2.009 million in violation to the terms and conditions stipulated in the contract agreements.*
- 2) *The contractor delayed construction of a building by 3 months. Liquidated damages recoverable @ US \$ 25,000.00 per month (Nu. 3.375 Million) was not found deducted from contractor's bills.*
- 3) *Recoverable liquidated damages amounting to Nu. 0.272Million was not recovered stating that the works could not be carried out due to rain fall, snow fall etc. though as noted from the Cement issue register the works were actually carried out during those days.*
- 4) *Various Dzongkhag Administrations had awarded construction works to the contractors with stipulated dead line for completion. While most of the contractors had failed to complete the work in time, the Dzongkhags did not levy the liquidated damages amounting to Nu.1.914 million. There were 13 such cases reported by the auditors.*

### **3.8 Rescinding the works**

There were instances of the agencies being forced to rescind the contracts due to failure of contractors to carry out the works as required. The main reasons included slow progress of works, lack of due diligence on the part of contractors, poor quality of works etc.

While the procedures for rescinding the contracts are outlined in the Procurement Manual, the executing agencies generally do not pay adequate attention on the contractors' liabilities on the failure to carry out the works. The

provision requiring the balance works to be executed at the risk and cost of the contractors are usually not invoked by just serving a notice of termination of the contract. Such leniencies on the part of the agencies have led to delays, abandonment of works and cost overruns. Some of the cases observed by the Royal Audit Authority included the following:

- 1) *During the initial stages of the construction work, the consultant was paid substantial portion of the consultancy fee which included both design and supervision. The Consultant was not penalized for faulty design that led to deferral of work and additional financial implication on account of rectification of work and inflationary rise for the delay of about two years. The Consultancy contract was terminated without any liability imposed on the consultant.*
- 2) *The contract was rescinded after completion of about 33% of the work. The remaining works were carried out at an additional cost of Nu. 9.086 million. The original contractor was not held liable for the cost difference.*
- 3) *The contract for the construction of retaining walls along the Thimphu-Babesa Express Way was later terminated and the balance work executed departmentally. The cost incurred on the works by the department amounted to Nu.8.396 million as against the value of the balance work of Nu. 6.190 million resulting into a cost difference of Nu.2.206 million. After taking into account the forfeited Performance Security amount, retention money, liquidated damages, unadjusted advances etc. the recoverable amount worked out to Nu.1.950 million. Similar instances were observed in respect of the contract for the construction of Gabion wall awarded on contract where there was a cost difference of Nu.0.817 million.*

### **3.9 Wasteful expenditure**

There were several instances of expenditure being incurred on the works which were of no use or benefit to the Government or the public. Examples of such incidences are as given below;

- 1) *The box cutting work at Toktokha between Dochula-Lobesa highway was executed departmentally. The initial cutting was completed at the cost of Nu.3.647 million. However, before vehicles could ply on it major landslides occurred twice or thrice making it impossible to clear for vehicular traffic though expenditure amounting to Nu.0.604 million was incurred on the attempt to rectify. Total wasteful expenditure amounted to Nu. 4.251 million.*

- 2) *The construction of River Training Works, Culverts and retaining works valuing Nu.5.115 million were awarded to various contractors during the financial year 2002-2003. On reviewing the documents/records it was noted that the proportion of the works valuing Nu.3.295 million were damaged by flood within the defect liability period. As per the clauses of the contract agreement the contractors were required to have insurance coverage of the works to cover the risk of such damages. However, neither the contractors nor the road officials had undertaken to implement this clause.*
- 3) *There were cases of designs and drawings prepared through private consultancy services at substantial costs which were eventually not utilized due to changes or the actual construction works not being able to take place. These indicate that all aspects of the proposed projects were not planned and discussed properly.*

### **3.10 Poor quality of work**

While many of deficiencies and lapses pointed out earlier could lead to poor quality of works, the RAA also observed many instances where the poor qualities of works were very vivid. Some of the examples of such instances are;

- 1) *The Gabion Wall in the maintenance contract works of spillway and fore bay tank had collapsed due to improper foundation. The contractor had also not used the good quality stones.*
- 2) *The constructions of 2 dwelling houses was awarded at the quoted rate of Nu. 0.246 million. During the joint physical verification it was found that the CGI sheets provided in the toilet was of inferior quality and the ceiling frames were not done properly.*
- 3) *During the joint physical verification of the resurfacing work of road measuring 6.5 kilometres, it was found that work was not carried out as per the specification and therefore, required major rectification. The audit team noted poor workmanship particularly at the last 2 kilo meters. The premix carpet and the seal coats had already peeled of in about 3 months after the completion.*

### **3.11 Fictitious Muster Roll payments.**

Such instances are mostly found in the Gewog administrations. This can be attributed to the fact that most of the Gewogs were responsible to execute activities involving extensive labour component. The instances of fictitious muster roll payments include cases of:

- ≈ Inflation of the strength of the labourers;
- ≈ Inflation in the number of days engaged;
- ≈ Payments not received by the payees; and
- ≈ Preparation of false Muster Rolls.

