



ANNUAL AUDIT REPORT 2017

(IN FULFILLING THE CONSTITUTIONAL RESPONSIBILITY)

ROYAL AUDIT AUTHORITY

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Royal Audit Authority

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VISION

"A credible Supreme Audit Institution that promotes value for money and good governance in public operations and contributes towards achieving the societal aspirations of Gross National Happiness."

MISSION

"RAA is an independent constitutional body which contributes to accountability, transparency and effective service delivery. In the service of Tsa-Wa-Sum (the King, Country and People), we audit without fear, favour or prejudice and provide timely, reliable and quality audit services to assist effective decision making in the public sector."

CORE VALUES

Integrity, Accountability, Transparency, Professionalism, Team Work.



AUDITOR GENERAL'S PERSPECTIVE



The Royal Audit Authority (RAA) is pleased to release its Annual Audit Report (AAR) 2017 in fulfilment of constitutional responsibilities. The AAR 2017 has been prepared in line with Section 69 to 73 of the Audit Act of Bhutan 2006 and as required under the Article 25.5 of the Constitution of the Kingdom of Bhutan. AAR 2017 is a consolidated summary of significant unresolved audit findings of the RAA compiled from 683 audit reports issued during the year. It includes eight Performance Audits, which were submitted and tabled in the Parliament separately.



The RAA had audited and certified the Annual Financial Statements (AFS) of the Royal Government of Bhutan for the year ended 30th June 2017. The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). It was noted that as against the revised budget of Nu.32,659.992 million, the AFS depicted unutilized capital budget of Nu.6,822.968 million. As explained by the Ministry of Finance (MoF) the unutilized fund mostly constituted of Public Works Advances, spillover projects, savings from completed capital works, and committed funds not released by the donors but incorporated in the revised budget outlay.

As required under the Audit Act of Bhutan 2006, the relevant excerpts of the draft AAR 2017 were circulated to all agencies concerned in January and February 2018 for factual confirmation and taking necessary actions. The draft AAR 2017 reported significant unresolved issues involving Nu.730.396 million. However, audit findings involving Nu.323.284 million representing 44.26% were resolved fully or substantially and/or not material for inclusion in the AAR 2017 based on the actions taken and responses received from the agencies. The total unresolved significant irregularities having financial implication reflected in the AAR 2017 amounted to Nu.407.112 million as on 31st March 2018. As against irregularities of Nu.588.784 million reported in Annual Audit Report 2016 there was a decrease of 30.86%.

The RAA has made audit recoveries of Nu.94.473 million in 2017. Besides, an amount of Nu.9.320 million recovered at the instance of audit was allowed to be utilized by the agency concerned. The audit recoveries from Corporations & Financial Institutions are credited into the Audit Recoveries Accounts (ARA) maintained by them, as such, the ARA maintained by the RAA does not include recoveries made by these agencies. The total audit recoveries made for 2017 by the corporations and financial institutions amounted to Nu.2.138 million.

A separate chapter on the Joint Audits of Hydropower Project Authorities has been included in the AAR 2017. The draft AAR 2017 reported significant unresolved issues involving Nu.11,305.852 million for three hydropower projects audited jointly during the year. The total unresolved significant irregularities reflected in this AAR 2017 amounted to Nu.3,902.652 million as on 31st March 2018. The RAA and the Comptroller and Auditor

General (C&AG), India conducted the joint audits as per the Projects Agreement signed between the RoGB and the GoI.

The RAA has strong mandates to help discharge its duties and responsibilities. However, with fast-paced developments in the country, there are still some challenges in auditing and reporting on the economy, efficiency, and effectiveness in the use of public resources. In certain areas there is a need to provide clarity and legitimise mandates, particularly with regard to audit of entities using natural resources such as mining and quarrying operations, enforcement actions on non-compliance/non-cooperation, fixation of accountability and levy of penalty amongst others.

The recruitment of qualified professionals and other specialist, experts, as well as retention of competent and experienced auditors is a challenge for the RAA. Consequently, as against 930 agencies with 1299 accounts to be audited, the RAA was able to audit less than 53% of the accounts annually which is not adequate in terms of providing greater assurance and effective audit services.

The RAA's budget is subject to normal budgetary process, negotiations and budget cuts, which is not consistent with the intent of the Constitution and seen as impairing the independent and effective functioning of the Authority.

The RAA lacks adequate infrastructure to function effectively with two regional offices housed in private residential buildings, which are not conducive for good office working environment besides posing safety and security risks to audit documents and government properties.

