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## CORPORATIONS & FINANCIAL INSTITUTIONS

### 6.35 Bhutan Broadcasting Service Corporation Limited

During the period, the Royal Audit Authority had issued 3 audit reports of the Bhutan Broadcasting Service Corporation Limited. There were 3 observations pointed out in the reports involving Nu. 6.111 million. However, observations amounting to Nu. 2.734 million were settled. The total unresolved significant irregularities amounted to Nu. 1.967 million as summarised below:

Sl. No.	Observations in brief	Nu. in million	Category Code
1	Shortfalls, Lapses and Deficiencies	1.967	5
	Total	1.967	

#### 1 Shortfalls, Lapses and Deficiencies – Nu. 1.967 million

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There was a case of shortfalls, lapses and deficiencies aggregating to Nu. 1.967 million as summarised hereunder:

##### 1.1 *Loss on operation of Multi Service Operator- Nu. 1.967 million*

The Corporation within two years of operation of the **Innovation of Bhutan Network** had incurred a loss of Nu. 1.967 million on account of purchases, fees and interest on loans. (Para 1, AIN 7668)

##### *Who are accountable?*

Zangmo Dukpa, MSO coordinator & Pema Choden, MD

### 6.36 Bhutan Development Finance Corporation Limited

During the period, the Royal Audit Authority had issued 4 audit reports of the Bhutan Development Finance Corporation Limited and its branch offices. There were 25 observations pointed out in the reports involving over Nu. 18.649 million. However, 15 observations amounting to over Nu. 5.269 million were settled. The total unresolved significant irregularities alone amounted to Nu. 3.702 million as summarised below:

Sl. No.	Observations in brief	Nu. in million	Category Code
1	Fraud, Corruption & Embezzlement	3.702	1 & 2

	<b>Total</b>	<b>3.702</b>	
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## 1 Fraud, Corruption & Embezzlement – Nu. 3.702 million

There was a case of indicator of fraud, corruption & embezzlement involving Nu. 3.702 million as summarised hereunder:

### 1.1 Misuse of funds – Nu. 3.702 million

The BDFCL, Zhemgang had a case of misuse of funds of Nu. 3.702 million. The misuse was mainly carried out through creation of fictitious clients. The case had been however forwarded to the District Court for adjudication. Based on the Court's verdict, an amount of Nu. 0.140 million was recovered leaving a balance of Nu. 3.562 million. (Para 1, AIN 7534)

#### *Who are accountable?*

Sangay Tashi, Branch Manager, Sonam Chunjure, Asstt. Branch Manager & Sonam Phuntsho, Branch Manager

## 6.37 Bank of Bhutan Limited

During the period, the Royal Audit Authority had issued 2 audit reports of the Bank of Bhutan Limited and its branches. There were 38 observations pointed out in the reports involving over Nu. 476.113 million. However, 13 observations amounting to over Nu. 48.981 million were settled. The total unresolved significant irregularities alone amounted to Nu. 24.977 million as summarised below:

Sl. No.	Observations in brief	Nu. in million	Category Code
1	Shortfalls, Lapses and Deficiencies	24.977	5
	<b>Total</b>	<b>24.977</b>	

## 1 Shortfalls, Lapses and Deficiencies – Nu. 24.977 million

There were cases of shortfalls, lapses and deficiencies involving Nu. 24.977 million as summarised hereunder:

Sl. No.	Observations in brief	Nu in million	Para No.	Who are accountable?
1.1	Overdue mortgage loans	3.000	2.2	B.B Chawan, Tshering Dorji, G.P Sharma, Passang Tshering, Dorji Wangchuk & Ugyen Wangdi
1.2	Over financing and loan defaults	21.977	3.3 3.5	B.B Chawan, Tshering Dorji, G.P Sharma, Passang Tshering, Hem Kr.