In some instances, the Royal Audit Authority was made to understand that such fictitious payments were recorded to avoid the lapse of the allocated funds at the close of the fiscal year.

### **3.12 Lavish Grant of Advances**

There were also several cases of huge and lavish advances being paid to the contractors. Inappropriate mobilisation advances were being made even in cases which do not require procurement and deployment of costly plant and equipment. Secured advances were paid disproportionate to the materials brought to site. There were also several cases of advances being made against inflated running bills and advances were also given prior to liquidating the previous advance. Grant of such lavish and excessive advances had led to the loss of time value of money and blockage of fund to the Government.

Besides, the advances were also not adjusted or recovered on time. In some of the cases the total advance granted have gone beyond the actual cost of construction and therefore remained unadjusted.

*In the case of one of the bridge constructions in the Expressway Project, a sum of Nu. 2.5 million remained unadjusted even after settling the final bill of the contractor.*

# 4

## DETAILED PROBLEMS, DEFICIENCIES & LAPSES IN THE PROCUREMENT OF GOODS

Government agencies in Bhutan spend large sums of money on procurement of goods. Procurement is a pervasive business function that touches every part of the organization. Procurement by departments and agencies cover every process from determining the need for goods and services till delivery and storage.

Procurement is central to the management of any operation. It is vital to get necessary goods and services of right quality, at the right price, at the right time and in a fair and transparent manner. Failure to do so can put the achievement of agency's key objectives and outputs, including services to the public, at risk and can result in additional costs. However, buying in bulk and stock piling the goods should not be construed as a solution to the risk.

Procurement, all over the world, is one of the major areas which is highly susceptible to fraud and corruption. In Bhutan, where Government is the major consumer for most of the non-perishable goods, the risk of fraud and corruption in the procurement sector is even greater. Fraud and corruption may be committed or perpetuated by vendor or Government personnel, and may occur at any stage of the procurement process. Since much of the work of procurement involves the exchange of money for goods and services with people outside of the organisation, there is a high propensity for vendor and employee to indulge in fraud and corruption. A seller competing with other sellers by influencing the buyer is another reason for increasing the risk of fraud and corruption. Though the buyer must deal fairly and at "arms length" with all suppliers, there is a great deal of pressure to establish strategic partnerships with vendors and cooperative arrangements. The Annual Audit Report 2005 reported a figure of Nu. 35.605 million pertaining to the violation of procurement norms of the Government by various agencies.

*In one of the Ministries, an excess payment of Nu. 13.068 million, representing almost 45.27% of the total procurement, was made to the supplier over a period of three years in the procurement of science equipment and consumable items.*

*In one particular instance of a Ministry, the procuring agency failed to carry out proper needs assessment of the science equipment, the tendering and procurement process was flawed and not transparent. Bill of Quantities (BOQ) mentioned in*

*the tender documents were understated, supply orders did not provide adequate quantitative details, contents of the sets indicated in the supply orders were not defined, recipient schools and the Central Store was not provided with the BOQ, and packing lists were not available with the Finance Section. The procurement process instituted breached the basic check and balance system allowing systemic lapses and fraudulent practices thereby allowing the supplier in billing for items short supplied and even for items not supplied at all. This has led to siphoning of huge sums of funds aggregating to over Nu. 13 million representing approximately 45.27% of the total procurement.*

While the problems related to the need for updating the procurement rules as mentioned under construction management are also very much relevant to the procurement of goods, the commonly found deficiencies and lapses in the procurement process include:

#### **4.1. Procurement without Tender/Quotation**

The Procurement Manual specifies various forms of procurement methods depending on the value of the procurement. Such methods are intended to encourage competition among the suppliers thereby ensuring a fair and transparent procurement system. Direct Contracting or procuring without tendering is only allowed under certain defined conditions and for certain specified amount.

There have been many instances of procurement of goods without tendering which are against the procurement norms. *The Annual Audit Report 2004 reported a figure of Nu. 59.079 million on account of procurement without tendering. Several such instances were also observed in the previous and the subsequent audit reports.*

Such serious lapses on the part of the management have serious implications on various sections of the society such as:

- ≈ Limiting the competition among the suppliers and encouraging bribery and favouritism and nepotism;
- ≈ Getting inferior quality goods;
- ≈ Paying higher prices for the goods;
- ≈ Encouraging monopoly and discouraging new suppliers entering the market, thereby hampering the private sector development;

- ≈ Providing opportunities for corruption especially for new and fresh civil servants etc.

Lack of proper planning and collusion between the buyer and supplier are some of the major causes of such observations.

