

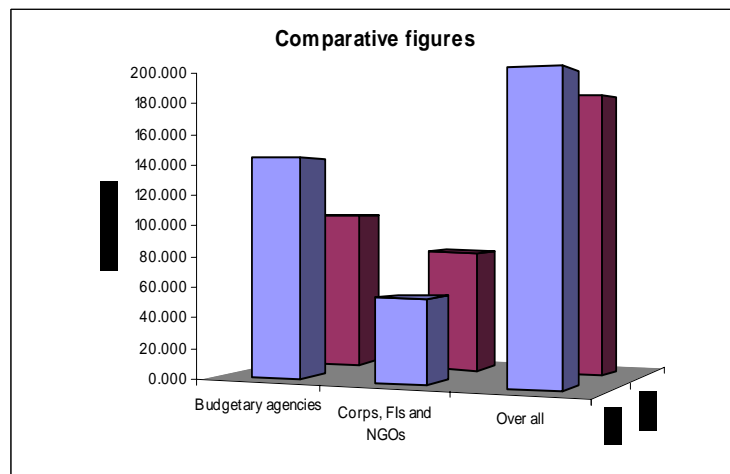
# 4

## SUMMARY OF AUDIT FINDINGS

The audit findings and recommendations from the Audit Reports issued from 1<sup>st</sup> January to 31<sup>st</sup> December constitute the single most significant source of input to the Annual Audit Reports (AAR). While the recommendations were gathered by

analysing all the issues raised including the observations made during the process of auditing, the audit findings consist mainly of the unresolved issues of significance.

During the year, the Royal Audit Authority issued 500 Audit Reports to the Government and its instrumentalities, corporations, financial institutions and NGOs. The overall significant unresolved irregularities, from these reports, incorporated in AAR 2007 amounted to Nu. 199.080



million as compared to Nu. 186.775 million in AAR 2006 as presented in the graph above. The increase of 6.58% is solely from the increase in unresolved irregularities in the budgetary agencies

due to the focussed auditing approach introduced by the RAA in 2007. The overall unresolved significant irregularities are presented in the table below:

Sl. No.	Category of agencies	Nu. in million 2007	Nu. in million 2006	Nu. in million Difference
1	Government & its instrumentalities	144.900	105.932	38.968
2	Corporations, Financial Institutions and NGOs	54.180	80.843	(26.663)
	<b>Total</b>	<b>199.080</b>	<b>186.775</b>	<b>12.305</b>

The overall unresolved significant irregularities have been bifurcated into Budgetary Agencies and Corporations,

Financial Institutions & NGOs and accordingly explained as hereunder:

## 4.1 Budgetary Agencies

Budgetary agencies consist of Ministries & Departments, Dzongkhags, Gewogs and Autonomous Bodies. During the year, the RAA issued 338 audit reports under the

budgetary agencies. The overall status of the total audit observations issued to budgetary agencies during the year stands as follows:

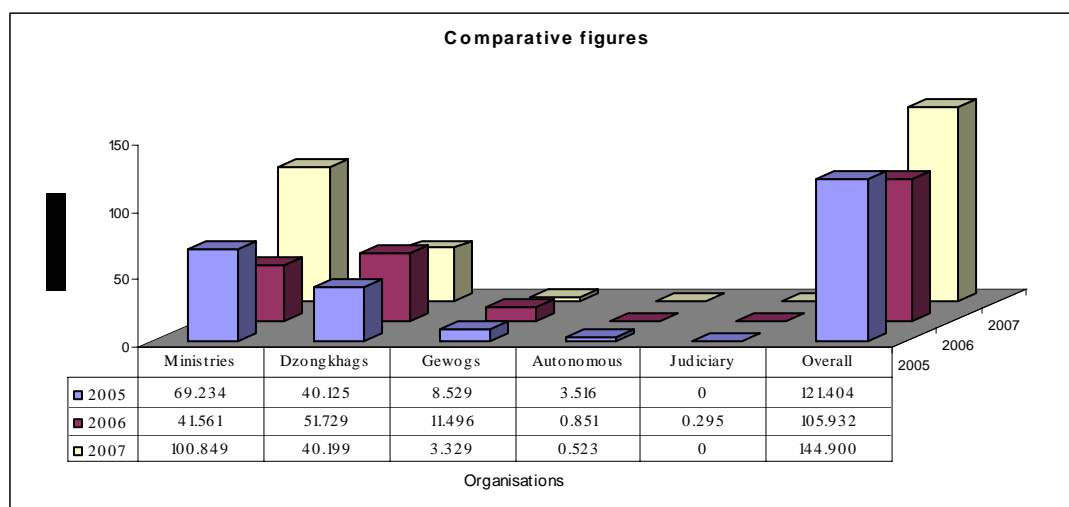
Particulars	Number	Monetary Involvement (Nu. Millions)
Observations Issued	2051	1,399.852
Observations Settled	1406	1,102.258
Balance Observations	645	297.594