			3.6	Acharya, Ugyen Wangdi, K.S.M Rao, Malatri Thapa, Kencho Pelmo, Wangdi Sherpa, Basant Rana, T.S Suresh Babu, & Dorji Wangchuk
			7.2	
			3.9	
	<b>Total</b>	<b>24.977</b>		

The cases of shortfalls, lapses and deficiencies are explained below:

**1.1 Overdue mortgage loans – Nu. 3.000 million**

The Main Branch, Phuentsholing had sanctioned 4 mortgage loans amounting to Nu. 13.694 million to a Construction Company. These loan accounts had outstanding balance of Nu. 12.011 million with overdue instalments ranging from 10 to 16 months amounting to Nu. 3.000 million. (AIN 7635)

**1.2 Over financing and loan defaults – Nu. 21.977 million**

- a) The Main Branch, Phuentsholing had sanctioned a transport loan of Nu. 2.800 million to a Client for procurement of a excavator. The value of the equipment was inflated to obtain an excess financing from the bank to the tune of Nu. 0.202 million. It was also observed that the said excavator pledged as mortgage had been sold out based on the clearance issued by the bank. The loan account as on the date of audit was overdue by 5 instalments amounting to Nu. 0.341 million. The case was reported to be under subjudice. (AIN 7635)
- b) The Main Branch, Phuentsholing had sanctioned a loan of Nu. 9.500 million to the above client under the personal loan scheme to liquidate the balance cost of procurement of 16.50 acres of dry land. However, it was observed that the valuation of the mortgage property was inflated to obtain excess loan of Nu. 5.188 million over and above the permissible limit. Further, requisite documents like clearance certificates of the financial institutions, sale deeds, income from other sources, cash flow analysis, and noting of liens were not on record. The loan account as on the date of audit was overdue by 6 months with overdue amount of Nu. 1.275 million. The case was reported to be under subjudice. (AIN 7635)
- c) The Main Branch, Phuentsholing had sanctioned a loan of Nu. 2.000 million to above client for procurement of 3 Eicher Terra Trippers. However, the client procured only two trucks and submitted a manipulated bluebook copy of a vehicle belonging to his brother. On the instance of the audit, the excess loan of Nu. 0.667 million was refunded to the bank. The loan account was running regular only due to the refund of the excess loan amount. The case was reported to be under subjudice. (AIN 7635)
- d) The Main Branch, Phuentsholing had opened various Letter of Credit (LC) Accounts in India and Singapore as requested by the above client. The LC accounts opened for import of various equipment were fallen due for payment

during the period from May 2007 to September 2007. However, the contractor having failed to retire these bills, the bank had to debit an amount of Nu. 11.588 million to his term expired Miscellaneous overdraft account. The Bank management had operated the LC accounts without adequate balance on good faith and past performance of the borrower. The credibility of the borrower to retire the bills was also not taken into account. The case was reported to be under subjudice. (AIN 7635)

- e) The Main Branch, Phuentsholing had sanctioned a medium term loan of Nu. 12.880 million to a client under three different accounts. The bank had sanctioned Nu. 3.383 million over and above the permissible limit prescribed by the Credit Manual and the Prudential Guidelines of the Royal Monetary Authority. (AIN 7635)

## 6.38 Bhutan Telecom Corporation Limited

During the period, the Royal Audit Authority had issued 3 reports of the Bhutan Telecom Corporation Limited. There were 24 observations pointed out in the reports involving over Nu. 197.537 million. However, 10 observations amounting to over Nu. 187.682 million were settled. The total unresolved significant irregularities alone amounted to Nu. 2.169 million as summarised below:

Sl.No.	Observations in brief	Nu. in million	Category Code
1	Shortfalls, Lapses and Deficiencies	2.169	5
	Total	2.169	

### 1 Shortfalls, Lapses and Deficiencies – Nu. 2.169 million

There were cases of shortfalls, lapses and deficiencies aggregating to Nu. 2.169 million as summarised hereunder:

#### 2.1 *Non-deduction of TDS (tax deducted at source)/ rebates - Nu. 2.169 million*

- a) The Corporation had not deducted 3% TDS of Nu. 1.115 million from the contractor in the commissioning of power supply system. (Para 1.2, AIN 7707)