## **4.2 Improper evaluation of Bids**

Tender/Evaluation Committees are instituted to evaluate the bids submitted by the suppliers. Bid evaluation is a process to select the most appropriate offer from the bidders who have participated in the tender. The evaluation process consists of screening/short listing, detailed evaluation of bids and comparative evaluation.

If the bids are not evaluated correctly and fairly, it may lead to selection of wrong bidder and the procurement may not provide best value for money to the purchaser. It may also invite complaints from other bidders who have not been treated fairly. Several instances of improper evaluations of bids have been observed.

Lack of experience, qualification and skills of the committee members, favouring certain bidders on various grounds, rejecting certain bidders on unjustified grounds and samples not being checked properly could be some of the major causes of improper evaluation.

## **4.3. Excessive Procurements**

Proper planning is an essential element of good procurement. The initial step in procurement planning is the determination of what is needed, how much, where and when.

Improper planning often leads to excessive procurement. Some of the problems associated with excessive procurement are:

- ≈ Blockage of funds which could otherwise be used for some other immediate and important activity;
- ≈ Wastage of funds due to deterioration and non use of goods;
- ≈ Extra expense on storage and maintenance of goods;
- ≈ Risk of loss due to theft and other natural calamities;
- ≈ Eventually leading to disposal at throw away prices etc.

*The Performance Audit Report 2004 of the Central Stores of some of the ministries reported a sum of Nu. 48.716 million on account of excessive procurement.*

While improper assessment of requirement is one of the direct and major reasons for excessive procurement, there could be other hidden motives behind such excessive procurements such as:

- ≈ Use of goods for personal purposes;
- ≈ Favour certain suppliers in return for certain commissions or gifts;
- ≈ To have easy life by not having to re-order again and again, etc.

It was also observed that many of the procurements were made at the fag end of the financial year with an attempt to avoid lapse of funds. Many of the Central Stores are flooded with advances from the respective Ministries to buy unplanned stocks.

#### **4.4. Excess Payments**

Several instances of excess payments are made in the form of paying at the higher quoted rate, paying for the inflated quantities in the bills, arithmetical mistakes etc. In many of the instances, the agencies try to defend their actions as mistakes. However, it is difficult on the part of the auditors to prove the intent of the incumbents. Therefore, the auditors have been recovering the excess amounts leaving the management to take other actions.

*For example, in one of the Ministries, an excess payment of Nu. 13.068 million, representing almost 45.27% of the total procurement, was made to the supplier over a period of three years in the procurement of science equipment and consumable items.*

The Royal Audit Authority is of the opinion that if such excess payments are left uncontrolled, this would lead to increased levels of fraud and corruption as people may intentionally make excess payments and will try to recover the amount only if caught by the auditors.

#### **4.5. Making Payments before receipt of Goods**

Payments are made only after the specified goods have been received and the bills verified by the store officer. The RAA observed several instances of payments being made prior to the receipt of goods. Such practices are rampant especially

towards the end of the financial year in order to avoid lapse of fund. Such practices by the agencies would lead to:

- ≈ Procurement of goods which are unplanned and not very necessary to the agency;
- ≈ Getting inferior quality goods;
- ≈ Wastage of Government resources.

#### **4.6. Improper constitution of Tender Committees and procurement through inappropriate level of the committee.**

The Procurement Manual of Bhutan has defined the constitution and the threshold limits of the various levels of the Tender Committee. There have been several instances of 'Conflict of Interest' being not taken into account while determining the composition of the Committee Members. There were instances of store officer being a member of the committee. Some instances of relatives of the members submitting the bids have also been reported. In some of the cases, measures were not put in place to evaluate the technical aspects of the goods. All such cases are indicators of fraud and corruption.

Several instances of procurement being made through inappropriate levels of committee (e.g. procuring through Departmental Level Committee instead of Ministerial Level Committee) have also been reported in the audit reports. In some of the cases the required numbers of days were not given for the submission of bids. There were also cases where the agencies have restricted only to few bidders. While the 'emergency procurement' tops the list of justifications provided by the agencies, the RAA is of the opinion that improper planning, if not other hidden motives, could be the main cause of such lapses.

#### **4.7 Tender procedures used only to derive minimum rates**

After deciding the lowest evaluated bidder, the goods must be procured from that concerned bidder at their quoted rates. There were certain instances where tender procedures were used only to derive the minimum rates. After deciding the minimum rates, the goods were procured at those rates from any other suppliers.

While there is no financial implication to the Government, such practices discourage bidder to quote low prices as they will be deprived of the economies of bulk orders. Such practices, if not controlled, could add to the already flourishing practices of suppliers forming syndicates and other cooperative arrangements.