I would like to acknowledge the support of the Parliament for deliberating our reports and directing the audited agencies to appropriately deal with the issues. This had enabled RAA to resolve most of the pending issues in the recent past. We look forward to receiving similar support in terms of rendering our audit reports effective through appropriate deliberations, directives and follow up mechanisms and providing impetus to our efforts in promoting transparency and accountability in the public operations.

I would like to also acknowledge the support and cooperation rendered by our audited agencies for providing prompt responses to the draft Annual Audit Report 2017, which had facilitated timely compilation and preparation of the report. I sincerely commend the positive attitude of all audited agencies and facilitating us in delivering our mandates.

Lastly, I would like to offer my humble gratitude to His Majesty the King for the trust and confidence bestowed on me to provide leadership to this august institution. We solemnly pledge to continue committing ourselves to audit without fear, favour or prejudice.


(Tshering Kezang)
Auditor General of Bhutan

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SECTION ONE

CHAPTER 1

1.1. CERTIFICATION OF ANNUAL FINANCIAL STATEMENTS

The Annual Financial Statement (AFS) of the Royal Government of Bhutan for the Fiscal Year 2016-17 was audited by the RAA as required under the Audit Act of Bhutan 2006 and the Public Finance Act of Bhutan 2007. The Audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs).

The RAA had carried out the certification of the individual Letter of Credit (LC) accounts of the budgetary agencies in line with the Audit Act of Bhutan 2006. The budgetary agencies included those that were accorded priority based on its categorization and included in the Annual Audit Schedules 2016-2017. The recommendations and observations made at the agency level were considered depending upon the materiality while certifying the consolidated Receipts and Payments Statement.

The approved budget for the Fiscal Year 2016-2017 was Nu.49,981.584 million against estimated resources of Nu.41,605.862 million with a fiscal deficit of Nu.8,375.722 million. During the year, the outlay was revised to Nu.55,812.061 million and the resources to Nu.48,941.674 million. At the end of the Fiscal Year, the actual outlay reported was Nu.48,017.988 million against the realized resources of Nu. 42,673.126 million. The resultant fiscal deficit was converted to resource surplus of Nu.5,139.383 million through net borrowings of Nu.10,484.245 million. After adjustment of the negative opening balance of Nu.4,531.634 million from the resource surplus of Nu.5,139.383 million, the Government fund position stood at Nu.607.749 million at the close of the fiscal year.

As against the revised capital budget of Nu.32,659.992 million, the actual expenditure was Nu.25,837.024 million with resultant underutilization of capital budget by Nu.6,822.968 million, which represented 20.89% of the revised capital budget. As explained by the Ministry of Finance the underutilized fund mostly constituted of Public Works Advances, spillover projects, savings from completed capital works, and committed funds not released by the donors but incorporated in the revised budget outlay. The Ministry of Finance has been advised to ascertain and provide detailed analysis of the underutilized capital budget and initiate remedial measures besides providing adequate disclosures in the Annual Financial Statements.

The government debt as on 30th June 2017 was Nu.170,256.761 million, of which Nu.10,057.344 million accounts for domestic debt and Nu.160,199.417 million for external debt.

The certificate of the Auditor General and the audited Financial Statements are appended herewith.



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ROYAL AUDIT AUTHORITY
Bhutan Integrity House

Reporting on Economy, Efficiency & Effectiveness in the use of Public Resources



AUDITOR GENERAL'S REPORT ON THE ANNUAL FINANCIAL STATEMENTS OF THE ROYAL GOVERNMENT OF BHUTAN FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

Opinion

The Royal Audit Authority (RAA) has audited the accompanying Annual Financial Statements of the Royal Government of Bhutan (RGoB) for the Financial Year ended 30 June 2017 and summary of explanatory information, which comprise:

- i. Consolidated Receipts & Payments Statement and Schedules of forming part of it;
- ii. Summary of Original and Revised Budget Estimates and Variations with actual outcome;
- iii. Government Consolidated Account Reconciliation Statement;
- iv. Statement of outstanding loans;
- v. Statement of Equity Portfolio of the Government;
- vi. Statement of the Operations of Refundable Deposits Account, Revolving & Trust Funds; and
- vii. Statement of Revenue Collection for the fiscal year 2016-17.

The audit was conducted by the RAA as required under the Audit Act of Bhutan 2006, the Public Finance Act of Bhutan 2007 & Public Finance (Amendment) Act 2012 and Financial Rules and Regulations 2001 & 2016.

In RAA's opinion, the aforementioned Financial Statements together with schedules attached thereto, including the Notes to Accounts, have been prepared, in all material respect in accordance with the Financial Rules and Regulations 2001 & 2016.