*Summary of category of irregularities reported in ARR 2007 under budgetary Agencies:*

1. *Fraud, Corruption & Embezzlement – Nu.39.280 million;*
2. *Mismanagement – Nu.23.173 million;*
3. *Violation of Laws, Rules and Regulations – Nu.14.656 million;*
4. *Shortfalls, Lapses and Deficiencies – Nu.67.791 million*

**Total Nu. 144.900 million**

As against the unresolved irregularities of Nu.297.594 million, the total significant irregularities reported in the AAR 2007 amounted to Nu.144.900 million. The figure as compared to Nu.105.932 million in 2006 and Nu.121.404 million in 2005 had increased by 36.78% and 19.35% respectively, as illustrated below:



*The summary of the findings are presented in table 4.1.*

While there had been improved compliances by the agencies both in settling the audit observations and in complying with the general rules and

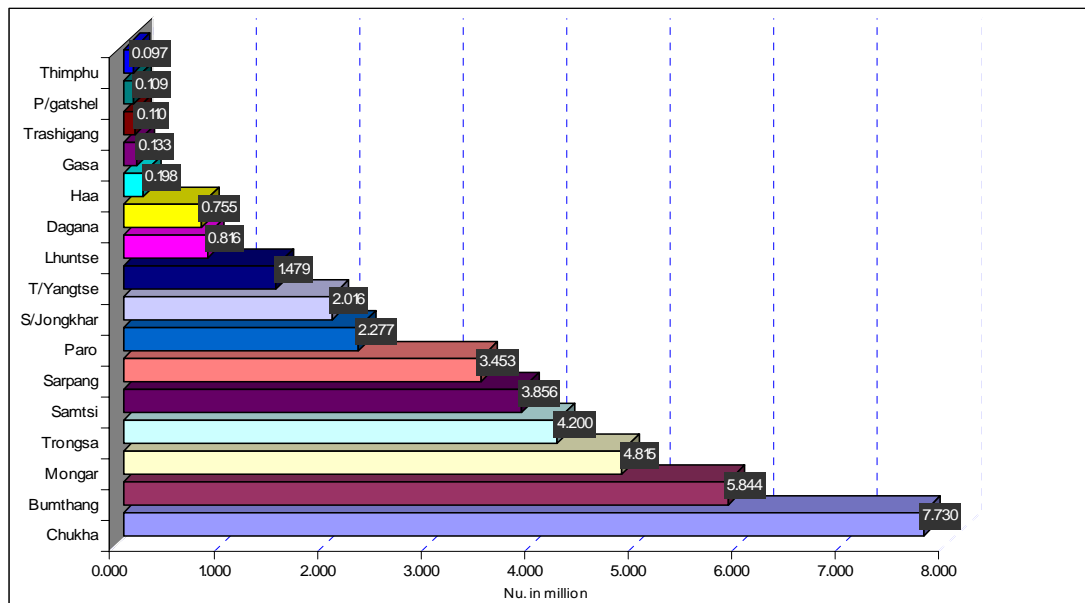
regulations, the overall increase in the irregularities could be mainly attributed to the shift in the auditing approach to a more focussed auditing in 2007.