#### **4.8. Acceptance of goods not conforming to specifications**

It is often noticed that during the submission of bids, the suppliers normally agree to supply goods with any specifications. It is only after winning the bid that they come with numerous excuses such as specifications being outdated and out of market, justifying that though they look different they serve the same purpose, explaining that the new specifications is better than the one in the tender etc. Also at the time of delivery, they supply goods with different specifications and provide reasons as above. In many of the instances the Government agencies get convinced with such reasons and accept the goods.

Such instances purely indicate that either in depth research was not carried out by the agencies prior to the preparation of bids or the person/persons involved in preparation of the specifications lack technical expertise.

#### **4.9. Non-levy of Liquidated damages for late supply of goods**

There were several instances of non-levy of liquidated damages for the late supply of goods. Such leniency on the part of the Government organization will have serious impact on the Government activities since it leads to chain effects thereby ultimately slowing down the progress of the country. In majority of the cases, goods were not supplied on time. While some of the suppliers have requested for time extension and accordingly approved by the Government agencies, in many other instances such procedures were not followed and subsequent actions not taken by the Government agencies for such delays.

#### **4.10. Syndicates**

Since RAA audits are mostly confined to records produced by the agencies, the RAA has not directly pointed out the cases of syndication in any of its reports. However, it is often seen that most of the time certain suppliers always win the bids for the supply of goods to certain ministries. Such trends are indication of supplier forming syndicates and there is nothing much that the procuring agencies can do. This is one of the major problems, especially in a small country like Bhutan. It discourages open market competition and ultimately the Government agencies suffer by paying exorbitant prices for their goods. It is for this reason that the Government agencies often complain that the prices would be lot cheaper if they go for direct procurement rather than through tenders.

#### **4.11 Other issues**

The RAA, through its Audit and the Annual Audit Reports, have also reported many cases of non-deduction of TDS, acceptance of non-complying bids, non-inclusion of penalty clause in the contract, split/piece meal purchases and other cases related to the procurement.

# 5

## RECOMMENDATIONS

The success of the four pillars of good governance- *efficiency, transparency, accountability and professionalism* solely rest on clearly defined rules and regulations and proper implementation of it. While the necessity of adhering to the given norms is understood, the provision of the rules vis-à-vis the prevailing trend of development in the country must be looked into and reviewed for reliability and applicability.

In order to garner greater dedication and commitment from the civil servants to the goals and values that the organizations cherish, it is pertinent that rules be crystal clear and act as mirrors to the systems evolutionary process.

With a view to improve and streamline the existing systems and procedures, strengthen internal control systems, improve the quality and timely delivery of services and promote economy, efficiency and effectiveness in the uses of the public resources, the Royal Audit Authority upon analysis of problems, audit findings and inadequacies observed, recommends as follows:

### 5.1 Systematic reviewing and updating of Rules and Regulations

Rules and Regulations particularly financial and procurement rules and regulations need to be reviewed and up dated periodically to render them relevant and practicable. It may be appropriate to constitute *designated Committees* with clear mandate and Terms of Reference for such purposes. Continuous review of rules and regulations through institution of feedback mechanism would help understand whether the rules and regulations are practicable and relevant. Following are some of the Rules and Regulations pertaining to the procurement and construction that needs to be reviewed:

#### 5.1.1 Procurement Manual

Procurement Manual is extensively used by all Government agencies including Corporations and Financial Institutions if they do not have their own procurement rules. While efforts are underway to revise the Procurement Manual, the effort needs to be expedited. With the exception of bidding procedures pertaining to infrastructure works, where some changes have been affected, the Procurement Manual has not been

updated till now. The Review process has to be continuous through appropriate feed back mechanisms and studies. Relevant stakeholders should also be involved in the process of review and dissemination of information.

≈ ***Threshold levels***

Threshold levels as prescribed in the Procurement Manual needs to be revised periodically by reflecting the price index and other relevant changes in the country.

≈ ***Specific Provisions***

Given the size of expenditure, there is a need to incorporate specific provisions for air ticketing, catering services, procurement of computers & IT system developments, repair and maintenance of pool vehicles etc. The circulars and guidelines issued by the Ministry of Finance and other relevant agencies needs to be updated.

≈ ***Technically superior items than specified at lower cost***

The RAA was also informed by the various executing agencies that during the time of evaluation of the bids, quite often, offers are made by the bidders for technically superior and suitable items at lower rates. It is not clear whether such offers should be regarded as non-responsive bids for being different (technically superior) than specifications. If regarded as non-responsive bid, procuring agencies will be buying less superior materials at higher cost. Such instances also need to be reviewed and issue clear guidelines and instructions.

≈ ***Works executed at remote locations***

The existing provision on the works executed in remote locations is restrictive and do not provide additional flexibility for works executed in these areas. The provisions need to be reviewed and amended accordingly.