Basis of Opinion

The RAA conducted its audit in accordance with International Standard of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Ministry of Finance in accordance with the ethical requirements that are relevant to our audit of the financial statements in Bhutan, and we have fulfilled our other responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

As per the information made available by the DPA, there are 530 Letter of Credit (LC) Accounts and 106 Project Letter of Credit (PLC) Accounts during the period under review. Of the total, the RAA had audited and issued report for 64% of the total accounts (303 LC Accounts and 106 PLC Accounts) as on 16/04/2018 for the Financial Year ended 30 June 2017. For the remaining Accounts, the RAA had verified the year-end accounts generated from the PEMS and relied on the controls instituted by the DPA.

Responsibility of the Ministry of Finance for the Financial Statements

The Ministry of Finance (MoF) is responsible for preparation of these financial statements in accordance with the Public Finance Act 2007 and Public Finance (Amendment) Act 2012 and Financial Rules & Regulations 2001 & 2016 and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.


In preparing the financial statements, the Ministry is responsible for assessing the Government's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Ministry either intends to liquidate the Government or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Government's financial reporting process.

RAA's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Annual Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standard on Supreme Audit Institutions (ISSAIs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individual or in aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these consolidated financial statements.


(Tshering Kezang)
Auditor General of Bhutan

Dated: 2018
Place: Thimphu



དངུལ་ཕྱི་སྒྲུབ་ལག་ཁག།

Royal Government of Bhutan
Ministry of Finance
Thimphu



December 15, 2017

STATEMENT OF RESPONSIBILITY

The Annual Financial Statements (AFS) of the Royal Government of Bhutan (RGoB) for the Fiscal Year 2016-17 have been prepared by the Department of Public Accounts (DPA), Ministry of Finance (MoF) in accordance with the provisions of the Public Finance Act of Bhutan, 2007, Public Finance (Amendment) Act, 2012 and the Financial Rules and Regulations 2016.

The financial statements are prepared based on the monthly accounts of the budgetary bodies recorded in the Public Expenditure Management System (PEMS) and information received from other relevant agencies and organizations. The AFS presents the financial position of the RGoB as at 30th June, 2017.

We accept the responsibility for the reliability and completeness of the financial statements.

(Namgay Dorji)
Finance Minister
Ministry of Finance

(Tshering Dorji)
Director
Department of Public Accounts

THIMPHU: BHUTAN, Post Box No. 270, Phone: PABX 322604 / 322641 / 322951, Fax: 334994

**STATEMENT OF CONSOLIDATED RECEIPTS AND PAYMENTS STATEMENT
FOR THE FISCAL YEARS 2015-16 and 2016-17**

(Nu. in Million)					
Receipts	2016-17	2015-16	Payments	2016-17	2015-16
Opening Balance	(4,531.634)	(1,752.450)	Expenditure	49,966.611	44,688.447
i) Cash	57.943	57.226	i) Current	24,129.587	22,880.591
ii) Bank	(4,589.577)	(1,809.676)	ii) Capital	25,837.024	21,807.856
Internal Revenue	29,713.600	28,033.812	Repayment of Loans	2,703.336	3,034.163
i) Tax Revenue	21,706.997	19,884.626	i) Internal	9.194	183.834
ii) Non Tax Revenue	8,006.603	8,149.186	ii) External	2,694.142	2,850.329
External Grants	12,986.752	14,889.611	Lendings	42.115	214.889
i) Cash	12,539.520	14,341.335	i) To Individuals	-	-
o/w Program Grant (Gol)	2,125.000	1,275.000	ii) To Corporations	42.115	214.889
ii) Kind	447.232	548.276			
Borrowings	13,187.581	1,818.681	Other payments	8,890.599	8,999.806
i) External	3,227.662	1,818.681			
o/w Program Borrowing	2,824.909	1,312.450	Increase in Advances/Suspense	14,934.239	13,063.850
i) Internal	9,959.919	-			
Recovery of Loans	2,045.237	2,100.221	Closing Balance	607.749	(4,531.634)
Other Receipts	8,863.373	8,115.681	i) Cash	67.009	57.943
Decrease in advances/Suspense	14,879.740	12,263.965	ii) Bank	540.740	(4,589.577)
TOTAL RECEIPTS	77,144.649	65,469.521	TOTAL PAYMENTS	77,144.649	65,469.521

Note

To manage cash flow fluctuations, T-Bills with maturities of 30, 60 and 90 days were issued. During the fiscal year 2016-17 a total issuance of T-bills amounted to Nu. 59,614,518 million. Of which Nu. 49,654,599 million was redeemed and balance Nu. 9,959,919 million was rolled-over to next fiscal year.

