Ministry of Trade and Industry.

The Royal Audit Authority during the year 2002 had issued eleven inspection reports of agencies under the Ministry of Trade & Industry. The following officials headed the ministry and the departments under it in the year 2002:

Sl. No	Name of Office bearers	Designation
1.	Lyonpo Khandu Wangchuk	Minister
2.	Dasho Karma Dorji	Secretary
3.	Achyut Bhandari	Director General, Department of Trade
3.	Sonam Tshering	Director, Department of Power.
4.	Sonam Yangley	Director, Department of Industries.
5.	Lhatu Wangchuk	Director, Department of Tourism
6.	Gembo Dorji	Deputy Secretary, Administration & Finance Division.

The following table exhibits the summary of the findings in a consolidated form:

Table 1.1 showing summary of the observations by category code and the amount involved.

Sl. No.	Observation in brief.	Amount (Nu.Million)	%	Category code
1.	Outstanding Advance.	128.43	53.32	**1**
2.	Purchases without approval.	25.33	10.52	**3**
3.	Energy Losses.	16.69	6.93	**4**
4.	Wasteful expenditure.	13.13	5.45	**5**
5	Payment against defective materials.	10.00	4.15	**10**
6.	Outstanding revenue.	9.30	3.86	**2**
7.	Loss due to non-inclusion of penalty clauses.	7.16	2.97	**7**
8.	Loss of Revenue.	7.06	2.93	**4**
9.	Avoidable purchase.	5.87	2.44	**5**
10.	Non-levy of liquidated damages.	5.40	2.24	**13**
11.	Excess payment.	4.63	1.92	**6**
12.	Bad Debts.	4.26	1.77	**4**
13.	Recoverable amount.	2.39	0.99	**11**
14.	Award of work to contractors without valid license.	0.79	0.33	**18**
15.	Non-enforcement of contract terms.	0.31	0.13	**13**
16.	Non-deduction of Tax.	0.12	0.05	**15**
	Total	**240.87**	**100**	

Major Findings:

1. Award of supply contract based on single bid and sub-letting thereof, thereby resulting payment against defective materials Nu. 10 Million.

Only M/s Crompton & Greaves Limited(CGL), Chennai out of 16 bids sold had submitted its quote. It was found substantially responsive for the supply of 104 numbers of 33 and 11 KVA distribution transformers for rural electrification. Accordingly, the contract was awarded to the company. The records showed that the company had further sub-contracted the work to M/s IMP Limited, Bombay as the equipment ordered by the Department of Power were below their manufacturing range. Many of the transformers supplied by M/s IMP Limited, Bombay though cleared by DoP inspectors failed, at the time of conducting pre-commissioning test.

All except 8 were either repaired at Central Maintenance Unit (CMU), Begana or by the engineers of M/s IMP Company.

Auditee's response: *The Department of Power submitted that M/s IMP Limited manufactured transformer was supplied instead of M/s CGL as the equipment was below M/s Crompton & Greaves Limited's manufacturing range. It was also submitted that the procurement was based on approval from Asian Development Bank (ADB) after following ADB procedures. The eight numbers of defective transformers were stated to have been replaced out of which six have been commissioned satisfactorily.*

Who is accountable?: *It is an indication of a lack of proper study carried out by an implementing agency. The members of the tender committee and the Director, Department of Power are held accountable.*

2. Loss of revenue Nu. 7.06 million.

The Ministry of Trade & Industry had lost government revenue amounting to Nu.7.06 million by way of the following:

The audit of Rangjung Power Plant for the FY 1998 to 2000 revealed a revenue loss of Nu.2.46 Million to the RGoB. A detailed study on the matter inferred that it was the result of power utilized for auxiliaries in the powerhouse, for lighting of powerhouse colony, sub-station and by DoP Staffs.

The contractor Central Water Commission (CWC) who had failed to complete the construction of powerhouse on time in Trashigang had put the DoP to a revenue loss of Nu.4.4 million by not generating expected energy.