### **5.1.2 Bhutan Standard Specification and BSR**

The Bhutan Standard Specification and Bhutan Schedule of Rates would also need to be reviewed to take in to account:

≈ *Calculation of base rates*

Materials like timber, sand and boulders which are available in all areas are also considered for calculating Base Rate of border areas. Materials that are produced in the border areas or imported and required to be transported to other construction areas in different parts of the country may be included in the calculation of base rate of border areas. Alternatively, costs of materials available in other parts of the country should be taken out first from the base rate and instead local costs included while adjusting the base rates.

Likewise, the Base Rate of labour of Nu. 100 per day adopted in the BSR may not be applicable throughout Bhutan, particularly in border towns where usually lower rates of daily wage are paid for non-national labourers.

In fact the overall BSR needs to be reviewed by reflecting the changes in the material and labour cost.

≈ *Need for requisite standards for traditional works and restoration and conservation of such works.*

While the Government has been emphasizing so much on the need to preserve and maintain the traditions and customs of the country, the existing BSR can not be strictly applied for traditional structures and restoration and conservation of such works. There is a need to develop requisite standards for such works.

## **5.2 Need for proper Planning and Feasibility Studies**

As mentioned earlier, lack of adequate planning and inadequate feasibility studies are some of the main problems affecting construction and other activities. Frequent changes and ad-hoc decisions were primarily as a result of inadequate studies, consultation and planning. Since absence of proper planning and feasibility study impede the quality as well as economy, efficiency and effectiveness in the uses of resources, there is a need at all levels to properly study, plan, and implement the activities with adequate supervision, monitoring and evaluation.

The executing agencies should also ensure that geo-tech studies are carried out to ascertain the suitability of sites, so that the works are not abandoned later leading

to wasteful expenditures. Such study would be necessary for even certain existing structures so that appropriate remedial measures could be taken.

### **5.3 Visiting Officials should not make changes to the ongoing constructions**

As highlighted in Chapter 3, there were several instances of changes being made during the actual construction based on the instructions of some of the senior Government officers visiting the construction sites leading to structural and aesthetic changes and rising costs of constructions.

Any ideas to the constructions should be given during the design and drawing stage. Once that has been approved, the construction should be carried out strictly in accordance with the approved design and drawings.

The senior officers visiting the constructions sites can definitely comment on the progress of the work but should avoid making structural changes.

### **5.4 Co-ordination**

Coordination amongst various agencies would help synchronize activities and avoid overlapping and duplications. There is a need to carry out study of activities amongst various agencies carrying out similar activities particularly construction activities, where through proper co-ordination certain overlapping and duplications may be avoided. If each others requirements can be identified and accommodated, one agency can play a lead role.

*For example, City Corporations in Municipal areas can play a lead role by coordinating activities to ensure that there are no overlapping and duplications particularly diggings in roads in Thimphu City for line extensions for telephone, water supply, sewerage, electricity etc.*

*Dzongkhags can co-ordinate activities implemented by various sectors. Projects implemented through funds released to the concerned sectors without routing through the Dzongkhags lack transparency, supervision and monitoring. Dzongkhags may be able to coordinate and synchronize various activities of different sectors to reduce frequency of public gathering and related costs by co-financing multiple events together instead of sector specific activities.*

## 5.4 Supervision and Monitoring

Due to inadequate supervision and monitoring quality of construction activities get adversely affected besides wastages and overpayments. It is therefore necessary that all works must be subject to proper supervision at appropriate levels. It is not proper to implement construction activities without adequate technical backup. Therefore, there is a need to:

- ≈ Prioritize works and implement important and urgent ones;
- ≈ Institute supervision and monitoring mechanism;
- ≈ Avoid situations of implementing too many activities with few engineers;
- ≈ Site and supervising engineers should prioritise and schedule their works to ensure their continuous presence, at least at critical juncture;
- ≈ Measurement of works should be carried out as required at right times and duly recorded in the MB;
- ≈ Site engineers must not incorrectly certify the bills or applications for release of secured or other advances to the Contractors;
- ≈ Hindrance Register should be maintained accurately;
- ≈ Construction materials including timber should be thoroughly checked for both quality and quantities and availability for consumption at site;
- ≈ Movement of materials from construction site should be restricted;
- ≈ Site Order Books must be properly filled while visiting the sites.

**Standard and Quality Control Authority** should develop a mechanism to independently supervise and monitor construction activities particularly with reference to quality of works in the field and quality of construction materials used.

## 5.5 Contract agreements and enforcements

Contract agreement should be clear and unambiguous. They should incorporate all essential elements, terms and conditions. All terms of payments including the contractors' obligations should be precisely specified.

