

Bhutan Board Products Limited

Table 1.38: Showing the different categories of audit observations by amount & percentages.

Sl.No	Nature of observation	Amount (Nu. millions)	%
1	Decline in the profitability of the company		
2	Idle/obsolete items of inventory	7.78	4
3	Shortages of raw /finished boards financial loss	40.31	23
4	Loss due to improper procurement practices	5.48	3
5	Irregular payments of retirement benefits	0.81	0.45
6	Work awarded without inviting tenders	69.74	39
7	Purchase of spare parts for bulldozer	2.98	2
8	Work awarded to non-licensed contractor	7.30	4
9	Purchase made without quotation	11.00	6
10	Avoidable expenditure	1.21	1
11	Loss arising for purchase of chemical from a single source	6.93	1
12	Excess payment	0.21	0.12
13	Un-reconciled balance	14.57	8
14	Hiring of private vehicle and irregularities thereof.	0.84	0.47
15	Non-accountal of stock	0.33	0.18
16	Outstanding advances	9.70	5
Total		179.19	100.00

Major Findings

1 Decline in the profitability of the Company.

The audit of the BBPL revealed that the Company's financial performance was deteriorating as can be seen from the table below:

Table 1.39: Showing the profitability of the Company by years wise (Nu. millions)

Sl. No.	Nature	1998	1999	2000
1	Sales	313.18	206.60	220.71
2	Misc. income	2.09	2.44	3.37
3	Net profit(loss)	21.79	-36.67	-9.35
4	Corporate tax	7.09	0.00	0.00
6	Dividend	10.14	0.00	0.00
7	Shareholders' fund	150.09	113.09	142.67

The management attributed this decline in performance due to:

- ❖ high borrowing cost and liquidity problem;
- ❖ poor management of available financial resources;
- ❖ lack of internal control over purchase/procurement;
- ❖ in-effective marketing policy;
- ❖ adverse market condition followed by low demand; and

- ❖ Non-provisioning of doubtful debts amounting to Nu. 12.143 millions.

The financial difficulty faced by the company also can be seen from the continued dependence on the overdrafts financing. The Company had following bank overdraft balances at the last four or five balance sheet dates:

Table 1.40: Showing the year wise Bank over draft amount involved

Sl. No.	Year end	Amount (Nu. millions)
1	31.12.1996	32.03
2	31.12.1997	30.00
3	31.12.1997	40.00
4	31.12.1998	40.00
5	31.12.1999	36.71

While the company was experiencing a serious liquidity problem, it was observed that funds were tied up in the form of inventory as can be seen from the table below:

Table 1.41: Showing the level of stock holding by different years in (Nu. millions)

Sl. No.	Inventory	1998	1999	2000
1	Raw materials	32.37	30.64	40.20
2	Stores & Spares	35.19	33.27	29.96
3	Packing material	1.16	0.81	0.45
4	Work in progress	3.05	3.46	8.15
5	Finished goods	55.21	68.12	67.18
	Total	126.98	136.30	145.94

Similarly, funds were also tied up in the form of outstanding debts arising out of the credit sales. All these have attributed to decline in profitability of the company.

Table 1.42: Showing Year wise outstanding credit sales (Nu. millions)

Year end	Sundry debtors
1998	2.00
1999	70.19
2000	79.29
Total	151.48

An amount of Nu. 4.966 millions were lying as liability on account of unpaid dividends declared in the year 1998. While the company was relying on the overdraft facility to finance its operation, declaring dividends placed additional financial burden on the company.

The RAA had noted cost control and certain other remedial measures including price and discount rates, cash collection system, security deposits from parties, advertisements, distribution network, grading of products etc. The management had also assured to take further necessary actions to remedy the situation.

2 Idle/obsolete items of inventory Nu. 7.781 millions.

It was observed that the M/s BBPL had slow moving and obsolete items of spare parts, deco paper and impregnated cut sheets worth over Nu. 7.78 millions. This had not only impinged on the financial resource of the company but also on the spatial and human resources.

The RAA had been informed that adequate measures have been taken to avoid accumulation of unnecessary stocks in future, and of the measures initiated to either use or dispose off the items.