#### 4.1.1 MoWHS & Dzongkhags record the highest irregularities

The Ministry of Works & Human Settlement recorded the highest amounts of irregularities with Nu.48.638 million followed by the Dzongkhag Administrations with Nu.40.199 million. The Ministry's irregularities represented 33.56% of the total significant

irregularities of AAR 2007. One of the major contributors to the increase in irregularities is the focussed auditing of the Expressway Project under the Department of Roads.

The Dzongkhag wise irregularities are graphically depicted below:



As evident from above, the Chukha Dzongkhag recorded the highest amounts of irregularities amounting to Nu. 7.730

million followed by Bumthang Dzongkhag with Nu.5.844 million.

#### 4.1.2 Irregularities in advances, constructions and payments continue to grab major portion of the irregularities

The irregularities in advances, malpractices and abuses and violation of accounting norms had contributed the major portion of the significant findings representing 66.38% of the total irregularities in AAR 2007. Despite alerting the Government on the issue in

the AAR 2006, there had been a drastic increase in these irregularities.

*The Ministry of Education had the highest cases of strong indicators of fraud, corruption and embezzlement under budgetary agencies amounting to Nu.13.584 million in 2007*

### 4.1.3 Fraud, Corruption and Embezzlement

As compared to the previous years, the 2007 reported the highest cases of strong indicators of fraud, corruption and embezzlement. Total funds amounting to Nu. 39.280 million were siphoned off through forgery and tampering of documents, malpractices and abuses, misappropriation and non/short account of funds and properties. The Fraud, Corruption and Embezzlement cases represented 27.10% of the total unresolved significant irregularities. The Ministry of Education had the highest cases of strong indicators of fraud, corruption and embezzlement under

budgetary agencies, amounting to Nu.13.584 million in 2007. The fraud and corruption case in the MoE mainly pertains to a single scam in the procurement of science laboratory equipment, where funds amounting to Nu. 13.068 million were siphoned off through illegitimate payments. What is most significant to note was that the illegitimate payments represented 45.27% of the total cost of procurement.

The agency wise cases of strong indicators of fraud, corruption and embezzlement are depicted in the table below:

Sl.No	Agency responsible	Amount (Nu. in million)
1	Ministry of Agriculture	3.648
2	Ministry of Economic Affairs	0.393
3	Ministry of Education	13.584
4	Ministry of Foreign Affairs	2.225
5	Ministry of Health	0.079
6	Ministry of Works & Human Settlement	10.314
7	Dzongkhags (aggregate of 14 Dzongkhags)	7.373
8	Gewogs (aggregate of 27 Gewogs)	1.515
9	Autonomous Bodies ( aggregate of 3 agencies)	0.149
	<b>Total</b>	<b>39.280</b>

While the shift to intense audit focus aided in detection of cases of indicators of fraud and corruptions, the systemic lapses including lack of effective control

mechanisms, indifferent attitude of the supervising officers, and the integrity of the dealing officials attributed to perpetration of such practices.

### 4.1.4 Mismanagements

The AAR 2007 reported a figure of Nu. 23.173 million on account of mismanagement of funds, properties, revenue and taxes. The cases of mismanagement represented 15.99% of

the total unresolved significant irregularities. The agency wise cases of mismanagement are depicted in the table below:

Sl.No	Agency responsible	Amount (Nu. in million)
1	Ministry of Agriculture	0.534
2	Ministry of Finance	4.663
3	Ministry of Information & Communication	1.116
4	Ministry of Works & Human Settlement	16.159
5	Dzongkhags (aggregate of 3 Dzongkhags)	0.386
6	Gewogs (aggregate of 6 Gewogs)	0.315
	<b>Total</b>	<b>23.173</b>

While some of the irregularities occurred mainly due to the failure on the part of the dealing officials to levy, collect and account Government revenue and taxes on time, there were many cases where the

taxpayers had failed to deposit the taxes on time. The poor planning or failure to implement the plans had also resulted into blockade of funds and resources.

