

## SUMMARY OF CHAPTER 5

### “PERSISTENT IRREGULARITIES IN CONSTRUCTION WORKS – A DRAIN OF RESOURCES”

The chapter highlights the areas of concern in the procurement of works on the basis of prevailing practices observed across the board. The issues in the constructions constitute substantial irregularities that are being reported in the Annual Audit Report every year. The RAA tried to analyze the causes for such irregularities and following are some of the causes that reinforces its occurrences which need to be addressed through appropriate government interventions:

- ▶ Inadequacies of internal safeguards and controls.
- ▶ Failure to exercise due diligence.
- ▶ Inadequate accountability mechanism and ethics.
- ▶ Incapacity of agencies to undertake constructions.
- ▶ Failure to conduct feasibility studies.
- ▶ Lack of coordination.

### SUMMARY OF RECOMMENDATIONS OF RAA

The AAR 2013 includes following recommendations:

- ▶ Need to reinforce adherence to PMM for repair and maintenance of buildings & infrastructures.
- ▶ Need to stipulate requirement for undertaking pre-feasibility studies in construction projects.
- ▶ Need to institute workable system to avoid retention of unexpended fund.
- ▶ Need to enhance reliability of e-tools for tender evaluation.
- ▶ Need to enhance internal controls and safeguards in reducing reinforcement of irregularities in procurement and constructions

*The Royal Audit Authority (RAA) derives its mandates from the Article 25.1 of Constitution of the Kingdom of Bhutan which states that, “There shall be a Royal Audit Authority to audit and report on the economy, efficiency and effectiveness in the use of public resources.”*

## THE ROYAL AUDIT AUTHORITY

Dating back to 1961, the 16<sup>th</sup> National Assembly proposed the establishment of an audit system in the country. The evolution of the accountability system began when the Government issued the first edition of the Financial Manual in 1963. Then, the Audit and Accounts Organisation under the Development Wing maintained the books of accounts, conducted budgetary controls of revenues and expenditures and undertook periodic audit and inspections of accounts and records.

The 31<sup>st</sup> Session of the National Assembly voted in October 1969 for the appointment of the Royal Auditors to conduct the audit of accounts and records of the Royal Government. Consequently, four Royal Auditors were appointed on April 16, 1970 under a Royal Kasho (decree). In 1974, the financial management system was re-structured and the Royal Audit Department was placed under the Ministry of Finance. In 1985, the audit service was reconstituted as an autonomous entity and named it as Royal Audit Authority (RAA).



In 2006, the Audit Act of Bhutan 2006 was enacted and the RAA became a constitutional body. It now derives its mandates from the Constitution of the Kingdom of Bhutan and the Audit Act.



*Taking audit services closer to the organisations and people via our four Regional Offices around the country.*

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Total agencies under audit: 123

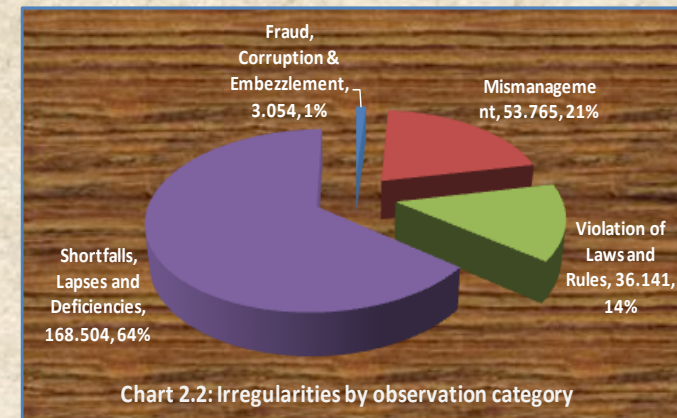
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Total agencies under audit: 167

## HIGHLIGHTS OF THE ANNUAL AUDIT REPORT 2013



**TOTAL AMOUNT OF UNRESOLVED IRREGULARITIES IN AAR 2013**  
**NU. 261.464 MILLION**  
**TOTAL AUDIT RECOVERIES IN 2013**  
**NU. 151.214 MILLION**

