

FINANCIAL INSTITUTIONS

The Royal Audit Authority during the year had issued 15 inspections reports in respect of the Financial Institutions and reported total irregularities of Nu.49.342 million. The details of the findings were as below:

6.1 Bhutan Development Finance Corporation Ltd.

The Royal Audit Authority during the year had issued six Inspection Reports in respect of the Bhutan Development Finance Corporation Ltd. (BDFCL) which included the head office, Thimphu and branch offices of Trashigang, Trashiyangtse, Samdrup Jongkhar, Pemagatshel and Punakha. The total unresolved significant irregularities aggregated to Nu.2.379 million as summarized as below:

Table showing summary of observation with category code and amount involved (Nu. in million)

Sl. No.	Observations in brief	Amount	Category Code
1	Fraud, Corruption and Embezzlement	0.858	1 & 2
2	Shortfalls, lapses and deficiencies	1.521	5
	Total	2.379	

1. Misappropriation of Credit Fund – Nu.0.858 million (Para No.1)

As observed from the internal audit report No.BDFCL/IA/33/2005/3017 dated 20.09.05 Tshering Lhendup (DCA), Sonam Dhendup (DCO), Sangay Wangmo (DCA) and Karma Jigme (B) (TO) of BDFCL Branch Office, Trashiyangtse had misappropriated the credit fund amounting to Nu. 0.858 million out of which Nu. 0.019 million was recovered leaving a balance of Nu. 0.839 million which is recoverable from Tshering Lhendup.

The Management stated that the case is under appeal in the High Court.

Who are accountable?

- a) Sangay Wangmo (DCA);
- b) Karma Jigme (B) (TO);
- c) Tshering Lhendup, Ex-DCA, and
- d) Sonam Dhendup, Branch Manager

2. Shortfalls, lapses and deficiencies – Nu. 1.521 million

The Bhutan Development Finance Corporation Ltd., had cases of shortfalls, lapses and deficiencies amounting to Nu.1.521 millions as summarized in the table below:

Table showing summary of shortfalls, lapses and deficiencies (Nu. in million)

Sl. No	Agency	Observations in brief	Amount	Para No.	Who are accountable?
2.1	BDFCL, HQ	Non-renewal and non-availability of Insurance Policy	-	4	Ugyen Dhendup, Gen. Manager
2.2	BDFCL, HQ	Irregular sanction of Loan	0.441	2	Namgay Dorji, Legal Manager
2.3	BDFCL, Punakha	Loans not recovered for long period of time	0.119	1	Yeshey Samdrup, Branch Manager
2.4	BDFCL, Punakha	Loans installments not recovered in time	0.961	2	-do-
	Total		1.521		

The cases are explained hereunder:

1.1 Non-renewal and non-availability of Insurance Policy

The collaterals for some of the loans sanctioned were either not insured or expired. The Management stated that despite making concerted efforts, only two clients had submitted the insurance paper and rest have been served the final reminder.

2.2 Irregular sanction of loan – Nu. 0.441 million

The BDFCL management had sanctioned a loan of Nu.0.500 million for expansion of a shop and restaurant cum bar. The loan was secured by two houses located at Bjezam, Trongsa. However, the securities pledged against the above loan were in joint ownership with the husband of the borrower. The same securities were pledged with the BNBL also for loan availed by the husband with overdue loan of 37 months with a total loan outstanding of Nu.0.423 million.

Despite the reminder letters served by the BDFCL management the client had failed to regularize her loan account. The loan balance as of 24.05.2006 stood at Nu.0.441 million.

2.3 Loans not recovered for long period of time – Nu. 0.119 million

BDFCL Branch Office, Punakha had not recovered the loan outstanding amounting to Nu.0.110 million from various clients. Further, Small Individual Loan (SIL) of Nu.0.009 million disbursed to a client during the year 1991 and 1992 were not recovered so far.

