

SUMMARY OF AUDIT OBESERVATIONS 2005

The audit findings and recommendations constitute the single most significant source of input to the Annual Audit Report. As in the past, attempts were made to incorporate only matters of potential significance depending on the nature of audit findings and amounts involved. The total amount of irregularities reported in financial terms as per audit reports issued during 2005 had reduced by Nu. 105.059 million indicating an overall reduction of 28.44 % as compared to the AAR 2004 as summarized graphically and as well as shown in the Table 3.1 below:

Figure 3.1

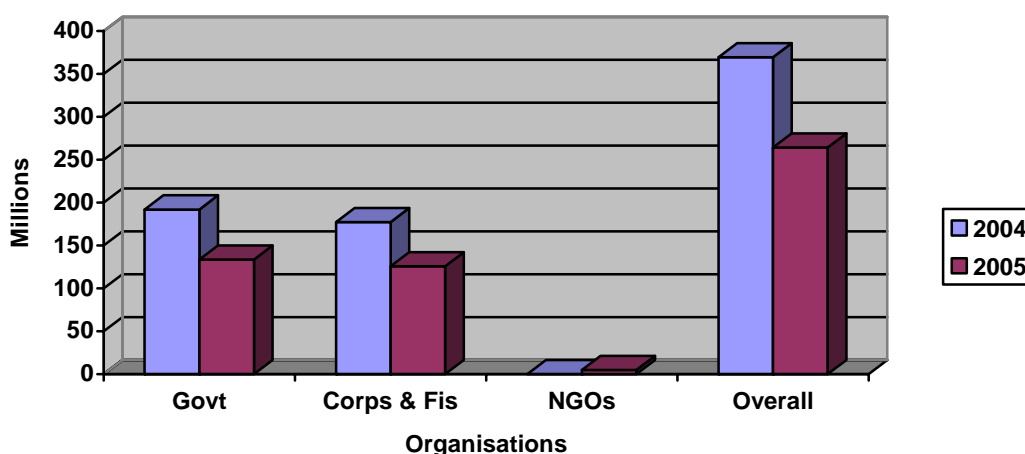


Table 3.1 showing comparative figures (Nu.in million)

| SL. No. | Category of Agencies | Amount 2005 | Amount 2004 | Amount Difference | % |
|---------|---------------------------------------|----------------|----------------|-------------------|--------------|
| 1 | Government and its instrumentalities | 133.566 | 192.002 | (58.436) | 30.43 |
| 2 | Corporations & Financial Institutions | 125.788 | 177.337 | (51.549) | 29.06 |
| 3 | Non-Government Agencies | 4.926 | 0* | 4.926 | 100 |
| | Total | 264.280 | 369.339 | (105.059) | 28.44 |

***No significant irregularities noted. In 2005 more reports of NGOs were issued.**

As would be noted from the above table 3.1, irregularities reported in the Government and its instrumentalities including the Ministries, Departments, Dzongkhags, Geogs, Judiciary, Armed Forces, Autonomous Bodies and Rabdeys have reduced by Nu. 58.436 million (30.43%). Similarly, the total amount of irregularities in the Corporations and Financial Institutions reduced by Nu. 51.549 million. However, the figures may not be comparable as the agencies audited and period covered would differ. Nonetheless, subject to the effect, if any, of such differences the reduction in the total amount of irregularities may be regarded as

an indication of improvement in the accounts and operations of agencies audited by the RAA.

The findings of audit for 2005 are reported separately under the Ministries, Departments and Autonomous Bodies; Corporations & Financial Institutions and Non-Government Organisations. The separation of the findings is made in view of the distinct mandates, objectives, accountabilities and sources of financing of the organizations. Besides the audit observations are also classified under the broad categories of observations as per the nature of the irregularities.

MINISTRIES, DZONGKHAGS, GEOGS, ARMED FORCES AND AUTONOMOUS BODIES

3.1 Summary of Audit Findings

The RAA issued a total of 361 audit reports of the Government and its instrumentalities which included Ministries, Departments, Divisions, Units, Dzongkhags, Autonomous Agencies, Judiciary, Rabdeys and Armed Forces. Significant irregularities noticed in these agencies in financial terms aggregated to Nu 133.591 million. This represents a reduction of 30.42% as compared to Nu. 192.002 million reported in the Annual Audit Report 2004.