### IRREGULARITIES BY CATEGORIES



Royal Audit Authority  
Bhutan Integrity House | Peling Lam  
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## THE ACCOMPLISHMENTS OF THE RAA

### Some of our significant achievements are briefly highlighted below:

- ▶ The RAA completed 534 audits comprising of 101 certification audits and two performance audits.
- ▶ The RAA issued 853 Audit Reports comprising of 739 financial audit reports, 112 certification reports, two performance audit reports. Besides, 21 statutory audit reports for audit of corporations were also issued.
- ▶ The RAA also carried out Micro Assessments of 13 Implementing Partners (IPs) under the UNDAF : *Bhutan One Programme (2014-18)*.
- ▶ The RAA also issued 675 follow-up reports of the prior audit reports which were mainly taken up along with the routine audits.
- ▶ Issued 13,166 audit clearances for various purposes.
- ▶ During the period, the RAA endorsed 6 audit reports containing 9 cases of significant indicators of fraud and corruption to Anti-Corruption Commission.
- ▶ The Auditor General's Advisory Series 2013 on Procurement of Consultancy Services was also issued offering a series of recommendations.
- ▶ The RAA recovered a sum of Nu.151.214 million on account of Audit Recoveries, higher by 2.4% as compared to the recoveries in 2012.
- ▶ Under the Capacity Development of RAA, stakeholders consultation were completed for 22 draft audit manuals and two policy documents funded by the Austrian Development Cooperation and with support from INTOSAI Development Initiatives (IDI).
- ▶ 10 out of 11 modules of the web-enabled Audit Resource Management System (ARMS) are completed and expected to be launched by July 2014. The project is funded by ADB and developed by a team of in-house IT professionals with professional guidance of an external consultant.
- ▶ 8 in-house trainings for 256 auditors were conducted on various topics.
- ▶ 42 officials availed short term ex-country trainings and three officials sent for long term studies including two for Indian Accounts & Audit Service .
- ▶ Ground breaking ceremony for construction of the Professional Development Center of RAA at Tsirang was held in March 2014. The project is estimated to cost around Nu. 193 million and is funded by the Gol.
- ▶ The IDI funded 'Product Development Meeting for ISSAI Implementation handbook for Performance Audit' was conducted in Paro.
- ▶ The Environmental Audit Guidelines was launched during the Mid-Term Review Meeting 2013-14 held in Tsirang. It was drafted by in-house environmental auditors from TAD and PSAD with financial assistance from UNDP.
- ▶ A pilot Risk Based Audit was conducted with assistance from M/s Deloitte Haskins & Sells, Chartered Accounts, Kolkata, India.
- ▶ A Manpower Rationalization Exercise of the RAA to project manpower requirements for the next five years was carried out by an independent consultant.
- ▶ The RAA has developed the "Institutional Development Initiatives 2013-18" which contains a list of prioritized activities for institutional development.
- ▶ The RAA adopted a comprehensive set of ISSAIs, two officials were certified as IDI- PSC ISSAI Facilitators, to promote and support ISSAI implementation at RAA which will strengthen the audit profession & enhance credibility.
- ▶ The RAA hosted the 'SAI Performance Management Framework' training.
- ▶ A three member delegation attended the XXI INCOSAI in Beijing, China.
- ▶ A two member delegation attended the 15<sup>th</sup> INTOSAI - WEGA held in Estonia.
- ▶ The RAA and the CAG Office, India signed the Standard Operating Procedures on Joint Audit of Gol Assisted Hydropower Projects in Bhutan.
- ▶ The accounts and operations of RAA for the Fiscal Year ended 30th June 2013 was audited by M/s S. Ghose & Co. India.