Source: DPA, MOF

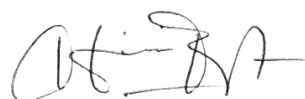


(Director)

Department of Public Accounts
Ministry of Finance

Director

Department of Public Accounts
Ministry of Finance
Thimphu : Bhutan



(Deputy Auditor General)
Royal Audit Authority

Deputy Auditor General
Department of Performance &
Commercial Audit
Royal Audit Authority


SUMMARY OF VARIANCE BETWEEN BUDGET ESTIMATES AND ACTUAL OUTCOME FOR THE FY 2016-17

APPLICATION OF FUND	Budget Estimates		Actual Outcome	Variation Percentage		SOURCES OF FUND	Budget Estimates		Actual Outcome	Variation Percentage	
	Original	Revised		Original/ Revised	Revised/ Actual		Original	Revised		Original/ Revised	Actual/ Revised
A. Expenditure	51,884,364	57,714,841	49,966,611	21.95%	-24.58%	A. Internal Receipts	27,247,169	29,167,933	29,713,600	13.32%	15.45%
i. Current	25,387,034	25,054,849	24,129,587	-1.31%	-3.69%	i. Tax	19,599,564	21,078,490	21,706,907	7.55%	10.75%
ii. Capital	26,497,330	32,659,992	25,837,024	23.26%	-20.89%	ii. Non-tax	7,647,605	8,089,443	8,006,603	5.78%	4.69%
B. Repayments	2,823,098	2,706,357	2,703,336	-4.15%	-0.11%	B. Recovery of Loans	2,023,546	2,023,546	2,045,237	0.00%	1.07%
i. Internal	9,194	9,194	9,194	0.00%	0.00%						
ii. External	2,813,904	2,697,163	2,694,142	-4.15%	-0.11%	C. Grants	14,338,693	19,628,583	12,986,752	36.89%	-9.43%
C. Lending	120,766	120,766	42,115	0.00%	-65.13%	i. In Cash	14,318,917	19,173,968	12,539,520	33.91%	-12.43%
D. Advances (Net)	-	-	54,499	-	-	ii. In Kind	19,776	454,615	447,232	2198.82%	2161.49%
E. Miscellaneous Payments	-	-	8,890,599	-	-	D. Borrowings	3,567,345	3,927,928	13,187,581	10.11%	269.67%
F. Surplus	-	-	5,139,383	-	-	i. Internal	-	-	9,959,919	0	0.00%
TOTAL PAYMENTS	54,838,228	60,541,964	66,796,543	10.42%	21.83%	ii. External	3,567,345	3,927,928	3,227,662	10.11%	-9.52%
						E. Miscellaneous Receipts	20,000	195,469	8,863,373	877.35%	44216.87%
						F. Deficit	(7,631,475)	(5,598,505)	-	-26.64%	-100.00%
						TOTAL RECEIPTS	54,838,228	60,541,964	66,796,543	10.42%	21.83%

Source: DPA, MoF


 (Director)
 Department of Public Accounts
 Ministry of Finance

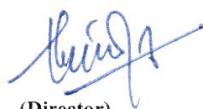
Director
 Department of Public Accounts
 Ministry of Finance
 Thimphu : Bhutan


 (Deputy Auditor General)
 Royal Audit Authority

Deputy Auditor General
 Department of Performance &
 Commercial Audit
 Royal Audit Authority

STATEMENT OF RECONCILIATION OF GOVERNMENT CONSOLIDATED ACCOUNT FOR THE FISCAL YEAR 2016-17		
Sl.No.	Particulars	Nu. in million
1	Opening balance as on July 1, 2016	(4,589.577)
2	Receipts during the year	115,791.341
	Budget Fund Account (DPA)	82,227.648
	Revenue Account (BoBL)	30,904.060
	Non-Revenue Account (BoBL)	2,659.633
3	Payments during the year	(110,661.374)
	Budget Fund Account (DPA)	52,702.582
	LC Withdrawals (BoBL)	56,768.331
	Revenue Refunds (BoBL)	1,190.461
4	Closing Balance as on 30 June 2017 (DPA)	540.390
5	RECONCILIATION:	
	Closing Balance as on 30 June 2017 (BoBL)	540.740
	Add: Fund in Transit (Cr.) as on 30/06/2017: BoBL	
	Less: Fund in Transit (Dr.) as on 30/06/2017: BoBL	
6	Closing Balance as on 30 June 2017 (BoBL)	540.740
7	Add:	
	a) Credits (Deposits) as per DPA but not in BoBL	0.650
	b) Debits (Payments) as per BoBL but not in DPA	
8	Less:	
	a) Credit (Deposits) as per BoBL but not in DPA	1.000
	b) Debits (Payments) as per DPA but not in BoBL	
9	Closing Bank Balance as on 30 June 2017 (DPA)	540.390

