

CHAPTER IV

Ministry of Communications

The Royal Audit Authority conducted the audit of the following organizations under the Ministry of Communications during the year 2000.

1. Telecom Authority of Bhutan;
2. PWD;
3. Department of Urban Development and Housing;
4. Department of Civil Aviation;
5. Central Stores, PWD;
6. City corporation, Thimphu;
7. Hydromet; and
8. Road Maintenance Division, Thimphu.

Table 1.14 : Showing the Audit observation by different categories

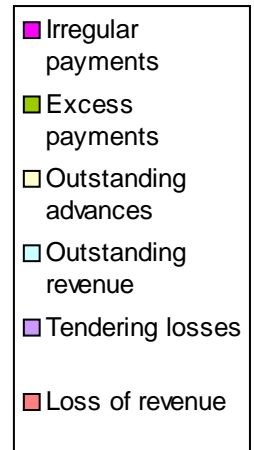
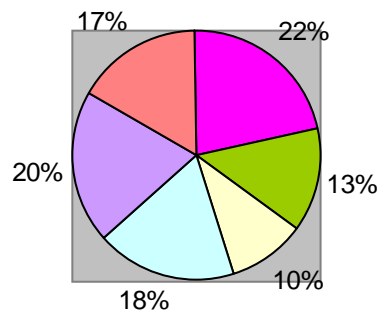
Nature of observations	Number of observations	%	Amount (Nu. in million)	%
Irregular payment	18	22	17.42	16
Excess payment	11	13	4.42	0.5
Outstanding advance	8	10	39.17	45.5
Outstanding revenue	15	18	9.83	15
Tendering losses	16	20	8.6	10
Loss of revenue	14	17	11.34	13
Grand total	82	100	90.78	100

Major findings:

1. Irregular payments Nu. 17.42 million

Audit had detected in year 2000 that irregular payment of approximately Nu. 13.85 million were made in contravention to government rules and regulations.

Audit observations (%)



These include among others, payment made without the approval of estimates by the competent authority, payment made against unrealistic estimates, payment of price escalations not provided in the agreement, irregular payment of advances by the Department of Urban Development and Housing and payment to the contractor made by the Division of Telecom without making record entries in the Measurement Book.

Amount involved Nu. 90.78m

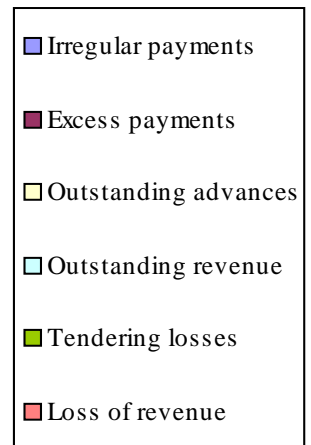
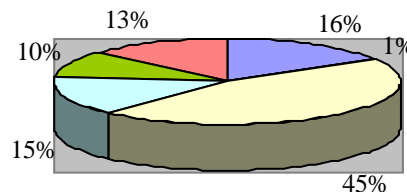


Table 1.15 : Showing the types of Irregular payments by amount

Agency	Types of Irregular payments (Nu. in million)				
	Without supporting documents	Without authorization	Without record entries	Not provided in budget	Total
City Corporation		0.094			0.094
DUDH	0.24	10.98	4.3		15.52
MOC Secretariat				0.075	0.075
PWD		0.29			0.29
Telecom	0.018		1.42		1.438
Grand Total	0.258	11.238	5.72	0.075	17.417

a) Payment made without supporting documents, Nu. 0.25 million

It was noticed that the Department of Urban Development and Housing had incurred expenditure on account of third country travels made by its officials. Necessary supporting documents for expenditures amounting to Nu.0.24 million on the above subject was not produced before audit for verification.

b) Unauthorized expenditure Nu. 11.24 million

It was observed that expenditure to the extent of Nu. 2.24 million were incurred on account of the price escalations paid to the contractors of Bus Terminal Complex, Department of Survey and Land Record Building and the Department of Geology and Mines building against the provisions of the contract agreement. Similarly, the DUDH released about Nu. 5.82 million to the contractors of RAA building and the Khuruthang Water Supply Scheme as mobilization advance without the contractor providing the list of equipment at site and the contractor not making a written claim for the advance as required by the contract agreement.