Since there is always a tendency to exploit loopholes in the agreements, the procuring agencies must understand all the provisions incorporated in the agreements. Where certain terms and conditions in the agreements are complex,

appropriate legal opinion should be sought before signing the contract agreement. The executing agencies should specifically note:

- ≈ Payment of advances, issue of materials and mode of adjustment should be appropriately indicated.
- ≈ Situations of excess advances lying with the Contractors upon rescinding or completion of the work should be avoided.
- ≈ Contractor's liabilities on rescinding/termination of contract before completion of work should be specified.
- ≈ While rescinding the contracts, notice served to the contractors/consultants should take note of the grounds for rescinding the works. If the contractors are at fault for not carrying out the works with due care and diligence, slow progress, sub-standard works etc. they must not be absolved of their obligations.

Development of additional sample Contract Agreements with all relevant matters included for different types of works may help in ensuring consistency and comprehensiveness of the contract agreements.

## **5.6 Consultancy Works**

Central technical agencies should reassess their own capacity to carry out designing and supervising works. Its own staff must be fully utilised. Hiring of private consultants should be resorted only where Government agencies lack expertise or private consultants have better expertise and work can be better performed. The executing agencies should also take note of the following:

### ***5.6.1 Engaging local or expatriate staff on contract***

Engaging local or expatriate staff on contract for a particular assignments vis-à-vis hiring consultancy services may be studied and considered, if found economical.

### ***5.6.2 Consultancy Fee***

Since there is no competitive environment, the consultancy fee charged is exorbitantly high. There is a need to create conducive environment to promote competition. This would also help organizational development within the private consultancy firms.

Supervision Fee charged by the DUDES for deposit works are usually taken as benchmark by private consultants or by other procuring agencies to compare the rates. The Ministry of Works and Human Settlement should review the rates prevalent in India or in other SAARC countries including in some of the developed countries to determine realistic fee for designing and supervising works.

There should be some relationship between the efforts needed in designing and supervising works and the fee charged. The Ministry of Works and Human Settlement should look in to this aspect to ensure that the private consultancy firms are reasonably compensated but not over compensated at the expense of the Government.

### ***5.6.3 Conflict of interest***

There are cases where works are executed departmentally by the agencies themselves but design and supervising of work is given to private consultancy firms. The question over here is who will supervise the works of the consultants if they are supervisors of the executing agencies? If a design flaw is noted during implementation, this could be covered up through undue influence of the supervisor over the executing agencies thereby compromising the quality of each others works. Perhaps, in such cases constituting a committee comprising of members from appropriate agencies, to oversee the overall implementation of works, may be helpful particularly where complex works are involved.

### ***5.6.4 Civil Servants to be barred from Bidding***

Civil servants must not be allowed to register as Architects for bidding purposes. They may be allowed to register only for carrying out Government activities as registered architects if need be.

### ***5.6.5 Terms of Reference (TOR)***

**Terms of Reference (TOR)** for the Consultancy Firms are usually developed by the firms themselves. If procuring agencies lack experience and knowledge, this could be exploited by the private firms to their advantage. There should be a system within the ministries or Central Technical agencies to offer guidance and advice in developing Terms of Reference for the consultants. There were cases where payment terms were twisted to suit the Consultants to their disadvantage.

### ***5.6.6 Avoid relaxation with the Fee***

**Maximum Payable Fee**, once determined and included in the contract agreement, should not be relaxed. The whole objective of specifically fixing a maximum limit on the fee in the contract agreement is to ensure that the fee remains same and the costs & time are not changed through increase in the fee. Any efforts on the part of executing agencies to disrespect or relax the legally binding clauses in the agreements should be viewed seriously and loss made good by those responsible.

### ***5.6.7 Quality of work of Consultants***

The qualities of work of consultants were found deficient in many respects. Lack of adequate discussions and consultations had resulted in deficient designs, drawings and estimates prepared by the consultants leading to ad-hoc changes and curtailment in the scope of work. There is a need for the executing agencies to ensure that the Consultants produce high quality outputs after adequate discussions and consultations on all aspects of the construction activities. Consultants should be held accountable for the loss arising from the inconsistencies and inaccuracies in their designs, drawings, estimates, supervision etc for which their services are hired.

## **5.7 Strengthening internal controls**

Existence of adequate internal controls and proper system of check and balance help ensure adherence to rules and regulations, implementing activities in an efficient and orderly manner, secure accuracy and reliability of accounting records and financial statements and safeguard the assets of the organizations. Strong internal controls also act as deterrent against perpetration of fraud and corruption.

It is therefore necessary that all organizations institute adequate internal control system.

## **5.8 Strengthening the Internal Audit System**

Internal audit is an essential element of internal controls and an important management tool to continuously review, monitor and polish the internal controls in operations to render them effective. Strengthening of internal audit function would ensure that adequacy and operations of internal controls are timely reviewed and corrective actions initiated on a continuous and timely basis as an independent but essentially an internal appraisal mechanism. The external audit i.e., the RAA may also rely on the work of internal auditors and reduce the extent

of their detailed transaction checking by depending on the credibility and competency of the internal auditors.