#### **4.1.5 Violation of Laws and Rules**

The cases of violation of laws, rules and regulations represented 10.11% of the total unresolved significant irregularities of AAR 2007. The RAA reported a sum of Nu.14.656 million on account of violation

of budgetary, accounting and procurement norms. The agency wise cases of violation of laws, rules and regulations are depicted in the table below:

Sl.No	Agency responsible	Amount (Nu. in million)
1	Ministry of Agriculture	1.607
2	Ministry of Education	0.023
3	Ministry of Works & Human Settlement	11.364
4	Dzongkhags (aggregate of 6 Dzongkhags)	1.480
5	Gewogs (aggregate of 2 Gewogs)	0.154
6	Autonomous Bodies (Royal University of Bhutan)	0.028
	<b>Total</b>	<b>14.656</b>

Lack of adequate supervisory controls, complacency and ill-defined delineation

of roles and responsibilities could have attributed to such irregularities.

#### **4.1.6 Shortfalls, Lapses and Deficiencies**

The AAR 2007 reported a figure of Nu.67.791 million on account of over, inadmissible, double and irregular payments including non-production of documents, lapses in constructions, lapses

in property managements, shortfalls & uneconomical operations and advances. Of the total figure reported, Nu.

**Nu. 56.800 million (39.19%) pertained only to the irregularities in advances.**

56.800 million (39.19%) pertained only to the irregularities in advances. The shortfalls, lapses and deficiencies accounted for 46.78% of the total

significant irregularities. The agency wise cases of shortfalls, lapses and deficiencies are depicted in the table below:

Sl.No	Agency responsible	Amount (Nu. in million)
1	Ministry of Agriculture	7.815
2	Ministry of Economic Affairs	0.055
3	Ministry of Education	0.749
4	Ministry of Finance	13.059
5	Ministry of Foreign Affairs	1.205
6	Ministry of Health	1.354
7	Ministry of Information & Communication	0.047
8	Ministry of Labour & Human Resources	0.055
9	Ministry of Works & Human Settlement	10.801
10	Dzongkhags (aggregate of 15 Dzongkhags)	30.960
11	Gewogs (aggregate of 4 Gewogs)	1.345
12	Autonomous Bodies (aggregate of 4 agencies)	0.346
	<b>Total</b>	<b>67.791</b>

The lack of effective control mechanisms and the integrity of the dealing officials and the indifferent attitude of the

supervising officers could have attributed to such irregularities.

## 4.2 Possible Contributory Factors to the Irregularities

It is generally accepted that procurement and construction are the major areas which are highly susceptible to fraud and corruption. In Bhutan, where private construction companies are still in developing stage and the government being the major consumer of goods and services, the risk is even greater. To that extent and based on the lessons learned from the audits undertaken during the 9<sup>th</sup> Five Year Plan, the RAA issued a separate report, on the problems in the construction and procurement, in the form of **Auditor General's Advisory Series in December 2007**. Besides, all audits in 2007 mainly focussed on these two areas,

while at the same time not ignoring the other areas. This had led to several huge recoveries being made from the irregularities related to the construction and procurement.

From the various irregularities that surfaced from these areas, the RAA had come out with a list of major contributory factors that led to the irregularities. While these factors mainly pertain to the irregularities of the reports issued in 2007, the RAA had also taken the privilege of incorporating and reiterating some of the major contributory factors to the irregularities pointed out in the earlier reports issued during the 9<sup>th</sup> Five Year

Plan. The AAR 2007, being the last report to be issued during the 9<sup>th</sup> Five Year Plan, the RAA is of the opinion that the understanding of the factors or the causes could help to avoid recurrence of the irregularities, thereby saving huge government resources. As per the

conservative analysis made in the AG's Advisory Series of December 2007, the government is losing over a billion annually through such irregularities. The following are the major contributory factors:

❖ **Inadequate Planning, Feasibility Studies, Consultations and Coordination**

Construction activities were undertaken without adequate planning, proper feasibility studies, and surveys as well as without consultation and coordination amongst various agencies. There were many cases of estimates being prepared on ad-hoc basis without detailed scrutiny of the designs, drawings and site conditions. Consequently, it resulted into inappropriate designs, unrealistic estimates, abnormal deviations, frequent changes, overlapping and duplications thereby impeding the quality and economy of construction activities.