No further measures seem to have been undertaken except that the Board of Directors have written off date expired impregnated cut sheet valued at Nu.1.68 millions.

3 Shortages of raw/finished boards, financial loss of Nu. 40.319 millions.

It was revealed that on every batch of mother board manufactured, certain quantity of boards were issued for miscellaneous use which was not accounted for in any records nor physical/identical usage of these boards were verifiable during audit.

In addition, it was also noted that boards were declared as rejects after sanding and lamination. The rejected boards for the year 1996-1999 comprised of the following:

Table 1.43: Showing the rejected boards quantity and the amount involved (Nu. millions)

Sl. No.	Particulars	Quantity (pieces)	Amount(Nu.)
1	Plain(sanded)	28,744	18.78
2	Lamination	12,639	12.89
	Total rejects	41,383	31.67

The above 41,383 pieces of boards valuing Nu. 31.67 millions as well were not available for physical verification. It was explained that these were used for testing purposes but no records were available to substantiate the explanation.

Board has instructed the management to get proper explanation from those responsible.

The RAA is informed that 24,877 pieces of rejected boards were now accounted in the records. For the balance the RAA is appraised that no records are available.

4 Loss due to improper procurement practices (Nu.5.481 millions).

It has been noted that the annual off take of the Formaldehyde was ranging between 1,530.835 MT in 1997 to 1123.820 MT in 1999. However, the management was procuring the chemicals from the single source, although they were aware of the existence of other manufacturers of the same product. Any constructive efforts made to explore the possibility to obtain the offers for the like item from other manufacturers to establish cost effectiveness was not on record. Comparison of rates of other suppliers indicated a loss of Nu. 5.481 millions sustained by the corporation.

It was also observed that debit notes issued towards rate difference for supply made during the year 1994, for a total sum of Nu. 1.523 millions had been reversed by the management inflating the credit balance favoring the supplier. The case is under litigation.

5 Irregular payment of retirement benefits.

The resignation of Ex. Managing Director was approved by the Board of Directors vide letter No. MOC (M)43A/99/1246 dated 5.10.99. As per the Service rule, clause 13, para No. 13.8, “while settling the accounts of an outgoing employee, the Company is entitled to recover fully or partly its dues out of gratuity, provident fund or any other sum payable to the concerned employee”. Although there were several issues related to the previous audit of the Company, the management had paid the retirement benefit amounting to Nu. 0.817 million to the former Managing Director without obtaining clearances from the Board and the Royal Audit Authority. The case is under litigation.

6 Tendering and Procurement Lapses.

a) Work awarded without inviting tenders Nu. 69.74 millions.

The BBPL had incurred substantial amount of expenditure for afforestation, logging and construction of feeder roads for the period 1.1.1996 to 31.12.2000. On verification of records maintained by Forestry Unit, Tala, it was seen that all the works were carried-out by the contractors. However, the system of calling quotations from the contractors was not adopted to avail the benefit of competition. Majority of the contract works was carried out on work order basis.

As per reply, limited quotations were called. However, it was seen that in spite of limited quotation called, works were awarded to contractors on work order basis based on their past work experiences.

The BBPL Management had represented that the limited quotations were called from the existing contractors and the rates obtained were below the rates of Bhutan Logging Corporation, thereby resulting to reduction in cost and savings to the company.

b) Works worth Nu. 7.304 millions awarded to non-licensed contractor.

The BBPL had awarded works worth over Nu. 7 millions to Non-Bhutanese contractor without holding a valid contract license. The Company did not retain at source the 3% foreign contractor tax.

c) Purchase made without quotations.

The verification of purchase bills of RTAF, Pasakha revealed materials worth Nu. 11 millions were purchased without quotations. This was contradictory to the Operational Manual of the Company.

The RAA is now intimated with assurances that all their future major purchases would comply with the procurement formalities.

d) Avoidable expenditure of Nu. 1.218 millions.

Verification of bills for the purchases pertaining to RTAF, Pasakha indicated that the rate paid in the years 1998 and 1999 for the same items were much higher (up to 45%) with the quotation rates paid in 2000. The project would have avoided over Nu. 1.2 millions had the management followed the procurement procedure as per the Operational Manual of the Company.