There is a need to strengthen the internal auditing system. Internal auditing should be extended to other larger organizations besides the ministries. Existing strength of internal auditors is not adequate to carry out a systematic review and appraisal of accounts and operations. Moreover, internal audit Divisions should be manned by appropriately qualified and experienced personnel.

## **5.9 Procurement**

Based on the review of procurement related problems and the past audit reports, the RAA would like to offer the following recommendations.

### ***5.9.1 Constitution of various Tender Committee Members to be approved by competent authorities***

Members of all Tender Committees have to be formed as per the Procurement Manual. All members have to be approved by competent authority and should be held accountable for their actions. The approving authority must look at appropriate mix of members and the conflict of interest arising from their membership with their duties and backgrounds.

It is necessary for all goods of technical nature to be verified by competent technical person including the specifications at the time of the preparation of bids. Therefore, appropriate measures must be in place for such a review.

### ***5.9.2 Proper Procurement Plans***

All ministries, departments and agencies must have appropriate plans for procurement after conducting proper needs assessment. Excess procurement, procurement through inappropriate levels of Tender Committee, giving short notice to the supplier, procuring on the eve of the lapse of financial year etc. are all results of improper/not planning.

All personnel responsible for procuring, planning and the users of the goods in an organisation must coordinate and integrate in a comprehensive manner in order to produce a proper procurement plan. Such an integrated process must encompass all the functions from the top management till the end users of the goods. While preparing such a plan, it is very important to

take into account the closing stock. The quantity of goods to be procured should always be determined only after checking the stock balance.

The process would lead to right goods being purchased in right quantity, at right time and in a fair and transparent manner.

### ***5.9.3 Minimising incidences of purchases on the grounds of urgency***

Lack of adequate planning and proper need assessment often leads to purchases being made on grounds of urgency and emergency and thereby forgoing the procurement norms. Grounds of urgency do not meet the circumstances described in the Procurement Manual. There were also cases where materials procured on the grounds of urgency had remained unutilised even after the procurement. The procuring agencies, therefore, must avoid procuring materials without complying with the tendering norms unless situations as described in the Procurement Manual occur.

### ***5.9.4 Assess Risk and develop appropriate strategies***

The RAA observed that the agencies do not have the habit of conducting proper risk assessment and management plans even in case of very high value goods. Risk should be identified at an earlier stage in the procurement planning. However, the identification of risk is not an end in itself, nor does the existence of risk indicate that procurement should not proceed. Therefore, the challenge for the procurement manager is to decide whether or not risks are acceptable, i.e. whether they can be managed efficiently and effectively.

Risk management is a process of measuring, or assessing risk and then developing strategies to manage the risk. It demands that a plan of action be developed in relation to identified risk that minimizes the likelihood and consequences of their occurrence. In general, such a plan of action may include transferring the risk to another party, avoiding the risk, reducing the negative affect of the risk, and accepting some or all of the consequences of a particular risk. The plan needs to be continually monitored and reviewed since risks and their relative significance change over time.

All agencies must inculcate the habit of assessing procurement risks and develop appropriate strategies for dealing with the identified risks.

### ***5.9.5 AFDs must ensure to make the payments on time***

The suppliers often complain that the procuring agencies do not make the payments on time. There were many rumours of agencies receiving commissions or other favours in return for early payments. Due to such recurring practices, the Cabinet Secretariat had also issued an order on clearing the bills on time. However, delayed payments for bills are still rampant and the procuring agencies have their own justifications.

The ministries and departments must ensure that payments to the suppliers are made on time and as per the order issued by the Cabinet Secretariat.

### ***5.9.6 Disciplinary actions to be taken by the agencies***

For certain recurring observations like excess payments, non-deduction of TDS, non-levy of liquidated damages etc. the agencies must take disciplinary actions against the defaulting government employees. Besides having many such observations in the audit reports, it is often noticed that the agencies have been granting easy promotions and other incentives to such defaulting employees.

The RAA may not be in position to detect and recover the money from all such cases. Escaping the hands of the RAA means government money lost for ever. *In order to minimise such lapses, the officials concerned have to be more careful and they can only be careful if certain disciplinary actions are taken by the management.*

### **5.9.7 Liquidated Damage**

#### ***≈ Impose Liquidated Damage***

As mentioned earlier, there were several instances of goods not being supplied on time. In many of such instances, the concerned agencies have failed to penalise the suppliers by imposing liquidated damages. The agencies must ensure that liquidated damages are imposed strictly as per the contract agreement. All contract agreement for the supply of goods must have a provision for Liquidated Damage Clause.

