

Bank of Bhutan.

The following personnel occupied the various portfolios of the corporation in the year 2003:

Sl. No.	Name of Office Bearers	Designation
1.	Lyonpo Wangdi Norbu	Chairman
2.	Tshering Dorji	Managing Director
3.	Passang Tshering	Dy. Managing Director
4.	Gayalri Sharma	Dy. Managing Director

Summary of the significant observations are given in the table below:

Table 1.33 showing summary of the observations by category code and the amount involved.

Sl No.	Observation in brief	Amount (Nu. Million)	%	Category code
1.	Irregular writing off	6.538	5.68	18
2.	Irregular sanctioning of personal loan	5.000	4.35	18
3.	Unjustified waiver of late fee	0.674	0.59	18
4.	Outstanding loan	92.116	80.07	1
5.	Non-utilization of R & D fund	10.717	9.32	18
	Total	115.045	100.00	

Major findings:

1. Irregular write off - Nu 6.538 million.

The Royal Audit Authority had found an amount of Nu.4.273 million being written off by the Board against irregular Medium Term Loan account of Proprietor of M/s Choden Chemicals and Industries Limited. It was also learnt from the correspondences that prior to this write-off an amount of Nu.2.265 million were also written off by the Board. The RAA felt that if such kind of relief and concessions were granted time and again it would not only affect the overall profitability of the banking business proprietors may not also give resourceful & enterprising thought to seriously carry on the business.

Auditee's response:

The BoB management had submitted that justification for writing off of such a huge amount is on the account of company becoming sick for various reasons such as delayed receipt of machinery, shortage of skilled labour, technical snags etc. These factors resulted in a time and cost overrun. The periodical interest application together with other pre-operative expenses during the long implementation period increased the debt burden on the company.

Who is accountable?:

The justification submitted is not adequate to write-off such a huge amount since the problems as highlighted is supposed to have foreseen when the project is conceptualized and prepared for the worst accordingly. It simply is a managerial problem and may lead to more write-offs in future. Therefore, such justification is not tenable in audit and the accountability for such leniency shall fall on Board & Management.

2. Sanctioning of personal loan of - Nu.5 million for adjustment of irregular MTL Account.

The Royal Monetary Authority's (RMA) Prudential Regulations 1999 states that “*The same Financial Institution is not allowed to extend a new loans to a borrower for repayment of arrears on Non-Performing Assets (NPA)*” However, it was found that not only the Board of Directors had approved the loan even the regulating authority (RMA) had issued clearance to Bank of Bhutan for extending such personal loan to the proprietor of M/s Choden Chemicals and Industries Limited.

The RAA found that the Board had approved the loan on the condition that if the borrower defaults repayment of loan including interest by three installments in either of the personal loan account or M/s Choden Chemicals and Industries Limited's loan account, the bank shall take over all the properties mortgaged with the bank. However, it was observed that the borrower had defaulted four installments in both the accounts for which the bank had not initiated any penal action liable as per the terms and conditions.

Auditee's response:

The management submitted that all actions resorted to by the bank was actually with the approval of the Board and concurrence from the only regulating authority i.e. the Royal Monetary Authority. It was also submitted that circumstances that warrant deviations will have to be allowed in specific instances.

Who is accountable?:

The very essence of bringing out the regulation is defeated if it is not applied consistently. Therefore, the Board of Directors and the RMA are held accountable for deviating from the norms. Further, the management is also held accountable for not initiating any action when the customer defaulted the repayment in more than the number of instances allowed by the Board.

3. Unjustified waiver of late fee - Nu.0.674 million.

It was found that the Board during 131st Board Meeting had waived of late fee amounting to Nu.0.674 million against Miscellaneous Overdraft A/c pertaining to the proprietor of M/s Dhendup Group of Companies.

It was mentioned in the above minutes of the meeting that the late fee was waived off based on the request submitted by the borrower citing reasons of the poor performance of the company and closure of some of the units due to circumstances beyond the company management's control. However, from the available records it was evident that the Bank had not carried out any detailed study to justify making such decision.

Auditee's response: *It was submitted that the amount of late fee was waived off based on the above cited reasons and on the condition that the borrower deposit a sum of Nu.4.00 million within certain time frame which was in fact complied with by the borrower.*

Who is accountable?: *The bank had not carried out any assessment of the performance of the company. Since most of the problems of the company were related to managerial lapses, the writing off of the entire amount of late fee was not justifiable for which the management shall stand accountable.*

4. Outstanding loan - Nu.92.116 million.

An amount of Nu.92.116 million were lying outstanding against various customers of the bank as at 31.12.02 for which the validity period had already expired. It was noticed that some of the outstanding amount goes back as far as the year 1980.

Auditee's response: *The management submitted that the observation shall be noted for compliance.*

Who is accountable?: *Outstanding loan to the magnitude of Nu.92.116 million is certainly a matter of great concern that must be resolved at the earliest. Until such time the whole of the over due amount is realized with commercial interest of 16% p.a. the accountability shall be fixed on the management.*

5. Non-utilization of Research & Development Fund - Nu.10.717 million.

It was noticed that an amount of Nu.10.717 million had accumulated through transfer of 1% of the profit towards Research & Development (R & D) fund. However, the funds were not utilized.

***Auditee's
response:***

It was submitted that due to low-key trust towards EDP in the kingdom, the fund was earlier utilized to conduct the 1st EDP in Thimphu and project feasibility survey of the Gedu Wood Manufacturing Corporation in Gedu. The fund thereafter was not used and proposed to recommend the Board to utilize the fund towards Bank's market research & product development.

***Who is
accountable?:***

The poor utilization of R & D Fund indicates lack of creativity and encouragement in the field of research activities. Financial Institutions including Bank of Bhutan is the back bone of the country's economic growth; therefore, it must have a think tank for promotion & diversification of its business activities and promoting customer relations. The management is therefore held accountable for not initiating R & D activities commensurate with its size.