Source: DPA, DRC and BoB



(Director)

Department of Public Accounts

Director
Department of Public Accounts
Ministry of Finance
Thimphu : Bhutan



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SUMMARY STATEMENT OF OUTSTANDING DEBT OF THE GOVERNMENT FOR THE PERIOD ENDED JUNE 30 2017

(Amounts in Agreement Currencies in Millions)

Sl. No.	LENDER AND PROJECTS	Loan Committed		Opening Balances as on 01/07/16	Principal (Disbursement)	Interest & Charges accrued during the year		Total Liability incurred during the year	REPAYMENTS DURING THE YEAR			Closing Balances as on 30/06/17	Closing Balances in USD
		Curr.	Amount			Interest	Fees & Charges		Principal	Interest & S/Charges	Total		
A	INTERNAL			4,656,115	59,612,518	201,421	-	59,813,939	161,340	54,412,710	10,057,344	155,578	
i	RMA/BoBL/BNBL/BDDBL/DPNBL/TBank	Nu.	75,070	4,589,577	59,612,518	196,441	-	59,808,959	156,360	54,398,536	10,000,000	154,691	
ii	National Pension and Provident Fund	Nu.	75,070	66,538	-	4,980	-	4,980	9,194	14,174	57,344	0,887	
B	EXTERNAL: India	Rs.	167,749,797	115,393,815	11,873,286	1,758,433	-	13,631,719	8,059,411	9,817,844	119,207,690	1,844,036	
C	EXTERNAL: Other than India	Nu.		40,512,127	3,813,056	598,133	24,743	4,435,932	1,341,425	1,962,316	40,991,727	634,105	
i	International Dev. Association (IDA)	XDR	177,778	132,232	19,779	1,530	-	21,309	1,706	3,236	150,305	209,433	
ii	Asian Development Bank (ADB)	XDR	223,799	143,640	15,901	2,177	-	18,077	5,424	2,177	154,117	214,744	
iii	Asian Development Bank (ADB)	USD	121,000	52,189	8,677	0,770	-	9,448	0,637	0,770	60,229	60,229	
iv	International Fund for Agriculture Dev.(IFAD)	XDR	38,496	25,826	0,368	0,213	-	0,580	0,807	0,213	25,386	35,372	
v	Government of Austria (GoA)	Euro	95,428	65,516	-	2,355	0,329	2,684	6,867	2,684	58,649	66,941	
vi	Government of Denmark (GoD)	Euro	13,008	0,650	-	-	-	-	0,650	-	0,000	0,000	
vii	Japan International Cooperation Agency (JICA)	JPY	5,424,604	4,561,673	8,899	2,915	0,860	12,673	53,164	0,324	4,517,408	40,195	
viii	Germany (DEUTSCHE INVESTITIONS - DEG)	Euro	6,300	6,300	-	0,269	-	0,269	-	0,269	6,300	7,191	
	Grand Total	Nu.		160,562,057	75,298,860	2,557,986	24,743	77,881,589	63,652,206	66,192,870	170,256,761	2,633,719	
		USD	XDR	EURO	JPY(000)								
		64,6450	90,0755	73,7850	575,2000								
		Nu.	159,742,599										

Note: Exchange rates used for conversion:

GDP (Source-NSB)

Source: Department of Macroeconomics Affairs



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(Director)
Department of Public Accounts
Ministry of Finance