Audit was of the opinion that the contractor was granted undue favor, which in effect was not advantageous in the interest of the government.

c) Payment without recording measurement in the MB Nu. 5.72 million

It was observed that payment amounting to Nu. 4.3 million were paid to the contractor of the Department of Survey and Land Records without making record entries in the Measurement Books as required under the provisions of the Central PWD code. Similarly, the Division of Telecom made payments to the tune of over Nu. 1 million to M/S Chencho Construction without recording the details of the work done in the Measurement Book.

2. Losses sustained as a result of Tendering/Contracting and Procurement lapses Nu. 8.6 million

Loss to the government to the tune of approximately Nu.8.6 million was sustained due to uneconomical purchases, non-levy of liquidated damages in accordance with the terms and conditions and award of work to bidders other than the lowest. A majority of cases mentioned above relates to DUDH, PWD and the Central Stores, PWD in Phuntsholing. Agency wise summary is reproduced below and discussed separately.

Table 1.16 : Showing the Losses sustained as a result of Tendering lapses

Agency	Losses arising from (Nu. in million)			
	Uneconomic purchases	Non-levy of liquidated damages	Works not awarded to the lowest bidder	Total
Central Stores	3.08	1.64		4.72
City Corporation		0.08		0.08
DUDH		2.47		2.47
Hydromet			0.024	0.024
Telecom	0.42		0.9	1.32
Grand Total	3.5	4.19	0.924	8.614

a) Uneconomic purchases Nu. 3.5 million

It was observed that the Central Stores of the PWD based in Phuntsholing had procured Special Gelatin 80%, a component used with the explosives without analyzing the cost benefit to the government. It incurred an extra expenditure of Nu. 1.44 million by not obtaining Power Gel which was less expensive but served the same purpose. It was also found that the Central stores had placed orders with the STCB for the supply of Bitumen 80/100 with a delivery period of 2 months for which the STCB took over 2 years to supply 500 metric tones of bitumen. The cost benefit analysis carried out by the audit revealed that the government had to bear a resultant loss of about Nu. 1.54 million due to price increases in India over the two years.

Similarly, the Division of Telecom had to incur over Nu. 0.42 million as bank charges due to non-inclusion of clauses as to who should bear the cost while drawing up the contract agreements with foreign firms supplying communication equipment.

b) Non-levy of Liquidated damages Nu. 4.19 million

The constructions of the Bus Terminal complex, Division of Geology and Mines building and the Department of Survey and Land Records building were contracted to construction companies namely, M/s Lhaki Construction and M/s Rinchen Construction. One of the clauses of the contract agreement provides that if the construction is not completed within the period agreed by the parties, liquidated damages at the rate of 1% per week to a maximum of 10% of the contract amount shall be levied to the contractor. Whereas it was observed that these constructions were delayed by more than one year, liquidated damages amounting to Nu. 2.47 million were not realized by the DUDH from the contractors. Similarly, the Stores Unit did not realize an amount of Nu. 1.64 from the suppliers who failed to supply goods within the agreed time.

c) Loss sustained due to works awarded to other than the lowest bidder, Nu. 0.92 million

It was noticed that the Division of Telecom had not accepted the lowest bid of M/S Tshomo Geo-Tech enterprises for the supply of 60 KVA UPS for earth stations but was awarded to M/s Tata Liebert Ltd. losing a saving to the government of about Nu. 0.62 million. Similarly, disparities in the award of works were noticed in the construction of Tsimila and Limukha repeater stations where the works were awarded to the third lowest bidders suffering financial implications on the part of the government to the extent of Nu. 0.287 million.

3. Outstanding Advances Nu. 39.17 million

Government fund to the tune of Nu. 39.17 million remained unadjusted with the suppliers and employees in the form of advance payments as follows:

Table 1.17 : Showing the outstanding advances by amount

Agency	Amount(Nu. in million)
Telecom	12.08
City Corporation	7.48
PWD HQ	17.59
DUDH	0.15
Civil Aviation	1.13
MOC Secretariat	0.74
Total	39.17

Implications of opportunity cost of resources blocked and interest lost was communicated to the agencies and recommended vigorous follow-up for early recovery/adjustment of outstanding advances.

4. Loss of Revenue Nu. 11.34 million

The Royal Government lost approximately Nu. 11.34 million in terms of internal revenue. The loss can be attributed mainly due to systems failure in the then Division of Telecom, extending free call facilities to project DANTAK, allowing free calls to the staff of DoT beyond the ceiling.