The Power Project Implementation Unit, DoP, Lhuentse had procured two electromechanical equipment (2 x 60KW) @ Nu.2.85 million from M/s Jyoti Limited, Vadora with a designed load of 120 KW. But the test indicated that the machines were taking up to 84 KW load as against 120 KW thereby resulting into shortfall of 30 %. By rated shortfall of turbine generators there was a shortfall of 0.29 million units of energy generation up to 31.4.01 causing a loss of revenue to the tune of Nu.0.20 million.

Auditee's response:

It was submitted that the loss of revenue in Rangjung Power Plant is due to revision of power tariff for urbanite, charging flat rate where it is not metered and due to usage of power for auxiliary purposes. The meeting held on 30.9.03 stated that Bhutan Power Corporation has already initiated measures like up gradation works, conductoring and metering all customers etc which is expected to reduce such losses in future.

The Chenery Power House, DoP, Trashigang had submitted that the delay was due to revision of design so as to incorporate all CWC norms and the loss of revenue cannot be recovered as the volume of work increased manifold.

The Project Implementation Unit had not submitted any appropriate responses on this issue so far.

Who is accountable?:

The accountability for the losses is fixed on project management and the Director, Department of Power. The RAA will review if measures reportedly taken to reduce losses have actually reduced such losses.

3. Non-levy of liquidated damages Nu. 5.40 Million.

The Ministry of Trade & Industry had not imposed penalty amounting to Nu.5.40 million to contractors and suppliers who had failed to deliver goods and services on time. The detail of amount applicable/chargeable against each company is shown in the table 1.2:

Table 1.2 showing the detail of amount Applicable / chargeable against each company.

Sl. No.	Agency involved	Amount (Nu.Million)
1.	M/s Western India Machinery Co.Pvt.Ltd, Kolkata.	0.22
2.	M/s Jyoti Limited.	1.18
3.	M/s Druk Tiger Construction Co.	0.03
4.	M/s Drapchu Construction.	0.10
5.	M/s Cable Corporation of India, Kolkata.	0.10
6.	M/s Gaki Enteerprise.	0.02
7.	M/s Central Water Commission.	3.00
8.	M/s Deden Construction.	0.71
	Total	**5.40**

However, the procuring agency had failed to charge the liquidated damages or deduct from their bills which tantamount to undue favour to the contractors/suppliers.

Auditee's response:

It was stated that the firm from Kolkata could not deliver the Genset within the given deadline and that the purchase order was eventually withdrawn and the penal interest will be recovered from the bank guarantee.

The DoP stated that since there was a delay in implementing civil activities for want of adequate fund the department had deferred the delivery of equipment.

The DoP stated that some delays did not affect the work and therefore not penalised. It was also stated that since CWC is a government organisation imposing of liquidated damages is not justifiable and that the work was delayed due to natural calamities.

Who is accountable?:

Some of the responses are not tenable, therefore, the accountability to satisfactorily justify or recover the damages is fixed on the Director, Department of Power.

4. Avoidable purchase of Diesel Generator sets Nu. 5.87 million.

Since the rehabilitation work of Mini Hydel Projects including Chenary Mini hydel was not completed on time the Department of Power had to buy 2 DG sets costing Nu.5.87 million to meet the electricity demand of the consumers. If the works were completed within the scheduled time as stipulated then such purchases would not have been required because the demand of electricity could have been met out of the power generation by the powerhouse.