Besides, the goods and services were also procured without adequate assessment of the qualitative and quantitative requirements, resulting in to excessive procurements, which ultimately led to obsolescence and disposal at throwaway prices or write off of huge stocks.

❖ **Defective Contract Agreements Advantageous to Contractors**

There were several instances of contract agreements signed with contractors, which had unclear and defective terms and conditions or overlooking important clauses such as those relating to penalty provisions for breach of contract, liquidated damages etc. Such omissions in the contract agreement had been exploited by contractors, to their advantage, resulting into high costs and poor quality of works, goods and services.

❖ **“Fit for all” Designs Leading to Delays and High Cost of Construction**

There were also cases where similar constructions at various places were carried out based on a single design prepared by the headquarters, thereby not giving due regard to site and weather conditions, especially in the construction of schools, BHUs, Gup's offices, NWF dwellings etc. While time and cost could have been saved in the design of the constructions, such practices had led to several complications during the actual implementation process such as change of site, several deviations, additional works like construction of approach road, retention walls etc. resulting into delays and high cost of construction. Besides, some of the constructions were also found unsuitable for prevailing weather conditions such as low ceilings in hot places.

### ✧ **Inadequate Supervision and Monitoring of Works**

One of the causes for poor quality of works and high costs of constructions is the inadequate site supervision and monitoring of works by the site engineers and supervising officials. There were also many instances of an engineer supervising several constructions, at various locations, at a time thereby leading to ineffective supervision and poor quality of works.

### ✧ **Private Consultancy Firms not Providing Value for Money**

In many instances, the works awarded to consultants did not provide value for money. In the case of some of the designs prepared by the consultants, the variations have gone to the extent of 1000% during the actual execution of the items of works. Many of the Consultancy firms lacked adequate capacity and competence to render the services satisfactorily. On the contrary, payments to the consultants were made very liberally such as payments being made disproportionate to the work progress, payment made without fulfilling the criteria, excess payments etc. The need for engaging private consultancy firms vis-à-vis internal capacity within the agencies were not adequately analysed.

### ✧ **Leniency on Imposition of Liquidated Damages**

Ministries and agencies had a general tendency of leniency in incorporating or in following the liquidated damages clause. Therefore, the contractors, suppliers and consultants were not so keen into looking at this particular clause while bidding because they felt that they could always write for time extension later, which would be favourably approved by the concerned agencies. It is only through this clause that can ensure the completion of constructions, supplies and services on time.

### ✧ **Excessive Grant of Advances**

The ministries and agencies have also been liberal in granting advances. There were cases where the actual total expenditures were far less than the advances granted, leading to difficulties in recovering the excess advances. The ineffective system of check and balance at all levels viz., administrative, financial and technical levels, have led such financial improprieties in the form of payments of inappropriate mobilisation advances, disproportionate payment of secured advance against the materials brought to site, advances paid against inflated running bills etc.

### ✧ **Deficiency and Ambiguity in Rules and Regulations**

Major lapses and deficiencies in procurement activities had been due to deficient, ambiguous and inappropriate provisions of the Procurement Manual, Bhutan Schedule of Rates and Construction Manuals, which lacked reviews, feedback mechanisms and periodical revision to make it relevant.

Besides, lack of proper guidance and training on the rules, regulations and manuals issued from time to time had led to wrong or different interpretation of the rules during the application.

#### ★ **Rush of Activities Towards the End of Financial Year**

It is common in all Government agencies to rush for implementation of activities in the months of May and June. In many of the agencies, particularly the Dzongkhags, even the construction works were started during these months. Several procurements were made in June to avoid lapse of funds. All these indicate lack of proper planning, coordination and financial discipline, which ultimately leads to poor quality, excessive procurement and blockage of funds.