2.4 Loans installments not recovered in time – Nu. 0.961 million

BDFCL Branch Office, Punakha had 332 clients who didn't repay the installments in time and the cases had been forwarded to the court for realization. Against the total recoverable loan of Nu.1.356 million, Nu. 0.395 million were recovered leaving a balance of Nu.0.961 million.

6.2 Bhutan National Bank Ltd. (BNBL)

The Royal Audit Authority during the year had issued two Inspection Reports in respect of the Bhutan National Bank Ltd. (BNBL) which included the head office, Thimphu and its branch office, Trashigang. The total unresolved significant irregularities aggregated to Nu.1.860 million as summarized below:

Table showing summary of observation with category code and amount involved (Nu. in million)

Sl. No.	Observation in brief	Amount	Category code
1	Violation of Laws, Rules and Regulations	1.160	4
2	Shortfall, lapses and deficiencies	0.700	5
	Total	1.860	

1. Violation of Acts – Nu.1.160 million (Para No.1.1)

Loans aggregating to Nu.1.160 million were sanctioned against the security of its own share, in violation to Article 46 of the Financial Institutions Act 1992 and Section 29(2) of the Companies Act of the Kingdom of Bhutan 2000.

The Management reported that BNBL has since stopped financing of such nature.

Who are accountable?

- a) Sonam Penjor, General Manager, and
- b) Credit Committee.

2. Irregular sanctioning of industrial loan – Nu.0.700 million (Para No. 1.7)

The Management had failed to carry out due diligence in the process of sanctioning and management of industrial loan of Nu.0.700 million sanctioned for Biomass Waste Briquette Unit to a private party. Lapses included non-submission of trade license, submission of project evaluation report pertaining to Biomass Waste Briquette project of the NWAB, acceptance of husband of the borrower as witness to loan agreement and mortgage deed, lack of evidence of having established the Briquette Unit even after lapse of one year and production of BST exemption certificate pertaining to the exemption granted to UNDP Wood Conservation Project.

Who are accountable?

- a) Dorji Cheten, Appraisal Officer, and
- b) Sonam Penjor, General Manager.

6.3 Bank of Bhutan Ltd. (BOBL)

The Royal Audit Authority during the year had issued four Inspection Reports in respect of the Bank of Bhutan Ltd. (BOBL) which included the head office, P/ling and the branch offices of Gelephu, Wangdue and Pemagatshel. The total unresolved significant irregularities aggregated to Nu. 25.399 million as summarized as below:

Table showing summary of observation with category code and amount involved (Nu. in million)

Sl. No.	Observation in brief	Amount	Category code
1	Fraud, Corruption & Embezzlement	0.180	1 & 2
2	Violation of Laws, Rules and Regulations	8.000	4
3	Shortfalls, lapses and deficiencies	17.219	5
	Total	25.399	

1. Misappropriation of private money - Nu.0.180 million (Para 1.2)

An ex-employee of Bank of Bhutan Ltd., Wangdue had embezzled Nu.0.180 million from two Savings Accounts (SB A/C No. 1094 and SB A/C No. 1013). As per the verdict passed by the Royal Court of Justice, Wangdue, the incumbent was instructed to deposit the amounts at a monthly installment of Nu. 3,000.00.

Who is accountable?

Wangdi Tshering, Senior Manager

2. Procurement of stationery without quotation – Nu.8.000 million (Para 3.1)

The Bank of Bhutan Ltd had procured stationery worth Nu.8.000 million without inviting open tenders. It was noted that in all cases, the rates were invited through limited enquiry where only a few suppliers were asked to submit their rates.

The BoBL had reported that since 2006, the procurement of stationery are made as per the RGoB Procurement Manual.

Who are accountable?