Director
Department of Public Accounts
Ministry of Finance
Thimphu : Bhutan

STATEMENT OF GOVERNMENT EQUITY PORTFOLIO FOR THE YEAR ENDED 30 June 2017

Sl. No	Corporations	Amount (Nu. in millions)										
		Shareholding as on 1/07/2016			Investment		Divestment/ Transfer		Shareholding as on 30/06/2017			
		No. of shares	Value (Nu)	% Holding	Face value	No. of shares	Amount (Nu)	No. of share	Amount (Nu)	No. of shares	Value (Nu)	% Holding
A	DIRECT SHAREHOLDINGS											
I	Manufacturing	453,975,966	47,875,440		2,500.00	1,032,029	103,200	-	-	455,007,995	47,978,640	100%
1	Army Welfare Project	25,200	25,200	100%	1,000.00					25,200	25,200	100%
2	Bhutan Agro Industries Limited	290,636	29,060	100%	1,000.00					290,636	29,060	100%
3	National Housing Development Corp Ltd	2,727,961	2,727,960	100%	1,000.00					2,727,961	2,727,960	100%
4	Kuensel Corporation	255,000	25,500	51%	100.00					255,000	25,500	51%
5	Drak Holding & Investments Ltd	450,677,169	45,067,720	100%	100.00	198,729	19,870			450,875,898	45,087,590	100%
6	Bhutan Livestock Development Corp. Ltd				100.00	333,300	33,330			333,300	33,330	100%
7	Manjongsong Pharmaceutical Corp. Ltd				100.00	500,000	50,000			500,000	50,000	100%
II	Trading	1,330,441	146,540		1,200.00	300,000	30,000	-	-	1,630,441	176,540	
8	Food Corporation of Bhutan	15,000	15,000	100%	1,000.00					15,000	15,000	100%
9	Bhutan Lottery Ltd	160,000	16,000	100%	100.00	300,000	30,000			460,000	46,000	100%
10	Bhutan Duty Free Ltd	1,155,441	115,540	100%	100.00					1,155,441	115,540	100%
III	Services	8,204,303	820,740		500.00					8,204,303	820,440	
11	Bhutan Postal Corporation	235,952	23,600	100%	100.00					235,952	23,600	100%
12	Bhutan Broadcasting Service Limited	1,308,351	130,840	100%	100.00					1,308,351	130,840	100%
13	Royal Bhutan Helicopter Services Ltd	6,000,000	600,000	100%	100.00					6,000,000	600,000	100%
14	Farm Machinery Corporation Ltd	330,000	33,000	100%	100.00					330,000	33,000	100%
15	Green Bhutan Corporation Ltd	330,000	33,000	100%	100.00					330,000	33,000	100%
IV	Financial Institutions	637,024	502,000		1,100.00					637,024	502,000	
16	Bhutan Development Bank Ltd	487,024	487,000	96.00%	1,000.00					487,024	487,000	96%
17	Rural Enterprise Development Corporation ^s	150,000	15,000	100%	100.00					150,000	15,000	100%
	TOTAL	464,147,734	49,344,720	-	5,300.00	1,332,029	133,200	-	-	465,479,763	49,477,620	

STATEMENT OF GOVERNMENT EQUITY PORTFOLIO FOR THE YEAR ENDED 30 June 2017

Sl. No	Corporations	Shareholding as on 1/07/2016			Investment			Amount (Nu. in millions)			Shareholding as on 30/06/2017	
		No. of shares	Value (Nu)	% Holding	Face value	No. of shares	Amount (Nu)	No. of share	Amount (Nu)	No. of shares	Value (Nu)	% Holding
B	SHAREHOLDINGS THROUGH DHI											
I	Manufacturing	133,175,993	43,892,450		2,540.00	398,300	219,830	-	-	133,574,293	44,112,280	
1	Penden Cement Authority Limited	15,210,740	152,110	44.74%	10.00					15,210,740	152,110	44.74%
2	Bhutan Board Products Limited	6,683,340	66,830	47.74%	10.00					6,683,340	66,830	47.74%
3	Bhutan Ferro Alloys Limited	3,859,460	38,590	25.73%	10.00					3,859,460	38,590	25.73%
4	Natural Resource Development Corp.	450,000	45,000	100%	100.00					450,000	45,000	100%
5	Dungsum Cement Corporation	63,739,480	6,373,950	100%	100.00					63,739,480	6,373,950	100%
6	Dungsum Polymers	4,218,900	42,190	51%	10.00					4,218,900	42,190	51%
7	Drak Green Power Corporation	30,712,866	30,712,870	100%	1,000.00					30,712,866	30,712,870	100%
8	Koufaku International Pvt. Ltd	150,000	15,000	30%	100.00					150,000	15,000	30%
9	Construction Development Corp. Ltd	6,256,430	6,256,430	100%	1,000.00	200,000	200,000			6,456,430	6,456,430	100%
10	Wood Craft Centre Limited	733,177	73,320	100%	100.00					733,177	73,320	100%
11	State Mining Corporation Ltd	1,161,600	116,160	100%	100.00	198,300	19,830			1,359,900	135,990	100%
II	Trading	9,176,050	91,760		10.00	-	-			9,176,050	91,760	
III	Services	33,215,123	11,492,790	51%	2,200.00	-	-			33,215,156	11,492,790	51.00%
13	Drak Air Corporation	22,252,111	2,225,210	100%	100.00					22,252,111	2,225,210	100.00%
14	Bhutan Telecom Corporation	854,082	854,080	100%	1,000.00					854,082	854,080	100.00%
15	Bhutan Power Corporation	8,225,118	8,225,120	100%	1,000.00					8,225,118	8,225,120	100.00%
16	Thimphu TechPark Ltd.	1,883,812	188,380	100%	100.00					1,883,845	188,380	100.00%
IV	Financial Institutions	89,117,460	2,079,180		1,020.00	1,200,000	1,200,000	2,962,697	29,630	87,354,763	3,249,550	
17	Bhutan National Bank	46,819,960	468,200	11.50%	10.00			2,962,697	29,630	37,857,263	378,570	11.50%
18	Bank of Bhutan	1,200,000	1,200,000	80%	1,000.00	1,200,000	1,200,000			2,400,000	2,400,000	80.00%
19	Royal Insurance Corporation of Bhutan Ltd	47,097,500	470,980	39.25%	10.00					47,097,500	470,980	39.25%
	TOTAL	264,684,626	57,556,180	-	5,770.00	1,598,300	1,419,830	2,962,697	29,630	263,320,262	58,946,380	

