

### III. Royal Insurance Corporation of Bhutan Limited

Apart from the statutory audit being conducted by a firm of Chartered Accountants empanelled with the Royal Audit Authority the RAA also conduct propriety audit.

The RICBL during the year 2004 was managed by the following personalities:

Sl.No	Name of person	Designation
1.	Lyonpo Wangdi Norbu	Chairman
2.	Lamkey Tshering	Managing Director
3.	Tshering Gyeltshe	General Manager, CID
4.	Nado Gyeltshen	General Manager, GID
5.	Gyem Tshering	General Manager, GAD
6.	Surajit Dutta	General Manager, F&A
7.	Gyem Dendup	General Manager, Thimphu

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

*Table 1.44 showing summary of the observation by category code and the amount involved.*

Sl.No	Observations in brief	Amount (Nu. Million)	%	Category code
1.	Overdue loan outstanding	56.040	99.96	1
2.	Inadmissible payment of motor vehicle claim	0.069	0.04	8
3.	Irregular rescheduling of loan exceeding its security value	0.000	0.00	16
	<b>Total</b>	<b>56.109</b>	<b>100.00</b>	

#### Major findings:

##### 1. Overdue loan outstanding - Nu. 56.040 million

It was observed that the Corporation's Overdue (OD) loan outstanding for the year ended 31 December 2003 was Nu. 66.403 million. It was further noted that the corresponding OD figure for the year ended 31 December 2004 dropped to Nu.56.040 million.

**Auditee's response:** *The management submitted that they did not take action against overdue range from 1-3 months as they consider these accounts under watch category and they were closely monitoring. Further, the management submitted that only 172 cases have been remaining OD as of date for which an appropriate action would be initiated.*

**Who is accountable?:** *Improvement over OD figures in 2004 from 2003 is appreciated. However, until the issues are resolved to acceptable standard, Tshering Gyeltshe, General Manager, Central Investment Department and Lamkey Tshering, Managing Director are held accountable.*

##### 2. Irregular rescheduling of loan exceeding its security value

The erstwhile M/s Namgail Cement Company was taken over by a new management in December, 2000 and renamed as M/s Druk Cement Company Limited. On the day of taking over the company had a loan status amounting to Nu.31.383 million including over due interest of Nu.7.340 million. It was observed that as of 31.12.03 there was only one installment repayment of Nu.1.200 million for Industrial Term-Loan and additional loans were sanctioned to the client. The Board had approved number of rescheduling especially at a time when the payments of installments were due. Numbers of fresh agreements were drawn to this effect.

The company which had the loan amount of Nu. 31.383 million in December 2000 had its total loan mounted to Nu. 62.409 million on 31.12.03. During the year 2004 the company had paid a total of Nu.3.000 million leaving the loan balances at Nu.64.258 million which is more than the security value of Nu.56.090 million (*As of date of audit i.e. 15<sup>th</sup> March, 2004*).

The management constituted a sub-committee to draw up a revival package for the company. The sub-committee came up with 17 options two of which were proposed for implementation along with some conditions. It included 2 year interest holiday with an installment payment of Nu.4.000 million during the period and normal installment thereafter with interest. The other option was conversion of loan amounting to Nu.23.000 million into equity and the loan balances payable over a span of 10 years with an interest of 12% per annum. Against these two options the company offered counter proposal to increase 2 years interest holiday to 3 years and repayment period from 10 years to 13 years.

**Auditee's response:**

*The taking over of the company was always the last resort. The financial institutions normally try to revive the sick industries at the interest of the institutions as well as the economy. To do that some deviations from the normal norms and ethics can be made so that the money already involved in the project can be ploughed back. Secondly the Financial Institutions generally do not have the technical expertise to run an industrial business. There was no repayment as the company was still under augmentation stage and sufficient funds could not be generated to meet its obligations. During the 79<sup>th</sup> Board Meeting held in December, 2003 the Board had formed a committee comprising of two (2) Board of Directors and one representative from the Ministry of Finance to thrash out plan for its revival.*

*The Sub-committee came up with 17 options two of which were chosen for implementation. It included 2 year interest holiday with an installment payment of Nu.4.000 million during the period and normal installment thereafter with interest. The other option was conversion of loan amounting to Nu.23.000 million into equity and the loan balances payable over a span of 10 years with an interest of 12% per annum. These two options were offered with 7 conditions such as appointment of full time Managing Director with qualified accountant, reconstitution of the Board of Directors with at least two representatives of the lenders, Re-registration of the Company as per the Companies Act 2000, the board and the management to maintain independence as opposed to current style, company to function in compliance to the Companies Act 2000, etc.*

*The management in its response to the Draft Annual Audit Report stated that the Board during its 82<sup>nd</sup> meeting had approved to grant interest holiday for two years on the condition that the company deposit Nu.1 million every quarter during interest holiday period. The response further stated that the company had already deposited Nu. 4 million till date and that loan balances as on 31<sup>st</sup> March 2005 stood at Nu.61.582 million.*

**Who is accountable?:**

*The accountability for the gross lapses in failing to carry out detailed professional investment analysis is fixed on Dhanapati Adhikari, Manager and Tshering Gyeltshe, General Manager, Central Investment Department.*

### **3. Inadmissible payment of Motor Vehicle claim - Nu.0.069 million**

“If the ownership of the vehicle is changed without informing the Underwriter and effecting changes in the policy, the own damage claim up to maximum of 50% of the assessed loss may be paid less NCB, if any”, stated at Point No. 4 of the Note dated 25.4.2001.

It was found that the management had paid full claim amount of Nu.0.139 million to Phuntsho Namgyal for the vehicle bearing registration No.BP-2-1909 which met with an accident. It was in the name of Sonam Tobgay but the policy holder was Phuntsho Namgyal.

***Auditee’s response:*** *Although the claim admissible is to the extent of 50% incase the ownership is changed without informing the under-writers, the management has made special consideration as the transfer of ownership has been within the immediate family members and ownership change appears to have been intimated.*

***Who is accountable?:*** *The payment was in total contravention to the laid down policy of the Corporation. Therefore, Nado Gyeltshen, General Manager and Lamkey Tshering, Managing Director, are held accountable.*