The reduction in the amount of significant irregularities was due to extensive follow-up by the Royal Audit Authority, improved compliance by the agencies and resultant effective settlement of audit findings. The RAA also reports that the irregularities in procurement, advances and management of construction projects still featured as significant and prominent issues which require attention of the Government. The significant findings for the year 2005 are summarized in Table 3.2 and as briefly discussed hereunder:

Table 3.2 showing summary of AAR 2005 agency wise, category wise and the amount involved (Nu.in million)

| Code | Category of irregularities | MOA | MoFA | MoE | MoH | MoF | ML&HR | MW&HS | MI&C | MTI | MoHCA | Dzos | Geogs | AFs | Auto | Total |
|----------------------------|---|--------------|---------------|--------------|--------------|---------------|---------------|---------------|--------------|--------------|---------------|---------------|--------------|---------------|--------------|----------------|
| 1.2 | Malpractices and abuses | 0.423 | | | | 0.094 | | | | | | 1.183 | 0.373 | 0.309 | | 2.382 |
| 1.3 | Tax evasion | | | | | | | | | | | 0.226 | | | | 0.226 |
| 2.1 | Misappropriation | | | | | | | | 0.316 | | | 0.265 | | 0.061 | | 0.642 |
| 2.2 | Intentional double bookings/irregular & unauthorised payments | | | | | 0.036 | | | | | | | | | | 0.036 |
| 2.3 | Non/short accountal | | | | | | | 0.110 | | | | 0.102 | 0.587 | 0.043 | | 0.842 |
| 3.1 | Mismanagement of fund | 0.273 | | | | | | | | | | 0.080 | | | | 0.353 |
| 3.2 | Mismanagement of properties | | | | | | | 0.481 | | | | | | | | 0.481 |
| 3.4 | Mismanagement of revenues and taxes | 1.194 | | | | 0.036 | | | | | | 1.009 | 0.129 | | | 2.368 |
| 4.3 | Violation of accounting norms | | | | | 1.488 | | | | | | 1.619 | | 0.667 | | 3.774 |
| 4.4 | Violation of procurement norms | 0.186 | | 3.160 | | | 9.359 | 8.655 | | 0.331 | 1.443 | 8.476 | 1.875 | 1.866 | 0.254 | 35.605 |
| 4.5 | Violation of Acts, Directives & Policies | | | | | 0.270 | | | | | | 0.578 | | 1.455 | | 2.303 |
| 4.6 | Violation of others laws, rules and regulations | | | | | | | | | | | 0.874 | | | | 0.874 |
| 5.1 | Over/Inadmissible/Irregular/Double payments. | 0.197 | | | 0.067 | | 0.059 | 1.123 | | | 0.030 | 4.037 | 0.624 | 0.958 | 0.454 | 7.549 |
| 5.4 | Non/improper recording in books | | | | | | | | | | | | | 0.154 | | 0.154 |
| 5.5 | Non reconciliation/certification of balances | | | | | | | 0.182 | | | | | | | | 0.182 |
| 5.6 | Irregularities in advances | 2.129 | 3.264 | 2.912 | 3.477 | 11.788 | 2.222 | 4.255 | | | | 21.054 | 4.941 | 3.331 | 2.573 | 61.946 |
| 5.7 | Irregularities in recoveries | | | | | | | 3.714 | 4.720 | | | 0.125 | | | | 8.559 |
| 5.9 | Irregularities on property managements | | | | | | | | | | 0.086 | 0.350 | | | | 0.436 |
| 5.11 | Non/short deductions | | | 0.064 | | | | 0.275 | | | | 0.147 | | 3.318 | 0.235 | 4.039 |
| 5.12 | Shortfalls & uneconomical operations | | | | | | | 0.815 | | | | | | | | 0.815 |
| Total for year 2005 | | 4.402 | 3.264 | 6.136 | 3.544 | 13.712 | 11.640 | 19.610 | 5.036 | 0.331 | 1.559 | 40.125 | 8.529 | 12.162 | 3.516 | 133.566 |
| Total for year 2004 | | 7.122 | 29.226 | 0.400 | 4.880 | 2.878 | 4.170 | 36.504 | 0.927 | 0.094 | 29.226 | 52.747 | 5.417 | 25.793 | 2.692 | 192.002 |

3.1.1 Malpractices and abuses

Cases of malpractices and abuses included payments disbursed without execution of works, payment made for materials not received, acceptance of inferior goods, acceptance of substandard works, wages partially paid and payments made to the contractor in respect of works awarded on contract but actually carried out by the department. Such cases reported during the year aggregated to Nu.2.382 million.