As per Board's decision the excess payment is to be recovered from the concerned officer.

e) Loss arising from purchase of Chemicals from a single source, Nu. 6.932 millions.

The previous management of the BBPL was purchasing the Chemicals required for manufacture of Boards from a single firm in Kolkatta called M/s Global Enterprise. The new management inquiries in the prices of the chemicals from the leading manufacturers, revealed that the prices charged by M/s Global Enterprise was high by 49%. This has resulted to a loss to the company of about Nu. 6.9 millions over five years.

The former works director was asked to make good the losses. The case is stated to be forwarded to the court.

7 Purchase of spare parts for bulldozer (Nu. 0.298 million).

An amount of Nu. 0.298 million were paid to M/s. Morjiwala Machinery Enterprise, Kolkatta in settlement of their bill for supply of Fuel Pump Assembly for bulldozer TD-15. The purchase of such high value item was done without the approval of the management. The cheque was drawn as "self" and it was confirmed that a firm called M/s. Morjiwala Machinery Enterprise did not exist.

The Board has instructed the management to further study the processes involved in releasing payment and establish accountability at the earliest..

8 Excess payment.

It was observed that the BBPL had paid Nu. 0.213 million in excess. It relates to payment of hire charges of bulldozer without following the Bhutan Schedule of Rates. Excess payment made to supplier due to rate difference in the purchase of main shelves assembly and double payment of vehicle hiring charges. It was also observed that the Company had not deducted the cost of material and the amount paid in the first running bill from the final bill of the contractor of the approach road maintenance.

The RAA is informed that the double payment of vehicle hiring charges is already recovered and the excess payment made due to rate differences would be recovered from the official responsible for the lapses.

9 Un-reconciled balance of Nu. 14.575 millions.

An amount of Nu. 14.575 millions stood as un-reconciled balance against the total outstanding credit sales of Nu. 85.945 millions as at 30.06.2001 against various Parties/Customers/Distributors of regions as detailed below:

Table 1.44: Showing the Region wise un-reconciled outstanding credit sales by the type of products.

Region	Unreconciled board balance (Nu.)	Unreconciled (RTAF) balance (Nu.)	Total (Nu.)
East	3.961	0.124	4.086
West	2.163	1.189	3.353
North	0.035	1.679	1.714
South	4.501	0.919	5.420
Total	10.66	3.911	14.573

The Board had reviewed the audit observation and has instructed the management to take appropriate action.

10 Irregular hire of private vehicle.

Despite the management having the company vehicles at their disposal, the management had incurred substantial expenditure amounting to over Nu. 0.84 million towards the hire charges of a private vehicle by the Forestry Unit. The vehicle was found engaged for personal duty of the General Manager. Similarly, mileages amounting to over Nu. 0.090 million were also found paid to Dy. Manager, Logging, for journeys performed between the office and the residence.

As decided by the Board, an equivalent amount is to be recovered from the officials authorizing payment of the mileage.

11 Non accountal of stock.

Loser Dowel machine valuing Nu. 0.201 million of Vebim make, Belgium and one unit Panasonic Fax machine, model KX-F500B costing Nu. 0.020 million were not available during physical verification. Similarly, Furniture worth Nu. 0.110 million issued to BBPL guesthouse in Phuntsholing were not available during physical verification.

As per Board's decision, responsibility has been fixed for the Loser Dowel and fax machine on the former Works Director and the Managing Director respectively.

12 Outstanding advances.

It was seen that outstanding advances to the tune of Nu. 9.70 millions were lying against the official/staff and parties as of 5th September 2001 as summarized below:

Table 1.45: Showing the outstanding advances against various parties

Sl. No.	Particulars	Amount(Nu. millions)	Balance as on 31.3.03
1	Advance to parties	9.26	4.5
2	Advance to staff	0.21	0.07
3	Advance to Co.'s expenses	0.09	0
4	Tour advance(staff)	0.14	0.03
Total		9.70	4.6

The RAA is informed that the latest balance is Nu.4.60 millions.