Source: Department of Macroeconomics Affairs


(Director)
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Director
Department of Public Accounts
Ministry of Finance
Thimphu : Bhutan

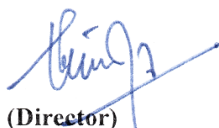

(Deputy Auditor General)
Royal Audit Authority

Deputy Auditor General
Department of Performance &
Commercial Audit
Royal Audit Authority

**STATEMENT OF REFUNDABLE DEPOSIT, REVOLVING FUND AND TRUST FUND
ACCOUNTS FOR THE FY 2016-17**

Sl. No.	Operating Agency	Opening Balance	Receipts	Payments	Closing Balance
1	Refundable Deposits Account	774.376	983.249	1,181.140	576.484
2	Bhutan Trust Fund for Environmental Conservation	3,237.888	354.876	137.852	3,454.912
3	Bhutan Health Trust Fund	1,496.040		218.722	1,658.316
4	Cultural Heritage Trust Fund	4.183	-	-	4.183
5	Revolving Fund Account for Two Wheelers, MoAF	4.673	2.193	-	6.866
6	National Centre for Animal Health	11.083	1.842	1.660	11.265
7	Sales Proceeds Revolving Fund of National Plant Protection Centre	16.414	23.968	20.482	19.900
8	Bhutan Information Communication and Media Authority	265.022	53.494	50.132	268.384
	Total	5,809.678	1,419.622	1,609.988	6,000.310

Source: BoBL, BNBL



(Director)

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Ministry of Finance
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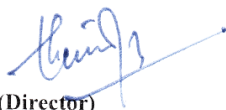
(Deputy Auditor General)
Royal Audit Authority

Deputy Auditor General
Department of Performance &
Commercial Audit
Royal Audit Authority

STATEMENT OF REVENUE COLLECTION FOR THE FISCAL YEAR 2016-17

	Source of Revenue	Gross Revenue	Refund	Net Revenue
A	Taxes	22,566.706	859.709	21,706.997
1	Taxes on Income, Profits and Capital Gains	11,009.631	605.117	10,404.514
1.1	Corporate Income Tax	8,245.076	74.778	8,170.298
1.2	Business Income Tax	1,292.261	15.358	1,276.903
1.3	Personal Income Tax	1,472.294	514.981	957.313
2	Taxes on Property	39.342	-	39.342
3	Taxes on Goods and Services	8,858.258	202.150	8,656.108
3.1	Sales Tax	4,002.049	201.929	3,800.120
3.2	Excise	3,579.663	0.000	3,579.663
3.3	Green Tax	909.873	0.221	909.652
3.4	Taxes on use of goods and on permission to use goods or perform activities	366.673	-	366.673
4	Taxes on International Trade and Transactions	614.96	52.39	562.56
5	Other Taxes	2,044.52	0.048	2,044.470
5.1	Airport Tax	126.015	0.000	126.015
5.2	Stamp Duties	16.518	0.000	16.518
5.3	Royalty	1,901.985	0.048	1,901.937
B	Other Revenue	7,054.335	287.638	6,766.697
1	Property Income	6,846.612	-	6,846.612
1.1	Interest Receipt from Corporations	1,894.664	0.000	1,894.664
1.2	Dividend	4,041.255	0.000	4,041.255
1.3	Withdrawals from income of quasi-corporations	874.067	0.000	874.067
1.4	Miscellaneous Rent	36.626	-	36.626
2	Social Contribution	207.723	287.638	(79.915)
C	Current Revenue from Government Agencies	1,038.805	12.409	1,026.396
1	Administrative Fees & Charges	736.507	0.326	736.181
2	Sale of Goods and Commodities	302.298	12.083	290.215
D	Capital Revenue from Government Agencies	219.630	6.120	213.510
	TOTAL	30,879.476	1,165.876	29,713.600