The irregularities had occurred mainly due to absence of adequate internal controls and lack of proper monitoring and supervision mechanism. Proper system of check and balance and greater transparency in procurements would have minimized scope of such malpractices and abuses in these organizations.

3.1.2 Tax evasion

The RAA noted that the Municipal Office, Punakha had short collected property transfer tax amounting to Nu.0.226 million from the sale of building and land worth Nu. 5.230 million by way of under declaration of sale value. Under declaration of sale value of land and buildings being collusive in nature occurred in absence of proper mechanism to prevent such practices.

3.1.3 Misappropriation

The RAA detected misappropriation cases involving Nu.0.642 million in various government agencies viz., Kurichu Lower Secondary School, Mongar and Dagana Dzongkhags, MTC and Wing VI, RBA, W/phodrang, Department of Civil Aviation and the Department of National Properties. Inadequate internal controls particularly supervisory controls, segregation of duties, internal audits and surprise checks had facilitated misappropriation of funds by employees besides lack of appropriate actions by the administrative agencies concerned on the defaulters.

3.1.4 Non/short accountal

Rural taxes, insurance premium, goods and celebration money aggregating to Nu.0.842 million were short accounted. The agencies which were responsible for such irregularities were:

Table 3.3 showing the agency responsible for non/short accountal (Nu. in million)

| SI.No. | Agency Responsible | Amount | Remarks |
|--------------|--|--------------|--|
| 1 | Geogs | 0.587 | Non accountal/collection of rural taxes, insurance and other collections |
| 2 | Mechanical Division, Thimphu & Regional Workshop, Hesothangkha | 0.110 | Shortage of HSD and non accountable of bill |
| 3 | Dzongkhag Administration, Samtse | 0.102 | Procured goods not accounted |
| 4 | Wing XVI, RBA | 0.043 | Celebration money not accounted |
| Total | | 0.842 | |

Inadequate internal controls particularly supervisory and accounting controls as well as absence of proper instructions and accountability regarding rural collections at Geogs resulted in such lapses.

3.1.5 *Mismanagement of fund*

The RAA noted cases of mismanagement of government fund amounting to Nu.0.353 million. Nu.0.198 million of training funds of Sakten Wildlife management was found utilized by official from the HQ and funds for the purchase of two sets of computers as institutional support to NCD was utilized for the purchase of furniture. Lack of strict budgetary discipline led to use of funds for purposes other than specified in the approved budget.

3.1.6 *Mismanagement of revenue & taxes*

The RAA noted cases of non/short collections as well as short deposits of revenues and taxes amounting to Nu. 2.368 million. The Ministry of Agriculture and the Dzongkhags had the highest amounts of Nu. 1.194 million and Nu. 1.009 million respectively. Lack of effective follow up on the part of collecting agencies had resulted in short/non-collection of taxes, lease rents and sale proceeds of farm products. Further, inadequate supervisory controls had also contributed in short deposits of amounts collected by the Dzongkhags.

3.1.7 *Violation of accounting norms*

The RAA had observed cases of payments made against improper supporting documents. These included Nu.1.578 million paid on the basis of abstract of goods issued statement sent through fax, against hand receipts, adjustments of advances made based on mere simple statement instead of proper accounts and non receipt of acknowledgement of amount received from the payee. The

Dzongkhags and Ministry of Finance had topped the list with amounts of Nu.1.619 million and Nu.1.488 million respectively. These have occurred mainly due to non enforcement of minimum requirements for supporting expenditure and adjustment of advances as prescribed in the Financial and Accounting Manual 2001.