#### ★ **Absence of Reliable Quality Assurance System**

Overall quality assurance system was not adequate. There were no adequate facilities to check the quality and acceptability of various construction materials both imported and manufactured within the country. Further, system of independent monitoring of construction works to ensure adherence to construction standards were not adequate.

### 4.3 Corporations, Financial Institutions and NGOs

During the year, the RAA issued thirty seven audit reports of the Corporations, Financial Institutions and NGOs. The

overall status of the total audit observations issued during the year stands as follows:

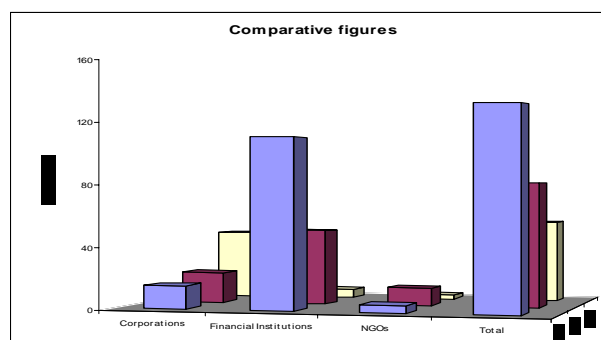
Particulars	Number	Monetary Involvement (Nu. Millions)
Observations Issued	284	222.665
Observations Settled	162	80.686
Balance Observations	122	141.973

*Summary of category of irregularities reported in ARR 2007:*

1. *Fraud, Corruption & Embezzlement – Nu.4.275 million*
2. *Mismanagement – Nu.0.082 million*
3. *Shortfalls, Lapses and Deficiencies – Nu.49.823 million*

**Total Nu. 54.180 million**

The total unresolved significant observations of the Corporations, Financial Institutions and NGOs amounted to Nu. 54.180 million as compared to Nu.130.174 million in 2005 and Nu. 80.843 million in 2006 representing a decline of 58.37 % and 32.98 % as presented in the graph above. The unresolved irregularities in the Corporations, Financial Institutions and



NGOs for the year could have been further reduced by Nu. 34.839 million,

had it not been for the irregularities in the slow and non-moving imported spare parts of the State Trading Corporation of Bhutan featuring under shortfall, lapses and deficiencies. The decline in the

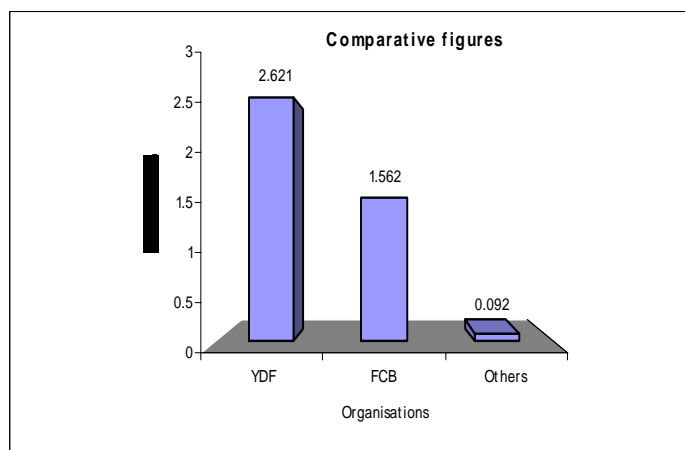
irregularities could be mainly attributed to increased compliances, effective follow up and improved control mechanisms. The summary of the findings are presented in table 4.2.

### 4.3.1 *Fraud, Corruption and Embezzlement*

As compared to 2006, the RAA observed an increase of 37.59% in the cases of strong indicators of fraud, corruption and embezzlement. It increased from Nu.3.107 million in 2006 to Nu.4.275 million in 2007. The funds were siphoned off

through double booking, fictitious expenditure, non-deposit of refund of air tickets, non-deposit of cash collections, embezzlement of fixed deposit, misuse of cash and forgery.