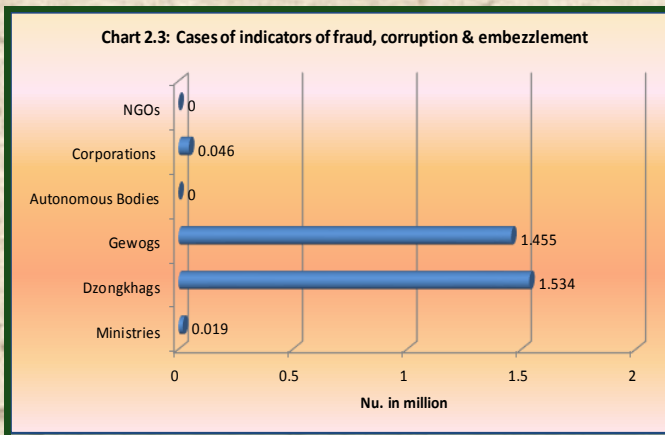
## THE SUMMARY OF AUDIT FINDINGS

The AAR 2013 was compiled from 851 audit reports issued during the year. Highlights of the audit findings are given below:

- ▶ The total unresolved issues reported in the Annual Audit Report 2013 amounted to Nu. 261.464 million.

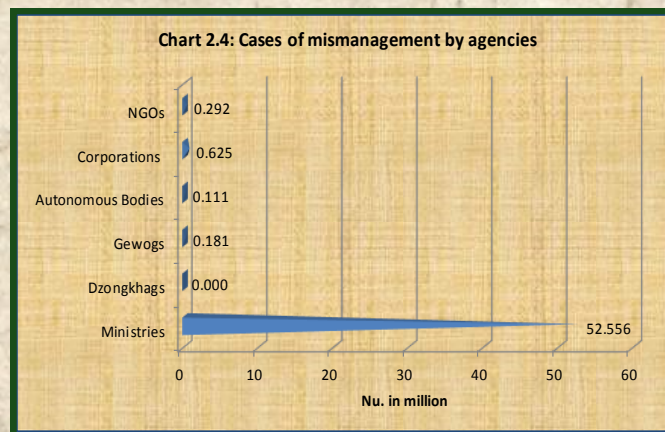
### I. FRAUD, CORRUPTION AND EMBEZZLEMENT

Under Fraud, Corruption & Embezzlement, there were lapses involving Nu. 3.054 million with Dzongkhags representing highest proportion of 50.23% with Nu. 1.534 of the total closely followed by Gewogs with Nu. 1.455 million representing 47.64%.



### II. MISMANAGEMENT

Under Mismanagement there were lapses of Nu. 53.765 million of which 97.75% is represented by the Ministries with irregularities of Nu. 52.556 million.

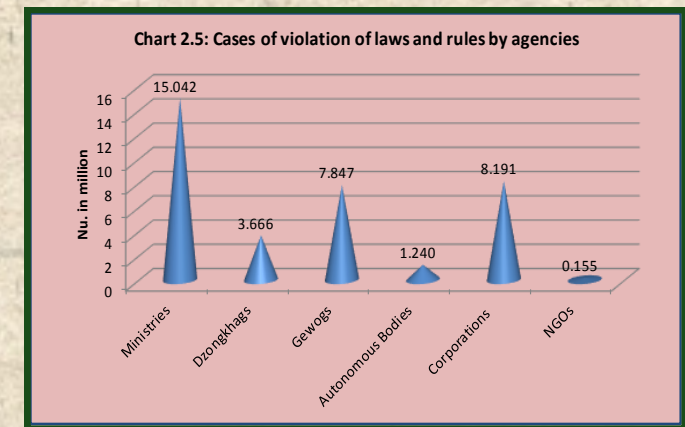


## THE SUMMARY OF AUDIT FINDINGS

- ▶ The report contains unresolved issues pertaining to all the Ministries, 8 Dzongkhags, 26 Gewogs of 15 Dzongkhags, 5 Autonomous Bodies, 13 Corporations, one Financial Institution and three Non Governmental Organizations.

### III. VIOLATION OF LAWS AND RULES

Under Violation of Laws and Rules, the total lapses amounted to Nu. 36.141 million of which Ministries with Nu. 15.042 million represent 41.62% of the irregularities followed by Corporations with Nu. 8.191 million and Gewogs by Nu. 7.847 million.



### IV. SHORTFALLS, LAPSES AND DEFICIENCIES

Under Shortfalls, Lapses and Deficiencies amounted to Nu.168.504 million. The Corporations had the highest amount of irregularities with Nu. 85.771 million followed by Ministries with Nu. 70.139.