3.1.8 Violation of procurement norms

The RAA noted cases of the violation of procurement norms of the government by various agencies. Total amounts involved amounted to Nu.35.605 million as summarized below:

Table 3.4 showing the agency responsible violation of procurement norms (Nu. in million)

| Sl.No. | Agency Responsible | Amount |
|--------------|--------------------------------------|---------------|
| 1 | Ministry of Labour & Human Resources | 9.359 |
| 2 | Ministry of Works & Human Settlement | 8.655 |
| 3 | Dzongkhags | 8.476 |
| 4 | Ministry of Education | 3.160 |
| 5 | Others agencies | 5.955 |
| Total | | 35.605 |

Significant issues in the violation of procurement norms included:

- ✚ Purchase of equipment and extension kits by the Education Central Stores, Phuentsholing through collusive bidding amounting to Nu.3.160 million;
- ✚ Award of balance works of Zorig Chusum, Trashiyangtse and non-recovery of cost difference of Nu.9.086 million by the Ministry of Labour and Human Resources;
- ✚ Improper evaluation of bids, award of contract to the highest evaluated bidders, non- levy of liquidated damages and payment of inadmissible cost index amounting to Nu.8.655 million in the Ministry of Works and Human Settlement;
- ✚ Award of works by imposing arbitrary cut off point of awarding the work to the bidder whose rate was nearest to the Technical Sanction amount of Nu.7.859 million by the Dzongkhag Administration, Samtse; and
- ✚ Award of works to other than the lowest evaluated bidders, procurement without tender, award through lucky dips in geogs, procurement without requirement, non levy of liquidated damages, excessive procurement, grant of unjustified advances and purchase from the dependent of the civil servants who had authority over it.

Main reasons for the violation of procurement norms were lack of internal controls and proper system of check and balance in the organisations; lack of effective internal audit functions, lack of transparency in decisions, improper constitution of tender committees, collusive bidding through connivances; inactions on reported cases of violation of procurement norms and non-updation of procurement rules.

3.1.9 Violation of Acts, Directives & Polices

Three agencies listed in the table had not complied with the Acts, Directives and Polices issued by the Government. Total amount involved was Nu.2.303 million as summarized below:

Table 3.5 showing the agency violation of Acts, Directives & Polices (Nu. in million)

| SI.No. | Agency Responsible | Amount | Remarks |
|--------------|-----------------------------|--------------|---|
| 1 | RBP | 1.455 | Import of uniform without custom seal & vehicle number |
| 2 | Punakha & Tsirang Dzongkhag | 0.578 | Availability of timbers without permit and non collection of rents at enhanced rate |
| 3 | RRCO, Phuentsholing | 0.270 | Non enforcement of court verdict |
| Total | | 2.303 | |

Lack of effective enforcement of Government policies by the enforcement authorities resulted in such violations.

3.1.10 Inadmissible and Irregular Payments

Inadmissible and irregular payments amounted to Nu.7.549 million during the year 2005. Significant inadmissible payments pertained to the following agencies:

Table 3.6 showing the agency responsible over/inadmissible/irregular/double payments (Nu. in million)

| SI.No. | Agency Responsible | Amount | Remarks |
|--------------|--------------------|--------------|--|
| 1 | MW & HS | 1.123 | Non adjustment of advances and payment of cost index |
| 2 | Dzongkhags | 4.037 | Vacation salary, DSA payment, leave encashment, overtime allowances, LTC, hire charges, etc. |
| 3 | Armed Forces | 0.958 | Payment of one month DA on paid on transfer and TA/DA paid on tour to locations under the same area of responsibility etc. |
| Total | | 6.118 | |

The irregularities had occurred mainly due to absence of adequate internal controls and lack of proper monitoring and supervision mechanism. Proper system of check and balance and greater transparency in decision making process would have minimized scope of such irregularities.

3.1.11 Irregularities in advances

Advances aggregating to Nu. 61.946 million had been lying with the suppliers, contractors, third parties and officials pending adjustments and recoveries. Of the total advances of Nu. 61.946 million, 33.98% pertained to the Dzongkhags, 19.02% to the Ministry of Finance and 47% pertained to other agencies. The RAA noted that the advances had reduced to Nu.61.946 million in 2005 as against Nu 98.079 million reported in 2004. Irregularities in advances occurred mainly due to inadequate follow-up and non-enforcement of contract terms and payment of fresh advances to officials before the liquidation of old advances.