- a) Tshering Dorji, MD;
- b) Pasang Tshering, DMD;
- c) G.P. Sharma, DMD, and
- d) Bimala Gurung, Company Secretary

3. Shortfalls, lapses and deficiencies – Nu. 17.219 million

The BOBL, Hq. had cases of shortfalls, lapses and deficiencies amounting to Nu.17.219 million as summarized in the table below:

Table showing summary of shortfall, lapses and deficiencies (Nu. in million)

Sl. No.	Observations in brief	Amount	Para No.	Who are accountable?
3.1	Irregular sanctioning of housing loan	3.813	1.4	Karma Dema, Credit Officer, CID, & B.B Chawan, Dy. Manager, CID.
3.2	Irregular sanctioning of housing loan	3.565	1.11	T.S Suresh Babu, Credit Officer, and Ugyen Wangdi, Credit Head.
3.3	Inadequate documentation and other irregularities	5.113	1.5	Karma Dema, Credit Officer, CID, & B.B Chawan, Dy. Manager, CID.
3.4	Defaulted loan account	2.500	1.9	K.R Gurung, Credit Officer, CID, and Ugyen Wangdi, Credit Head, CID.
3.5	Sanctioning of loan above 75% for purchase of second hand vehicles	0.777	1.14	Ugyen Wangdi, Acting General Manager and G.P Sharma, Dy. Managing Director, Credit Operation.
3.6	Unjustified time extension and exemption of penalty	1.137	2.1	Tshering Dorji, Managing Director, Pasang Tshering, DMD, G.P Sharma, DMD, Bimla Gurung, Company Secretary, Janga Rana, AO, Sonam Gyeltshen, Head IT, and Ugyen Wangdi, Credit Head.
3.7	Inadmissible payment of DSA	0.314	3.2	Janga Rana, AO, P. Murugan, OG-I and Pasang Tshering, Dy. Managing Director.
	Total	17.219		

The cases are explained hereunder:

3.1 Irregular housing loan – Nu.3.813 million

A housing loan of Nu.1.500 million was sanctioned to a client facilitating transfer of loan Account with the BNBL to the BOBL. The said loan was sanctioned without depreciating the building pledged as collateral security while deriving the loan permissible limit. Further, an additional MTL loan of Nu.1.000 million was sanctioned for the renovation of the above building. However, the loan amount was utilized to regularize the term expired loan Account of the husband of the client instead of renovating the house for which the loan was sanctioned. Against the same collateral, there were four loan accounts with total loan balance of Nu. 4.758 million.

The BoBL had reported that only one account was irregular with Nu. 0.058 million and total outstanding balance had reduced to Nu.3.813 million.

3.2 Irregular sanctioning of housing loan – Nu.3.565 million

A housing loan of Nu.3.300 million and personal loan of Nu.2.200 million sanctioned to a client being 100% of the value of the collateral of Nu. 5.500 million instead of 60%. Moreover, the value of the land located at Paro was considered at Nu. 1,300.00 per sqft which appeared very high. Documents pertaining to extension of mortgage security to other properties of the client stated to be valued at Nu.11.696 million were not produced.

The BoBL had reported that the total outstanding balance had reduced to Nu. 3.565 million from Nu. 5.500 million.

3.3 Inadequate documentation and other irregularities – Nu. 5.113 million

The BOBL had sanctioned a loan of Nu.5.500 million to a client for the purpose of purchasing a plot of Land measuring 1536 sqft along with a 5 storied building on Plot # 83 at Lower Market, P/Ling, without obtaining the required documents viz. the ownership certificate and the mortgage deeds. The sum insured was to the extent of the loan amount granted indicating that the value of the building was Nu.5.500 million only. Therefore, the 40% equity contribution by the borrower was not contributed and thus the management had sanctioned 100% of the loan amount.

As reported that present position of the loan amount is Nu.5.113 million.

3.4 Defaulted loan account – Nu.2.500 million

The management had failed to carry out due diligence in the process of sanctioning of miscellaneous overdraft limit of Nu.2.500 million to a Construction Company who was a defaulting client of another Financial Institution without due regard for prudence and exposed the BNBL to risks. The case was referred to the Court and the borrower had failed to deposit the requisite installments as determined by the Court.

3.5 Sanctioning of loan above 75% – Nu. 0.777 million

Vehicle loans were sanctioned based on the Workshop's valuation resulting into over financing of the vehicle over the insured value. In most cases, the sum insured were much lower than the workshops' valuation. Sanctioning of the loan based on the valuation of the Workshops had resulted in sanctioning loans in excess of the permissible limit of 75% as per the RMA Prudential Guidelines.