Table 1.18 : showing the loss of government revenue by amount

Agency	Loss of revenue due to (Nu. in million)			
	Systems failure/Management	Free call facilities to DANTAK & telecom officials	Non-levy of contractor taxes	Total
Telecom	1.66	2.79		4.45
Civil Aviation			0.43	0.43
DUDH			3.8	3.8
PWD HQ			2.66	2.66
Grand Total	1.66	2.79	6.89	11.34

a) Loss of Nu. 1.66 million due to systems failure

Audit observed that the local call charges for the month of November 1999 was exceptionally low as compared to other months. The failure of the system due to lack of preventive maintenance had been found the cause for a loss of revenue of about Nu. 1.66 million to the government.

b) Loss of Nu. 2.79 million due to free call facilities extended to project DANTAK and the telecom officials

The Ministry of Finance vide its circular No. MOF/MOC/DT/97/410 dated 14 August 1997 stopped the free call facilities extended to project DANTAK. It was observed that this system was still in practice, which was causing an annual loss of revenue to the government of approximately Nu. 2.6 million. Similarly, calls were found made more than what was permitted free by the officials of Telecom Division. Such cases contributed about Nu. 0.19 million as a loss of revenue to the government.

c) Loss due to non-deduction of 3% tax at source, Nu. 6.89 million

In contravention to the requirement to deduct 3% foreign contractors tax at source by the Revenue and Customs Division, the Department of Civil Aviation, Public Works Department, Department of Urban Development and Housing had not deducted such taxes amounting over Nu. 3 million. Similarly, the Department of Urban Development and Housing had not realized consultancy and supervision charges on deposit works amounting to over Nu. 3 million.

These had effected the internal revenue growth of the country.

5. Outstanding Revenue Nu. 9.829 million

Government revenue amounting to Nu. 9.829 million remained unremitted/unrealized during the year 2000. As can be seen from the table below, such outstanding revenues are made up of non-deposit of security deposit adjusted against telephone bills, outstanding telephone bills, outstanding house rents, and outstanding sale proceeds made by the central stores.

Table 1.19: Showing the types of outstanding revenue by amount

Agency	Types of outstanding revenue (Nu. in million)				
	Not deposited	Not realized	Credit sales	House rents outstanding	Total
Telecom	2.139	3.03			5.169
Central Stores			2.87		2.87
City Corporation		0.58			0.58
DUDH				1.21	1.21
Grand Total	2.139	3.61	2.87	1.21	9.829

a) Security deposit of Nu. 2.139 not deposited in to the Government Revenue Account

When the Bhutan Telecom, the then Division of Telecom discontinued to collect Nu. 2000 as security deposits for new telephone connections, the security deposits already held by the Division were adjusted against the customers telephone bills instead of reimbursing it to the customers. Adjustments amounting to Nu. 2.139 million from the security deposits were not deposited into the Government Revenue Account when the Division became a Corporation.

b) Unrealized revenue Nu. 3.61 million

It was observed that the Division of Telecom had not realized about Nu.3 million earned against the telephone call charges from the customers. Similarly, the Thimphu City Corporation was yet to realize Nu. 0.58 million of Municipalities taxes.

c) Outstanding Credit sales of Nu. 2.87 million

The Central Stores of PWD in Phuntsholing despite audit recommendations continued with the practice of selling mechanical items on credit to private parties. It was not able to realize about Nu. 2.87 million to be earned from hire charges of Machinery to Private parties, sale of mechanical items, and the installment on the sale of Komatsu Dozer spares to M/s Gaseb Construction.

d) Outstanding House rents Nu. 1.21 million

Having taken over the government quarters from the Department of National Properties, the Department of Urban Development and Housing had not been able to realize about Nu. 1.21 million as house rents. The house rents outstanding relate to a few senior government officials who are still in service and also those who have already retired from the government service.

6. Excess Payments Nu. 4.419 million

An amount aggregating to Nu. 4.419 million were paid more than what was admissible by the agencies under the Ministry of Communications audited during year 2000. Such payments were made up of excess payment made on account of Bhutan Compensatory Allowance, to contractors for deviations, DSA, hire charges etc.