3.1.12 Irregularities in recoveries

The Ministry of Information and Communications and Ministry of Works & Human Settlement had not realized Nu.8.434 million for hire charges of machineries, annual renewal fees from the vehicle owners. Non-enforcement of Government directives on hiring of machineries, inadequate follow-up and lack of supervisory control resulted in non-realisation of such hire charges and fees.

3.1.13 Non /short deductions

Out of Nu.4.039 million reported, Nu.3.318 million accounted for non-deduction of health contribution by the Armed Forces and the balance amount were due to non deduction of Tax Deduction at Source (TDS). The irregularities occurred due to non-enforcement of government directives.

CORPORATIONS & FINANCIAL INSTITUTIONS

3.2 Summary of Audit Findings

The RAA issued a total of 22 audit reports of Corporations and the Financial Institutions in 2005. Significant irregularities were noticed in nine of these Corporations and Financial Institutions. Total irregularities in financial terms aggregated to Nu 125.788 million. Over 79% of total irregularities pertain to the advances sanctioned by the Financial Institutions which include cases of non performing loans and irregularities in granting of loans.

Since lending operations constitute main activities of the financial institutions, it is inevitable that there will be instances of non-performing loans accumulated over time. Nonetheless, there is need to ensure that such non performing loans are kept within the limits and such cases do not arise due to improper management decisions or other managerial inadequacies.

The significant findings for the year 2005 are summarized in Table 3.7 and briefly discussed hereunder:

Table 3.7 showing summary of AAR 2005 Corporation and Financial Institutes, category wise and amount involved (Nu. in million)

| Code No. | Category of irregularities | Kuensel | Bhutan Post | BAIL | PCAL | BPCL | BNBL | BDFC | BoBL | RICBL | Total |
|----------|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|----------------|
| 2.1 | Misappropriation | | | 2.123 | | | | | 0.396 | | 2.519 |
| 5.1 | Over/inadmissible/ Irregular/double payments | | 0.258 | | | | | | | | 0.258 |
| 5.6 | Irregularities in advances | 3.875 | 2.052 | | | | | | | | 5.927 |
| 5.7 | Irregularities in recoveries | | | | | | 0.450 | | | | 0.450 |
| 5.12 | Shortfalls and uneconomical operations | 4.391 | 0.067 | 1.730 | 0 | 0.124 | 7.037 | 71.94 | 14.679 | 16.098 | 116.066 |
| 5.14 | Pending disputes and court cases | | | | 0.568 | | | | | | 0.568 |
| | Total | 8.266 | 2.377 | 3.853 | 0.568 | 0.124 | 7.487 | 71.94 | 15.075 | 16.098 | 125.788 |

3.2.1 Misappropriation

The RAA noted cases of misappropriation involving Nu. 2.519 million in the Bhutan Agro Industries Ltd. and the Bank of Bhutan. Inadequate internal controls particularly lack of adequate supervisory controls, segregation of duties, internal audits and surprise checks had facilitated misappropriation of funds.

3.2.2 Mismanagement of fund

Cases of mismanagement of fund related to staff loan which had become over due in the Bhutan National Bank Ltd. involving 16 staff loan accounts with over due range of up to 18 months. Three Staff Loan Accounts had Over Due (OD) range of 13 to 18 months and eleven Staff Loan Accounts had Over Due (OD) range of 1 to 3 months. Thirty- two Staff Loan had either incomplete documents or the loan amounts exceeded the insured value of vehicles. Irregularities occurred due to inadequate follow up and lack of due diligence in granting staff loans.

3.2.3 Inadmissible and Irregular Payments

Inadmissible and irregular payments noted amounted to Nu.0.258 million in respect of procurements made by the Bhutan Postal Corporation Ltd. The Corporation had made payments to contractor and supplier irregularly in excess of value of actual work done and at higher rates. The irregularities had occurred mainly due to absence of adequate internal controls particularly supervisory and accounting controls.