The Management reported that out of four cases, one case was closed and rests are regular.

3.6 Unjustified time extension and exemption of penalty – Nu.1.137 million

The BOBL management had granted unjustified time extension to the Contractor for the construction of BOBL, Head Office owing to the climatic conditions. Consideration was given for the delay caused by the rain during monsoon season from 1/2 hour in a day to full day. The number of days considered due to rainfall had been calculated as 96.31 days and the financial implication on account of the liquidated damages amounted to Nu.1.137 million.

3.7 Inadmissible payment of DSA – Nu.0.314 million

Inadmissible DSA amounting to Nu.0.314 million were paid to the officials and staffs of the BOBL which were in violation to the applicable norms.

Adequate actions on the above observations were lacking.

6.4 Royal Insurance Corporation of Bhutan (RICBL)

The Royal Audit Authority during the year had issued three Inspection Reports in respect of the Royal Insurance Corporation of Bhutan Ltd. (RICBL) which included the Head Office, P/ling and the Branch Offices, Gelephu and Trashigang. The total unresolved significant irregularities aggregated to Nu.19.704 million as summarized below:

Table showing summary of observation with category code and amount involved (Nu. in million)

Sl. No.	Observation in brief	Amount	Category code
1	Shortfall, lapses and deficiencies	19.704	5
	Total	19.704	

1. Shortfall, lapses and deficiencies – Nu.19.704 million

The RICBL, HQ had cases of shortfall, lapses and deficiencies amounting to Nu.19.704 million as summarized below:

Table showing summary of shortfall, lapses and deficiencies (Nu. in million)

Sl. No.	Observations in brief	Amount	Para No.	Who are accountable?
1.1	Irregular housing loan	8.305	1.2	Kinzang Dorji, Manager, Dhendup Norbu, Manager, and Surajit Dutta, GM.
1.2	Irregular housing loan	6.081	1.8	Kinzang Dorji, Manager, Dhendup Norbu, Manager, and Surajit Dutta, GM.
1.3	Irregular housing loan	5.000	1.9	Kinzang Dorji, Manager, Dhendup Norbu, Manager, and Surajit Dutta, GM.
1.4	Defaulted loan & excess amount of loan sanctioned	0.318	1.7	Kinzang Dorji, Manager, Dhendup Norbu, Manager, and Surajit Dutta, GM.
	Total	19.704		

The cases are explained hereunder:

1.1 Irregular housing loan - Nu.8.305 million

A housing loan of Nu.8.500 million was sanctioned without obtaining the required documents viz., ownership certificate of land, adequacy of insurance coverage and against the initial loan outstanding of Nu.8.567 million, a sum of Nu.0.262 million were recovered leaving a balance of Nu. 8.305 million as on 31/12/2006.

1.2 Irregular housing loan - Nu. 6.081 million

The management had failed to carry out due diligence in the process of sanctioning of housing loan of Nu.5.000 million for purchasing and renovation of 3 storied building. The necessary documents viz., ownership certificate, comprehensive insurance and sale deed were not available on record for verification. The client had failed to deposit even a single installment. The total loan outstanding amounted to Nu.6.081 million as against the sanctioned loan amount of Nu.5.000 million.

1.3 Irregular & over sanctioning of housing loan – Nu. 5.000 million

The RICBL had sanctioned a housing loan of Nu.5.000 million to a client for purchasing a 4 storied building. However, this loan was overexposed as the insurance coverage of collateral was Nu. 3.811 million indicating that building was valued at Nu.3.811 million.

1.4 Defaulted Loan & excess amount of loan sanctioned – Nu.0.318 million

The management had failed to carry out due diligence in the process of sanctioning of a housing loan of Nu.0.640 million. There was huge variation in the valuation of the flat, which had ultimately resulted in excess sanctioning of loan to the tune of Nu.0.318 million.