Table 1.20: showing the nature of excess payment made by amount

Agency	Excess paid (Nu. in million)	Nature of excess payments
Hydromet	0.068	Excess payment of BCA
Telecom	0.013	Excess payment of LTC
City Corporation	0.016	Incorrect recording in the measurement book
PWD	0.022	Excess payment of DSA and consultancy fees
DUDH	4.18	Excess payments to contractors
Civil aviation	0.12	Excess payment to suppliers and DSA
Total	4.419	

a) Excess payment to contractor, Nu. 4.18 million

The Department of Urban Development and Housing paid over Nu. 4.01 million because of work executed beyond the estimates by 20%. It was noticed that deviations from the estimates in the construction of Bus Terminal Complex, Department of Survey and Land Records building, Division of Geology and Mines building was as high as **3900%**. Audit raised concern over the accountability of the Planning and Engineering Cell officials of the Department of Urban Development and Housing who were responsible for the preparation of proper estimates. The Department of Urban Development and Housing had also overpaid Nu. 0.18 million to M/s Lhaki Construction, contractor for the construction of Bus Terminal Complex by not recovering the advances from the final bill of the contractor. Similarly, the Department of Civil Aviation, the then Division of Civil

Aviation allowed excess payment of Nu. 0.055 million to the Uniform supplier. The bill contained extra quantity of uniforms actually supplied.

1. Award of works on work order basis

The DUDH and the RMD, Thimphu awarded works requiring NIQ's on work order basis. The amount involved for such works aggregated to approximately Nu 3.72 million as detailed below:

Table 1.21 : showing works awarded on the Work order basis

Agency	Nature of work	Value of the work (Nu. in million)
DUDH	Upgradation and internal electrification of RIM	1.19
DUDH	Construction of R/wall and B/wall at Jharna	0.27
DUDH	Electrification of Bus terminal complex	2
RDM, Thimphu	Construction of NWF dwellings on Simtokha – Dochula Highway	0.27
Total		3.72

It was found that the Department of Urban Development and Housing allotted the upgradation and internal electrification of Royal Institute of Management worth Nu. 1.19 million to Bhutan Electrical Company without floating tender. Similarly, electrification work of Bus Terminal Complex worth Nu. 2 million was awarded by the Department of Urban Housing to M/s Lhaki construction without inviting tenders.

The Royal Government was therefore deprived of competitive bidding.

2. Irregular purchases

Irregular and wasteful expenditure of 10.67 million were incurred on purchases made without calling quotations, wasteful expenditures on purchases not required by the Departments under the Ministry of Communications audited during the year 2000. The government was therefore, deprived of the advantages of competitive bidding and unnecessary blockage of funds as depicted below:

Table 1.22 : showing types of irregular purchases by amount

Agency	Types of irregular purchases (Nu. in million)		
	Purchases without quotations	Purchase not required	Total
Central Stores		0.78	0.78
Civil aviation	9.78		9.78
MOC	0.11		0.11
Grand Total	9.89	0.78	10.67

a) Purchase without quotations Nu. 10.55 million

It was observed that the Department of Civil Aviation had purchased security equipment, baggage trolleys, CCTV and HF radio worth over Nu. 9 million from two companies in Bangkok. While the payment was made, it was noticed that suppliers' bills were not attached with the payment voucher. Quotations were not called as required under the provisions of Financial Manual, which deprived competitive bidding and it cannot be ascertained whether the government got the best deal.

b) Wasteful expenditure Nu. 0.78 million

It was also noticed that the Superintendent Engineer (B&M) had purchased miragrid 5XT (woven) fabric fibres from M/s Z-Tech Private Ltd. without observing codal formalities. The materials so purchased were found dumped in the store yard without being used even after two years of its purchase. Audit was of the opinion that expenditure incurred was wasteful and a case of deliberate favoring private firm.

3. Government property issued to private parties, Nu. 0.97 million

Audit had detected that the Central Stores of the PWD had issued construction and mechanical items to private parties on returnable basis. These items were not returned even after duration of three years. It was

found out that the superintendent engineer was also not competent to issue government properties to private parties.

4. Non-accountal of Stocks

Audit detected that government property worth Nu.0.2 million were not accounted.

Such non-accountals are reflected below:

Table 1.23 : showing the non-accountal of stocks by amount

Agency	Amount(Nu. in million)	Remarks
Telecom	0.13	Non- accountal of drop wires
Central Stores	0.017	Non-accountal of defreezing salt
RMD, Thimphu	0.073	Non-accountal of hume pipes
Total	0.22	

The Trongsa Telecom Incharge for instance had not accounted drop wires worth Nu. 0.13 million sent by the Telecom Central Stores. Similarly, Road Maintenance Division, Thimphu had not accounted for Hume Pipes worth Nu. 0.073 million.

5. Misutilization of budget Nu. 1.2.million

The Bhutan Telecom the then Division of Telecom had misutilized the budget of Nu. 1.2 million by not surrendering to Department and Budget and Accounts by booking as an advance in the name of the Director at the end of the financial year.