3.2.4 Irregularities in advances

Advances aggregating to Nu.5.927 million had been lying with the suppliers, contractors, third parties and officials pending adjustments and recoveries. Of the total advances of Nu. 5.927 million, 3.875 million pertained to Kuensel Corporation and balance of Nu. 2.052 million to Bhutan Postal Corporation Ltd. While imprest advance paid by the Bhutan Postal Corporation were being adjusted from time to time, there were bad cases of advances paid to suppliers. Accumulation of advances mainly occurred due to inadequate follow-up and lack of proper mechanism put in place to ascertain the credentials/credit worthiness of customers and suppliers.

3.2.5 Shortfalls and uneconomical operations

Shortfalls and uneconomical operations related to operating loss sustained in respect of City Bus Operation of Bhutan Postal Corporation, poor extraction percentage of juice, over due debtors balances, non performing loan balances of the Financial Institutions and deduction of Tax at Source in India on interest income. Of the total amounts of shortfalls and uneconomical operations of Nu. 116.066 million, Nu. 71.940 million pertained to the BDFC. Inadequate follow up of loans, improper appraisals of loan applications, inadequate documentations, lack of proper credit control procedures etc. are some of the main reasons attributable to the reported cases of shortfalls and uneconomical operations.

NON GOVERNMENT ORGANIZATIONS

3.3 Summary of Audit Findings

The RAA issued a total of 9 audit reports of the Non- Government Organizations during the year 2005. Total irregularities observed in financial terms aggregated to Nu 4.926 million. Non-maintenance of records, violation of procurement norms and misappropriation were the major irregularities noted in the NGOs.

The significant findings for the year 2005 are summarized in Table 3.8 and briefly discussed hereunder:

Table 3.8 showing summary of AAR 2005 NGOs, category wise and amount involved (Nu. in million)

| Code | Category of irregularities | CAB | RSPCA | BCCI | NWAB | Total |
|------|--|--------------|--------------|--------------|--------------|--------------|
| 2.1 | Misappropriation | 0.830 | | | | 0.830 |
| 4.3 | Violation of accounting norms | | | | 0.074 | 0.074 |
| 4.4 | Violation of procurement norms | | 0.303 | 0.132 | 1.014 | 1.449 |
| 5.1 | Over/Inadmissible/Irregular/Dou ble payments. | | | | 0.170 | 0.17 |
| 5.2 | Non maintenance of records | | 0.881 | | 1.338 | 2.219 |
| 5.3 | Improper maintenance of records | | | | | |
| 5.6 | Irregularities in advances | | | 0.157 | | 0.157 |
| 5.11 | Non/short deductions | | | | 0.027 | 0.027 |
| 5.14 | Pending disputes and court cases | | | | | |
| | Total | 0.830 | 1.184 | 0.289 | 2.623 | 4.926 |

3.3.1 Misappropriation

The RAA noted cases of misuse of cash and misuse of position involving Nu. 0.830 million in the Construction Association of Bhutan. The General Secretary failed to provide proper accounts in respect of the Imprest Account maintained with the Bank of Bhutan, Thimphu which was closed on 12th January 2005 with book balance of Nu.0.680 million. Neither the cash was available for physical verification nor were any documents made available to vouch for any expenditure incurred. Further a sum of Nu. 0.150 million was paid towards the consultancy fee to M/S GDL, the proprietor of which was the General Secretary of the Association. Detailed Terms of Reference and other requisite documentations were not made available.

The irregularities had occurred due to absence of proper system of check and balance. Adequate internal controls particularly supervisory controls would have acted as deterrent against perpetration of such irregularities.

3.3.2 *Violation of Procurement Norms*

The RAA noted instances of violation of procurement norms involving a total amount of Nu. 1.449 million in three NGOs. Of the total amount, BIOMASS Briquetting Project of the NWAB alone had cases of violation of procurement norms involving Nu. 1.014 million.

Lack of proper procurement system had resulted in non-adherence of standard procurement norms.

3.3.3 *Non/Improper maintenance of records*

Cases of non maintenance and improper maintenance of records pertained to the BIOMASS Briquetting Project of the NWAB and the RSPCA. RSPCA did not have proper records of money receipts for the donations collected during the initial phase of its establishment, the BIOMASS Briquetting Project of the NWAB did not maintain proper accounts of project funds and revenue generated from the Plant.

The irregularities had occurred mainly due to lack of accounting staff and absence of adequate check and balance mechanism.