Despite being alerted in the Annual Audit Report 2006, such cases still featured in Bhutan Postal Corporation Limited and Youth Development Fund. Out of the 13 agencies incorporated in the AAR 2007, the Youth Development Fund recorded the highest amount in Fraud, Corruption and Embezzlement followed by Food Corporation of Bhutan and others as graphically illustrated above.



### 4.3.2 *Shortfalls, Lapses and Deficiencies*

During the year, the Corporations, Financial Institutions and Non Governmental Organizations had cases of shortfalls, lapses and deficiencies aggregating to Nu.49.823 million as against Nu.66.195 million in 2006.

Of Nu.54.180 million irregularities reported in the AAR 2007, Nu.34.839 million (64.30 %) pertained to slow and non-moving imported spare parts of the

State Trading Corporation of Bhutan Ltd. The remaining irregularities of Nu.4.357 million were mainly on account of advances/loans, inadmissible payments, shortfalls and uneconomical operations. Poor planning, ineffective follow up and lack of adequate supervisory controls could have attributed to such irregularities.

**Table 4.1 Summary of AAR 2007 with category of irregularities and amount involved in respect of the budgetary agencies**

(Nu. in million)

Sl. No.	Category of irregularities	MoA	MoEA	MoE	MoF	MoFA	MoH	MoIC	MoLHR	MoWHS	Dzong-khags	Gewogs	Autonomous	Total
<b>1</b>	<b>Fraud, Corruption &amp; Embezzlement</b>													
1.1	Forgery & Tampering of Documents	-	-	-	-	-	-	-	-	-	0.268	-	-	0.268
1.2	Malpractices & abuses	1.788	0.393	13.584	-	-	0.057	-	-	10.314	2.174	0.461	0.019	28.790
1.3	Misappropriation	1.750	-	-	-	2.123	-	-	-	-	4.617	0.620	0.065	9.177
1.4	Non/Short accountal	0.110	-	-	-	0.102	0.022	-	-	-	0.314	0.434	0.065	1.045
	<b>Sub total</b>	<b>3.648</b>	<b>0.393</b>	<b>13.584</b>	<b>-</b>	<b>2.225</b>	<b>0.079</b>	<b>-</b>	<b>-</b>	<b>10.314</b>	<b>7.373</b>	<b>1.515</b>	<b>0.149</b>	<b>39.280</b>
<b>2</b>	<b>Mismanagement</b>													
2.1	Mismanagement of fund	0.188	-	-	-	-	-	-	-	8.729	-	0.056	-	8.973
2.2	Mismanagement of Properties	-	-	-	-	-	-	-	-	6.776	-	-	-	6.776
2.3	Mismanagement of revenue & taxes	0.346	-	-	4.663	-	-	1.116	-	0.654	0.386	0.259	-	7.424
	<b>Sub total</b>	<b>0.534</b>	<b>-</b>	<b>-</b>	<b>4.663</b>	<b>-</b>	<b>-</b>	<b>1.116</b>	<b>-</b>	<b>16.159</b>	<b>0.386</b>	<b>0.315</b>	<b>-</b>	<b>23.173</b>
<b>3</b>	<b>Violation of Laws and Rules</b>													
3.1	Violation of Budgetary norms	1.083	-	-	-	-	-	-	-	-	-	-	-	1.083
3.2	Violation of accounting norms	0.200	-	0.023	-	-	-	-	-	9.830	0.427	0.087	0.028	10.595
3.3	Violation of procurement norms	0.324	-	-	-	-	-	-	-	1.534	1.053	0.067	-	2.978
	<b>Sub total</b>	<b>1.607</b>	<b>-</b>	<b>0.023</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11.364</b>	<b>1.480</b>	<b>0.154</b>	<b>0.028</b>	<b>14.656</b>
<b>4</b>	<b>Shortfalls, Lapses &amp; Deficiencies</b>													
4.1	Over/inadmissible/irregular/double payments	2.111	-	0.518	-	0.092	0.319	0.047	0.055	0.568	3.528	0.128	0.219	7.585
4.2	Non production of documents	0.200	-	-	-	-	-	-	-	-	-	0.045	-	0.245
4.3	Non/short deductions	0.038	-	-	-	-	-	-	-	-	0.039	-	-	0.077
4.4	Irregularities in constructions	-	-	-	0.314	-	-	-	-	-	0.172	-	-	0.486
4.5	Irregularities in property management	-	-	-	-	-	-	-	-	0.024	-	-	-	0.024
4.6	Short falls & uneconomical operations	-	-	-	-	-	-	-	-	1.310	0.123	1.141	-	2.574
4.7	Irregularities in Advances	5.466	0.055	0.231	12.745	1.113	1.035	-	-	8.899	27.098	0.031	0.127	56.800
	<b>Sub total</b>	<b>7.815</b>	<b>0.055</b>	<b>0.749</b>	<b>13.059</b>	<b>1.205</b>	<b>1.354</b>	<b>0.047</b>	<b>0.055</b>	<b>10.801</b>	<b>30.960</b>	<b>1.345</b>	<b>0.346</b>	<b>67.791</b>
	<b>Grand total</b>	<b>13.604</b>	<b>0.448</b>	<b>14.356</b>	<b>17.722</b>	<b>3.430</b>	<b>1.433</b>	<b>1.163</b>	<b>0.055</b>	<b>48.638</b>	<b>40.199</b>	<b>3.329</b>	<b>0.523</b>	<b>144.900</b>