Auditee's response: *The DoP had submitted that Diesel Generator Sets were procured as per the directives of the government in view of the security reasons in eastern Bhutan to have a standby supply and that it was not installed because rehabilitation was delayed. It was also stated that thirteen other Generator Sets were procured and distributed to other places on standby under the same authority.*

Who is responsible?: *Since the RAA was not provided with a copy/record of government directives the accountability for the avoidable procurement is fixed on the Director, Department of Power.*

5. Purchases made without approval Nu. 25.33 million.

M/s Larsen & Turbo (L & T) was formally given the contract "Turnkey Package" for 7 numbers 132/33KV and 33/11KV sub-stations associated with 132 KV transmission system. Apart from the contract amount of supplies, additional purchases of power & control cables amounting to Nu. 25.33 million were made on the ground that original agreement did not include all the items as required during the detailed engineering stage. This was a result of the meeting held amongst M/s WAPCOS, M/s L & T and DoP in New Delhi. The Superintending Engineer represented DoP. No approval either in anticipation or ex post facto from the competent authority for such a heavy purchase was on record.

Auditee's response: *It was submitted that the decision to purchase was made by Superintending Engineer, Project Implementation Division so as to accelerate the progress of the works due to which all substations have been commissioned except Nanglam Substation. It was also stated that the purchases were made within the clauses of contract and approved by the secretary.*

Who is responsible?: *The requirement of power and control cables should have been foreseen prior to awarding of initial contract, as such the response given is not tenable in audit since the RGoB was deprived of the benefits of competitive bidding. Therefore, accountability is fixed on the Secretary, MTI, Superintending Engineer, Project Implementation Division and the Director, Department of Power.*

6. Non-deduction of Tax Nu. 0.12 million.

A scrutiny of Supply Orders, payments released to suppliers by D0P, Headquarters revealed that statutory deductions amounting to Nu.0.12 million as per the Taxation Policy of 1992 were not effected.

Auditee's response:	*The DoP Headquarters submitted that the circular requiring the deductions to be made were not issued to concerned offices and that they came to know only through the accounts division.*
Who is accountable?:	*Until such time the amount of tax is received in audit or the documentary evidence of having paid the tax to Department of Revenue & Customs is submitted to the RAA the accountability is fixed on Finance Officers and the Director, Department of Power.*

7. Recoverable amount Nu. 2.39 million.

The CWC was given the work of Survey, Investigation and preparation of pre-feasibility study of Yonglachu Mini Hydel Project. The CWC completed the assignment and submitted the report. In the report, the CWC demanded an amount of Nu.1.53 million to carry out investigation and preparation of Detailed Project Report (DPR). The MTI soon after the work of preparing DPR was allotted to CWC in September 1998 and had advised the firm (9/98) not to carry out the DPR. Late Padmashri Druk Thuksey G.N.Rao had advised the MTI that pre-feasibility report was more or less like a DPR and that the project would have a long gestation period and therefore, not feasible to execute the project. Accordingly the project was not pursued.

However, Project Manager, Lhuentse Power Project on the instruction of Superintending Engineer, Project & Implementation Wing, DoP had released the sum of Nu.1.53 million on 25th March 1999 to CWC after the firm was advised not to carry out the assignment. Since the purpose for which the amount was released stood defeated and that the government had decided not to construct the project the amount so paid in March 1999 stood recoverable.

The Power Project Implementation Unit, DoP, Lhuentse had procured two electromechanical equipment (2 x 60KW) @ Nu.2.85 million from M/s Jyoti Limited, Vadora with a designed load of 120 KW. But the test indicated that the machines were taking up to 84 KW load as against 120 KW thereby resulting into shortfall of 30 % the recoverable amount of which is worked out to Nu.0.86 million approximately.

Auditee's response:

It was stated that the amount of Nu.1.53 million was paid to the CWC by the project office in compliance to the instruction conveyed by Superintending Engineer, Project & Implementation Wing and also on the understanding that the preparation of Detailed Project Report and preconstruction investigations including construction of the project on turn key basis would be awarded to CWC. The meeting held on 30.9.03 submitted that the implementation of the project was stopped.