#### *Who are accountable?*

Kuenzang Choden, Account Officer & Chimi Dorji, Sr. FM

- b) The Corporation had not deducted rebate of Nu. 0.152 million offered by the contractor in the commissioning of power supply system. (Para 1.3, AIN 7707)

**Who are accountable?**

Kuenzang Choden, Accounts Officer & Chimi Dorji, Sr. FM

- c) The Corporation had not deducted 3% TDS of Nu. 0.778 million in the construction of tower, equipment shelter and associated civil works for the project – GSM cellular network. (Para 2.2, AIN 7707)

**Who are accountable?**

Kuenzang Choden, Accounts Officer & Chimi Dorji, Sr. Finance Manager

- d) The Corporation had not deducted rebate of Nu. 0.124 million offered by the contractor in the construction of tower, equipment shelter and associated civil works for the project – GSM cellular network. (Para 2.3, AIN 7707)

**Who are accountable?**

Kuenzang Choden, Accounts Officer & Chimi Dorji, Sr. FM

## 6.39 Construction Development Corporation Limited

During the period, the Royal Audit Authority had issued 1 report of the Construction Development Corporation Limited. There were 8 observations pointed out in the report involving Nu. 9.080 million. However, 3 observations amounting to Nu. 8.087 million were settled. The total unresolved significant irregularities amounted to Nu. 0.606 million as summarised below:

Sl.No.	Observations in brief	Nu. in million	Category Code
1	Shortfalls, Lapses and Deficiencies	0.606	5
	<b>Total</b>	0.606	

### 1 Shortfall, Lapses & Deficiencies – Nu. 0.606 million

There was a case of shortfalls, lapses & deficiencies involving Nu. 0.606 million as summarised hereunder:

#### 1.1 Excess payment to employees – Nu. 0.606 million

The Construction Development Corporation, Hesothangkha had made excess payments of pay and allowances and remittances of Nu. 0.606 million due to error in pay fixation. (Para 1.1 & 1.2, AIN 7658)

**Who are accountable?**

Mahesh Chhetri, FM, H.P Phuyel, Manager, Bharat Darjee, Adm. Officer & Sonam Dorji, MD

## 6.40 Penden Cement Authority Ltd.

During the period, the Royal Audit Authority had issued one audit report of the Penden Cement Authority Limited. There were 14 observations pointed out in the report involving Nu. 75.825 million. However, 5 observations amounting to Nu. 48.186 million were settled. The total unresolved significant irregularities amounted to Nu. 0.487 million as summarised below

Sl. No.	Observations in brief	Nu. in million	Category Code
1	Shortfalls, Lapses and Deficiencies	0.487	5
	<b>Total</b>	<b>0.487</b>	

### 1 Shortfalls, Lapses and Deficiencies – Nu. 0.487 million

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There were cases of shortfalls, lapses and deficiencies aggregating to Nu. 0.487 million as summarised hereunder:

#### 1.1 *Excess payment of railway freight charges – Nu. 0.487 million*

The Corporation had made excess payment of railway freight charges of Nu. 0.921 million on account of transportation of slag. The excess payment occurred due to erroneous application of rates for the railway freights. Subsequently, the Authority had recovered a sum of Nu. 0.434 million leaving a balance of Nu. 0.487 million. (Para 1, AIN 7564)

#### *Who are accountable?*

Sangay Dorji, APO and B.K Subha, Sr. G.M

## 6.41 Royal Insurance Corporation of Bhutan Limited

During the period, the Royal Audit Authority had issued 3 audit reports of the Royal Insurance Corporation of Bhutan Limited (RICBL) including a supplementary audit report. There were 51 observations pointed out in the reports involving Nu. 533.777 million. However 19 observations amounting to Nu. 44.993 million were settled. The total unresolved significant irregularities amounted to Nu. 0.041 million as summarised below:

Sl. No.	Observations in brief	Nu. in million	Category Code
1	Fraud, Corruption & Embezzlement	-	1 & 2
2	Shortfalls, Lapses and Deficiencies	0.041	5
	<b>Total</b>	<b>0.041</b>	

# 1 Fraud, Corruption & Embezzlement

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Based on the request of the RICBL Board, the RAA conducted the audit of the RICBL with particular emphasis on the operation of the Credit and Investment Department. The findings pertaining to M/s ST construction was reported through a separate report due to the presence of among others a strong indication of premeditated attempt to defraud the Corporation with the aid of some of its employees. The gist of the findings is as summarised hereunder:

Sl. No.	Observations in brief	Para No.
1.1	Intentional split of the loan amount to avoid Board's approval	3i
1.2	Absence of arms length transactions	3ii
1.3	Excessive grant of loans	3iii & iv
1.4	Over Financing due to Non-procurement of Required Number of Vehicles/Excavators	3 v
1.5	Direct release of loan amount to the client	3vi
1.6	Breach of contract by the client	3vii
1.7	Signing of the loan agreements by person other than the authorized signatory	3viii
1.8	Grant of unauthorized loans	3ix
1.9	Frauds under business loans	3ix
	<b>Total</b>	

The cases are explained below:

## ***1.1 Intentional split of the loan amount to avoid Board's approval***

As per the Credit Manual 2003, all loans above Nu. 5.000 million should be approved by the Company's Board of Directors. The Construction Company had availed 6 loans amounting to Nu. 15.052 million within a period of 48 days from 6<sup>th</sup> March 2007 to 23<sup>rd</sup> April 2007. Though the individual loans had not exceeded Nu. 5.000 million ceiling, the total loans exceeded Nu. 15.000 million indicating a strong intention of splitting the loan amounts to avoid the Board's approval. As on the date of audit, the total loan balance including interest and penalty amounted to Nu. 25.257 million.

## ***1.2 Absence of arms length transaction***

The management had not only been liberal in granting the loans but also the loans were sanctioned within a very short period of 48 days. In fact the preferential financing scheme loan for purchase of a Grand Vitara from an employee of RICBL and the personal loan for purchase of land from another employee of RICBL were processed, approved and released within a day without proper documentations.

### ***1.3 Excessive grant of loans and non-payment of instalments***

The RMA Prudential Guidelines discourages granting large credit facilities to a single borrower. In the above case, the borrower was sanctioned with numerous loan accounts. As a result, when problem arose with one of the loan accounts, all other accounts including those of his relatives became non-performing loans.

The borrower had not paid a single instalment since March 2007 for any of the loan sanctioned to him. From the total loans that he had availed within 48 days, he was required to pay a monthly instalment of Nu. 0.270 million.

### ***1.4 Over financing due to non-procurement of required number of vehicles/excavators***

The client was sanctioned a transport loan of Nu. 1.875 million as 60% financing of the cost of three Eicher Tipper trucks. The client had however provided the hypothecation of only two trucks. The management did not raise any concern for not purchasing the third truck. This had led to financing of more than 90% of the total cost of two trucks against the provisions of the RMA Prudential Guidelines. The outstanding loan as on the date of audit was Nu. 2.096 million against hypothecation value of Nu. 2.086 million. Similarly, in the transport loan of Nu. 5.000 million sanctioned as 60% financing of the cost of two units of Kobelco Excavator, the client had procured only one Excavator. Further the cost of the excavator was only Nu. 3.400 million and not Nu. 4.188 million as reflected in the loan document. Therefore, for a loan of Nu. 5.000 million, the company had a collateral value of only Nu. 3.400 million leading to over exposure to risk.

### ***1.5 Direct release of loan amount to the client***

The Corporation had paid the loan amount of Nu. 5.000 million directly to the client since he stated that he owned an agent by the name of ST Trading House importer of excavators. The payment, which was supposed to be paid to the Bank of Bhutan in lieu of the hard currency Letter of Credit Account had not been paid till the date of audit. The existence and the ownership of the ST Trading House was not established.

