

RECOMMENDATIONS

With a view to improve the system of check and balance and promote greater accountability amongst decision makers and executing agencies for their decisions, actions and ensuring economic, efficient and effective use of public resources in compliance to applicable laws, rules and regulations, the Royal Audit Authority having regard to the nature of shortcomings and lapses observed, recommends the following:

5.1 Internal control system in the organizations needs to be improved

Large incidences of irregularities involving over, excess and irregular payments, embezzlements, fraud and corruption, violations of laws, rules and regulations and mismanagement of funds and properties indicate lack of adequate internal controls in many organizations. It is therefore inevitable that the system of check and balance in the ministries and government organizations are strengthened. These include organizational, managerial and supervisory controls, accounting and financial controls, physical controls, segregation of duties and transparency in decision making process. Tender Committees also need to be made more accountable and effective. Besides it is imperative to enhance the capability of the internal audits and institute the rotation of duties and ensure periodic transfer of employees in certain positions.

Finance and Accounts personnel including controlling officers and supervisors should play effective role in improving the system of check and balance and preventing fraud and corruption. Record keepings should be improved to promote accountability and timely and accurate reporting.

Adequately trained accounts personnel should be posted to Gewogs to facilitate proper record keepings.

There were differences in the financial statements generated by Budget and Accounting System (BAS) and those based on records maintained manually. BAS needs to be improved to render fully reliable and dependable system.

5.2 Internal Audit System must get due prominence

Presently internal auditing is confined to the ministries and manned only with limited staff. Given the importance of the internal audit function as an aid to the management in continuously monitoring and polishing the operations of the internal controls in the organizations, preventing and detecting errors, frauds and other lapses it is necessary that the internal audit divisions are adequately manned and strengthened. The present strength of one to three internal auditors in each Ministry is too restrictive for them to carry out an effective internal audit function. As a

strong and most important element of internal control system, it is imperative that internal audit divisions are manned by adequate numbers of appropriately qualified and experienced internal auditors.

The internal auditing is an integral part of the management and not an independent external oversight function. However, it may be necessary to issue appropriate standards, guidelines and manuals for the internal auditors for carrying out their works effectively, competently and in a professional manner.

5.3 Timely release of budgets to be ensured

The RAA had observed many instances of expenditure booked towards close of the year without actually carrying out the activities against fictitious bills. Usual explanations were that releases were received late and to avoid lapse of funds expenditures were booked with the intention to implement the activities in the following year. Such a practice of booking expenditure against fictitious bills constitutes violation of budgetary and accounting norms and is fraught with the risk of possible siphoning of funds.

Besides ensuring timely release of funds the Ministry of Finance may consider issuing strict instructions against such practices. The Ministry of Finance may also consider reviewing the budgetary process and revitalizing the funds in cases where activities cannot be implemented due to late receipts of funds or other exigencies recognizing the timing of budget preparation when such activities cannot be anticipated in advance for incorporation in the subsequent year's budget.

5.4 Rules and Regulations particularly procurement rules should be reviewed and updated periodically to render them relevant and effective

Effectiveness of financial rules and regulations also depends on their relevance and practicability. There is a need to establish a mechanism to ensure timely review and revision of the financial rules and regulations particularly procurement rules. The adequacy of existing financial reporting system and government accounting system in general may be reviewed and modified. Basis of accounting may need to be modified to incorporate features for comprehensive reporting of property, other inventory items, receivables, liabilities etc.

5.5 Financial Institutions must ensure proper documentations prior to release of loans

The RAA observed many instances of inadequacies in the documentations of advances including non-compliance of requisite procedures while sanctioning loans and advances by the financial institutions. Despite repeatedly pointing out such lapses by the RAA in the past, procedures

were not complied with. Since lack of documents may give rise to complications in future in the event of defaults by clients, the financial institutions are advised to ensure that all requisite formalities and documentations are strictly complied with.

5.6 Timely actions on cases of serious nature

While there have been improved compliances on the audit reports over the years, cases of serious nature reported need more attention. Timely actions on reported cases involving fraud, embezzlement of funds and other lapses of serious nature will act as deterrent against reoccurrence of such cases. Administrative authorities at times fail to initiate timely and adequate actions. Instead cases are closed with recoveries of amounts embezzled that too in some instances with the flexibility to settle the amounts on installment basis. Save in some cases i.e., when larger amounts involved, no legal or administrative actions are taken. The facility to repay the amounts on installments would mean that services of perpetrators of fraud are further secured thereby exposing the organization to future risks and creating environment conducive to commit similar offences of serious nature.

Irrespective of whether the cases are detected internally by the organizations themselves or others including the RAA, it is imperative that appropriate actions are initiated for offences of criminal nature if intention to defraud or acts of willful deceits are prima-facie established.

5.7 Due diligence to be exercised over sanctioning advances

In general, follow-up mechanism over the advances was found to be lacking. While there have been some improvements in the recent years in terms of record keeping, timely follow up of advances is still far from satisfactory. Accumulation of huge amounts of unadjusted advances including overdue balances depicts lack of effective follow up mechanism and payment of excessive and unauthorized advances. Records of Corporations reflect government agencies in their sundry debtors list whereas these are either not reflected at all by the Government agencies or shown as advances. The system of confirmation of balances, reconciliation of accounts between the agencies and proper adjustments of amounts upon receipts of goods and services are lacking in most cases. With the passage of time and transfer of dealing officials and absence of proper documentations, it would be increasingly difficult to adjust the outstanding balances. There is a need to exercising due diligence in sanctioning advances and ensuring timely liquidation through adequate follow-up of unsettled advances to avoid accumulation of unadjusted advances.

5.8 *Disparities in DSA payments, payment of residential telephone charges and Taxi fares in corporations to be reviewed*

There were disparities among various Government owned or controlled corporations regarding the payments of DSA during medical treatment in India, payment of residential telephone bills and taxi fare claims. In some corporations DSA at full rates were paid to officials and their family members during medical treatment. There were also some cases where ceilings were found fixed for regulating residential telephone bills, in other cases entire amounts of the bills were directly paid by the Corporations without segregating officials and private calls. Since DSA payments during travel abroad are regulated as per RGoB norms, taxi hire charges were also found paid in some corporations which were not as per the RGoB norms.

The Government may review the appropriateness and admissibility of the above payments in the Government Corporations. The anomaly in payment of DSA during medical treatment between Government Corporations and government agencies may also be reviewed.