Who is accountable?:

Since the firm was advised not to carry out the DPR in September 1998 and that the amount was paid in March 1999 on the instruction of Superintending Engineer, Project & Implementation Wing, DoP the accountability for the lapse is fixed on the Director and the Superintending Engineer, Project Implementation Wing, DoP.

Requirement to insert penalty clauses in any form of contract agreement is a long established norm of any procurement practices. Therefore, the reply that the clause was not inserted is not tenable in audit, therefore, accountability for the lapse is fixed on the Director, Department of Power.

8. Wasteful expenditure Nu. 13.13 million.

The RGoB and Government of India had agreed to undertake rehabilitation work of 8 Mini Hydel Projects in Bhutan. The civil works of 5 out of 8 projects were allotted to CWC in addition to their consultancy services. Contract agreement requires all construction drawings/designs prepared by CWC to be reviewed and cleared by DoP.

If DoP had the capabilities to clear and review all drawings/designs prepared by CWC then the appointment of CWC was not rationally justified. The DoP had paid the CWC an amount of Nu.13.13 million on this account.

The DoP submitted that the service of CWC had been availed by DoP as per the agreed minutes which stipulated that RGoB would carry out the renovation works with the GOI technical and financial assistance.

Since drawings & designs prepared by CWC were required to be reviewed and cleared by DoP, which means DoP has technical expertise as such the amount paid was rationally not justified, therefore, the accountability is fixed on the Director, DoP.

Who is accountable?: *Since any work allotted to a contractor without the valid license of MTI is a violation of the existing rules of the RGoB, therefore, accountability for the lapse is fixed on the Director, Department of Power.*

16. Outstanding revenue Nu. 9.30 million.

The **Central Maintenance & Training Section, Begana** had not collected Nu.0.31 million on account of hiring of vehicles, repair & maintenance of transformers and other equipment. Despite repeated audit objections and assurances given by the management to recover the dues, the amount still remained to be collected.

The RTIO, P/ling had not collected outstanding royalty and mineral rent from the following Mining Companies amounting to Nu.4.88 million:

Table 1.4 showing outstanding royalty & mineral rent.

Sl. No	Mining Companies	Amount (Nu. Million)	Remarks
1.	M/s Singye Dolomite Mining Ltd.	3.67	Outstanding balance after adjustment as on 6/12/2001
2.	M/s Jigme Dolomite Crushing Unit	0.39	Outstanding balance after adjustment as on 9/8/01
3.	M/s Jigme Mining Enterprise	0.80	Not adjusted after having taken Over by the RTIO, P/ling from RRCO, Samtse on 1.1.1999
4.	M/s Dhendup Enterprise/Bhutan Minerals & Stone	0.02	
	Total	**4.88**	

The **Department of Trade** had outstanding surface & royalty/mineral rent of Nu.0.06 million not collected from third parties.

The **Regional Trade & Industries Office in Samdrupjongkhar** had not levied and realised royalties on the excess production aggregating to Nu.4.05 million from M/s Eastern Bhutan Coal Company and M/s Druk Satair Corporation Limited.

Auditee's response: *The RTIO, Phuntsholing and Central Maintenance Section, Begana deposited some outstanding revenue amounting to Nu.0.74 million into audit recoveries account thereby leaving a balance of Nu.4.24 million.*

The RTIO, S/jongkhar stated that as per the annual meeting of the Regional Directors with the heads of departments under MTI, it was agreed that the Regional Directors shall be accountable only for cash collected upon verification of the same by the Department of Geology & Mines staff concerned and that all other aspects concerning royalty, mineral rents and surface rents shall be solely looked after by the DGM themselves.

Who is accountable?:	*Until such time an appropriate action is taken or the revenue in question is deposited into audit the accountability for the lapse is fixed on the Executive Engineer, Begana, Head, Administration & Finance Division, MTI, concerned Regional Directors and Director, Department of Geology & Mines.*

The RAA expects that the MTI will play a role model of responsibility and accountability that can inspire the private sector by its upright leadership.

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