### ***1.6 Breach of contract by the client***

According to the Agreement, the borrower could not sell/dispose off, alienate or encumber in any manner the hypothecated asset without the prior consent of the Corporation in writing. On the contrary, the above client had sold the excavator for Nu. 3.150 million. Accordingly, the buyer approached the RICBL and the latter transferred 50% of the loan amounting to Nu. 2.500 million in the name of the buyer. According to loan transfer application of the client, he owed some money to the buyer against which the balance amount was adjusted. Therefore

the excavator fetched only Nu. 2.747 million including the deposit of Nu. 0.247 million by the buyer. Further, the transaction appeared to have conflict of interest as the buyer was a spouse of an employee of RICBL. As per the financial institution act, the departmental head should have prepared a report of the related person and submitted to the Board for approval prior to granting of loan.

### ***1.7 Signing of the loan agreements by person other than the authorized signatory***

The loan agreements of both the preferential financing scheme loan amounting to Nu. 0.450 million and the personal loan of Nu. 2.000 million were signed by an official despite the presence of the General Manager who was the authorised signatory. The loans were availed to buy a Grand Vitara and a plot of land from two employees of the Corporation.

### ***1.8 Grant of unauthorised loans***

The personal loan of Nu. 2.000 million was granted without considering the liability of the securities pledged against the bank guarantees issued to other agencies on behalf of the above client. The total liabilities against the bank guarantees issued as on the day of sanctioning the above loan amounted to Nu. 1.74 million. Had the liabilities on account of bank guarantees were included in the appraisal, the loan eligibility would have been only Nu. 0.570 million. This had led to an unauthorised loan of Nu. 1.420 million.

### ***1.9 Frauds under business loans***

The business loan of Nu. 2.500 million was enhanced to Nu. 3.200 million without signing the comprehensive loan addendum by the client. Therefore, though the enhancement was approved in principle, it was not legally executed and the amount could not have been withdrawn. However, the withdrawal had not only exceeded the previous sanctioned limit, but also exceeded the enhanced limit of Nu. 3.200 million. Before the loan enhancement was approved on 07.04.2007, the client had already withdrawn Nu. 2.708 million. The withdrawal of excess loan had occurred due to understatement of loan balance to Nu. 0.597 million instead of Nu. 1.700 million.

The client had also managed to withdraw another Nu. 5.000 million from the business loan account taking advantage of the facilities allowing withdrawal and deposit from the branch offices. He had deposited a Bank of Bhutan cheque for Nu. 10.000 million in the RICBL, Gelephu. While he didn't have sufficient balance in the specified account of Bank of Bhutan, he was able to withdraw Nu. 5.000 million from RICBL, Paro apparently aided by liberal considerations by some employees of the RICBL. The client then tried to withdraw another 10.000 million by depositing a cheque of Nu. 20.000 million from his Bank of Bhutan

account to RICBL, Gelephu and requested a withdrawal of Nu. 10.000 million the following day. Although, the RICBL had issued a cheque of Nu. 10.000 million in favour of the client against the deposit, he could not withdraw the amount as there was no sufficient balance in the RICBL account maintained by the Bank of Bhutan, Gelephu.

## **1 Shortfalls, Lapses and Deficiencies – Nu. 0.041 million**

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There was a case of shortfalls, lapses and deficiencies involving Nu. 0.041 million as summarised hereunder:

### ***2.1 Double payment of claims – Nu. 0.041 million***

The Corporation had made double payment of claims of Nu. 0.041 million. The claims Department had procured the necessary spare parts after a claim was lodged by the General Administration Division, RICBL for one of its pool vehicles. The spare parts were issued to the workshop where the vehicle was repaired. However, the Claims Department had paid for the spare parts issued by the Company while settling the final bills. This had resulted into double payment of Nu. 0.041 million. (Para 8.7, AIN 7491)

#### ***Who are accountable?***

Karma Namgyel