3.4 Recommendations:

Over the years there have been improvements in the financial management system of the Royal Government particularly in record keepings, internal controls and compliances in the operations and management. The Royal Government is particularly committed towards greater transparency, accountability, efficiency and professionalism in the operations and use of public resources. One of the most significant achievements in terms of strengthening internal controls has been the introduction of Internal Auditing Units in the Ministries, Corporations and Financial Institutions. As the Government puts more efforts in establishing proper system of check and balance, fraud, corruption and errors are expected to be minimized, public operations would be handled in a more efficient, orderly and effective manner, reliability of accounting records would be secured besides obtaining value for money in the utilization of public resources.

Notwithstanding the achievements made so far including measures initiated to combat and eliminate corruption, based on the review of accounts and operations of various agencies the RAA is of the opinion that the following issues would need to be addressed in ensuring greater accountability, transparency and efficiency in the use of public resources and achieving the intended goals through an improved system of check and balance.

3.4.1 Strengthening internal controls and internal auditing function

An adequate system of internal controls prevents errors and frauds, ensures carrying out activities in an efficient and orderly manner, ensures compliance to laws, rules & regulations and special directives, secures accuracy and reliability of accounts and helps achieve the goals set by the organizations. Therefore, it is imperative that proper systems of check and balance are established in various agencies.

Amongst others, internal auditing is one of the most significant elements of internal controls. It would help the organizations to continuously review the internal control systems and report on the accounting errors, deficiencies in record maintenance, inefficiencies in the use of resources and other malpractices. An efficient internal auditing system would also provide deterrence against fraud and corruption and assist in instituting timely and effective remedial measures. The RAA observed that the internal auditing functions in the government would need to be reorganized and strengthened, in particular:

- ✚ Adequacy of internal auditors should be ascertained having regard to volume of operations of each Ministry and agencies. The present strength of a single internal auditor or a team of two would hardly be adequate to systematically review the internal controls, accounts and operations of the Ministry and dependent departments/units.
- ✚ Appropriate internal auditing guidelines, manuals and standards should be developed to enable the Internal Auditors perform their functions efficiently and effectively and achieve the purpose for which they have been established.
- ✚ There should be proper professional development for the Internal Auditors.

3.4.2 Need to up date the Financial Rules and create greater awareness.

Although the Government has issued the updated Financial Rules and Regulations 2001, there is a need to constantly review the applicability of some of the financial rules and regulations and update them regularly to render them more responsive and relevant in the changing times. A proper and effective feed back mechanism may be instituted to evaluate the relevance and effectiveness of financial rules. Procurement Manual is one of such important rules needed to be reviewed and updated periodically.

Besides, awareness programmes on the Financial Rules and Regulations particularly at the geog levels would help understand accountability issues at grass

root levels as audit reports of geogs brought out several cases of improprieties and non-compliances.

3.4.3 Need for more detailed Planning

Irregularities, inefficiencies and wastages had also occurred due to implementation of activities including procurements and constructions without adequate planning. Materials and equipment were being bought without knowing and ascertaining the actual need and specifications of items required. Consequently, too expensive or too cheap items and at times in excessive quantity were bought resulting in wastages and blockages. Constructions were either differed or abandoned as there was change in site selection or funds were inadequate. The RAA recommends that organizations must be required to carry out adequate planning and designing before executing the works to avoid inefficiencies and wastages.

3.4.4 Inadequate supervision in construction works

Many instances of irregularities in constructions works were also due to insufficient engineering staff available with the procuring agencies eg. Dzongkhags. In some cases works were either not supervised at all or adequate supervision were lacking. Over payments, substandard works, impropriety of transactions etc. executed were partly attributable to inadequate supervision of works. Too many activities planned for implementation with limited technical back up had also resulted in lapses and wastages. Since all works must be subject to adequate supervision particularly for quality assurances and cost controls, it is recommended that the Government require the implementing agency to assess and ensure the availability of the technical staff to carry out such implementations before according project approvals and release of funds.

3.4.5 Need for timely actions on the reported cases of serious nature

There has been an increased compliance by the Ministries and Agencies on the recovery of amounts misappropriated or embezzled by the employees. However Ministries and organizations must initiate appropriate administrative or other actions as per the rules against perpetrators of fraud and misappropriations in future.