**Table 4.2 Showing summary of AAR 2007 with category of irregularities and amount involved in respect of the corporations, financial institutions and NGOs**

(Nu. in million)

Sl. No	Category of irregularities	Financial Institutions				Corporations							NGOs		Grand Total
		BDFC	BNB	BOB	RSE	STCB	Kurichu	BPC	FCB	BT	BP	Kun	Tarayana	YDF	
<b>1</b>	<b>Fraud, Corruption &amp; Embezzlement</b>														
1.1	Misappropriation	-	-	-	-	-	-	-	1.562	-	-	-	-	2.621	4.183
1.2	Malpractices and abuses	-	-	-	-	-	-	-	-	-	0.092	-	-	-	0.092
	<b>Sub total</b>	-	-	-	-	-	-	-	<b>1.562</b>	-	<b>0.092</b>	-	-	<b>2.621</b>	<b>4.275</b>
<b>2</b>	<b>Mismanagement</b>														
2.1	Mismanagement of revenue	-	-	-	-	-	-	0.037	-	0.045	-	-	-	-	0.082
	<b>Sub total</b>	-	-	-	-	-	-	<b>0.037</b>	-	<b>0.045</b>	-	-	-	-	<b>0.082</b>
<b>3</b>	<b>Shortfalls, Lapses &amp; Deficiencies</b>														
3.1	Over/inadmissible/irregular/double payments	-	-	-	0.063	-	-	-	-	-	-	-	-	0.037	0.100
3.2	Irregularities in disposal	-	-	-	-	34.839	-	-	-	-	-	-	-	-	34.939
3.3	Shortfalls and uneconomical operations	0.2	-	-	-	5.995	-	-	-	-	-	-	-	-	6.195
3.4	Irregularities in Advances/loans	1.695	2.445	1.271	-	-	-	-	0.390	-	-	-	0.250	-	6.106
3.5	Non/short deductions & recoveries	-	-	-	-	-	2.511	-	-	-	-	0.072	-	0.055	2.583
	<b>Sub total</b>	<b>1.895</b>	<b>2.445</b>	<b>1.271</b>	<b>0.063</b>	<b>40.834</b>	<b>2.511</b>	-	<b>0.390</b>	-	-	<b>0.072</b>	<b>0.250</b>	<b>0.092</b>	<b>49.823</b>
	<b>Grand total</b>	<b>1.895</b>	<b>2.445</b>	<b>1.271</b>	<b>0.063</b>	<b>40.834</b>	<b>2.511</b>	<b>0.037</b>	<b>1.952</b>	<b>0.045</b>	<b>0.092</b>	<b>0.072</b>	<b>0.250</b>	<b>2.713</b>	<b>54.180</b>