≈ *Provide adequate time to the supplier*

Bhutan, being a landlocked country with very minimum international transport facilities, adequate time should be given to suppliers especially when the suppliers have to import the goods from other countries. Improper planning could also lead to agencies giving short delivery time to the suppliers.

### **5.9.8 Quality Assurance System in procurements**

It is the responsibility of procuring agencies to ensure that they are supplied with quality goods and wherever applicable as per approved samples. Every goods must be checked upon receipt. Therefore, it is of utmost importance that the agencies prepare proper specifications by involving people with relevant expertise. Besides, they must also ensure that the goods perform as per the specifications especially with regard to the life and durability of the goods. For example every toner cartridge must print the number of pages that they are required to print etc.

Currently there is not much control on the flow of spurious, duplicate and sub-standard items into the country. There is neither proper grading system of materials imported nor do adequate facilities exist to conduct quality tests at the entry points. There is a need to prescribe and maintain minimum standards in all imported products. Suppliers are in a position to exploit innocent consumers by supplying spurious and duplicate edible items, office supplies, construction materials etc.

On a wider perspective, the government should also look into ways of establishing a mechanism to regulate the flow of duplicate and fake goods into the country. While certain efforts are being undertaken by the Standard and Quality Control Authority to inform the public of the various duplicate and fake goods available in the market, yet such goods are still being used and are freely available in the Bhutanese Market. There should be a system to identify and grade all such products. Duplicate items that are dangerous to consume or utilize should not be allowed to enter the country.

### **5.9.9 MRP System**

The MRP system introduced by the Government had initially helped in controlling the prices of Indian goods. However, in many cases the MRP

system is being defeated by defacing the original MRP or affixing their own price tags.

There is a need to create awareness on the MRP system besides the surprise inspections by the officials of RTIO.

## **5.10 General Recommendations**

### **5.10.1 Proper Inventory of Government Property**

Till date the government had spent millions of Ngultrums on the Construction and Procurement of Goods and Equipment. However, it is sad to note that the Government do not have a Centralised Inventory of Government Property. The Financial Rules and Regulations specifically stipulate that the Department of National Property (DNP) should provide an Identification Code Number generated by the Centralised Inventory System to all non expendable assets available with the Government agencies. In absence of Centralised Inventory System, the DNP could not issue the Identification Code Number.

There is a need for the government to capture complete inventory of Government property. Present reporting system is not adequate. Lack of accurate and reliable property accounting and reporting system would mean inadequate control thus facilitating misuse, wastages and losses.

The cash basis accounting may be suitably modified to include reporting of fixed assets and other government inventories. The Ministry of Finance should pursue obtaining a complete inventory report from all agencies. This would also entail submission of physical verification report with location and conditions of assets.

The DNP should be given a definitive time frame to carry out the work.

### **5.10.2 Central Stores – Should Government continue to retain them?**

The Government has been maintaining several Central Stores at Phuentsholing such as Central Stores of the Ministry of Education, Agriculture Central Stores, Medical Supply Depots, Ministry of Works and Human Settlement Central Stores etc.

The history of many of these Central Stores reveal that the concept of Central Stores came up in sixties and early nineteen seventies when all the activities were totally run by the Government with very little or no private participation. However, over the years many of the activities initially run by the government were slowly handed over to the private sector. For example, there is active private participation in all government procurements, all construction activities have been totally privatised, the mechanical division of the Ministry of Works and Human Settlement has been corporatised, the maintenance and distribution of power has also been corporatised, etc.

These days one can simply draw up an agreement with the suppliers and the goods will be supplied as per the place, date and other conditions desired by the procuring agencies.

Despite handing over of all such responsibilities to the private sector, the Central Stores have continued to exist.

However, though detailed study has not been done, considering the cost involved in maintaining a Central Store such as land, buildings, staffs, vehicles and office running expenses including the complexities involved such as payments and tendering process being done from the headquarter at Thimphu, complex budget release process etc., ***the Government should study the need for maintaining the Central Stores.***

### **5.10.3 Action to be taken on past RAA observations**

Over the years, the RAA has been issuing several audit reports. Of late, the patterns of reports have also been improved and had attempted to provide a balanced report by reflecting the achievements of the agency. The RAA has also been providing several recommendations through these reports.

The impact of any audit reports can be seen only if the concerned agencies implement the recommendations and take action against the defaulting officials. The cases of excess payments, grant of excessive advances, faulty designs, improper planning etc. have continued to feature every year despite being repeatedly pointed by the RAA and they will continue to feature, perhaps even more, if required actions are not taken by the concerned ministries and agencies.

Therefore, it is the responsibility of the concerned ministries and agencies to study the recommendations of the RAA and implement accordingly.

They should also take disciplinary actions against the defaulting officials. Simply by recovering the amount which do not belong to them and by paying them back to the rightful owner i.e. the Government, is neither a penalty nor a fine.