Source: Department of Revenue and Customs



(Director)


Department of Public Accounts

Director

Department of Public Accounts

Ministry of Finance

Thimphu : Bhutan



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Royal Audit Authority

CHAPTER 2

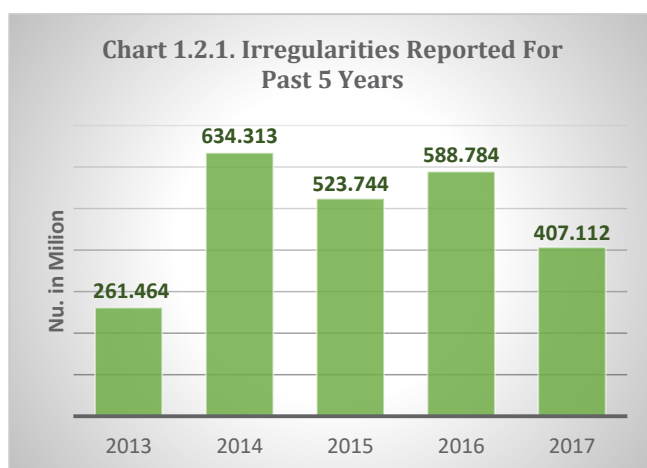
1.2. SUMMARY OF AUDIT FINDINGS

The Annual Audit Report 2017 has been compiled from 683 audit reports issued during the year. The chapter includes a summary of the certification of Annual Financial Statements of the Royal Government of Bhutan (RGoB) for the fiscal year ended 30th June 2017, summary of significant issues from audit reports issued during the year and a summary on significant issues from the joint audit of hydropower projects.

In the process of carrying out audit of the Annual Financial Statements, the RAA had also reviewed utilization of the budget approved by the Parliament for the Fiscal Year ended 30th June 2017. It was noted that as against the revised capital budget of Nu.32,659.992 million, the RGoB had utilized Nu.25,837.024 million resulting in underutilization of capital budget amounting to Nu.6,822.968 million (20.89%). The Ministry of Finance has been recommended to ascertain the reasons for underutilisation of capital budget and initiate remedial measures.

As required under the Audit Act of Bhutan 2006, the relevant excerpts of the draft AAR 2017 were circulated to all agencies concerned in January and February 2018 for factual confirmation and taking necessary actions. The draft AAR 2017 reported significant unresolved issues involving Nu.730.396 million. However, audit findings involving Nu.323.284 million representing 44.26% were resolved fully or substantially and/or were not material for inclusion in the AAR 2017 based on the actions taken and responses received from the agencies. The total unresolved significant irregularities having financial implication reflected in the AAR 2017 amounted to Nu.407.112 million as on 31st March 2018.

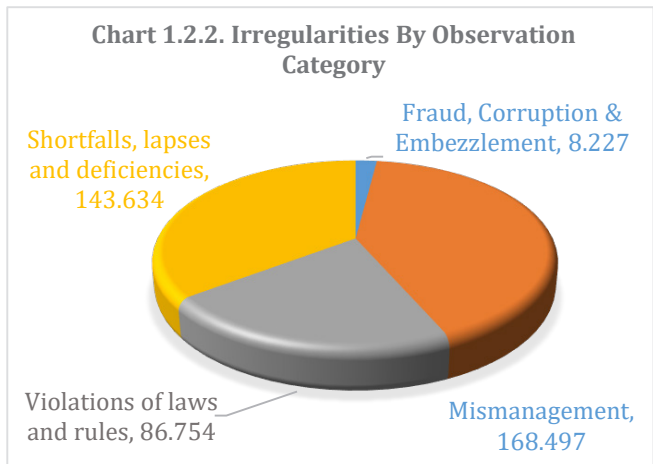
The report contains unresolved significant issues pertaining to 10 Ministries, 12 Dzongkhags Administration, 41 Gewogs Administration under 13 Dzongkhags, 12 Autonomous Agencies, 10 Corporations, and three Non-Governmental Organisations. As compared to the irregularities of Nu.588.784 million reported in AAR 2016, the irregularities have significantly decreased by 30.86%. Irregularities reported over the past five years is given in **Chart 1.2.1**.



Under the budgetary agencies, the highest amount of irregularities is reported under Ministry of Works and Human Settlement with Nu.46.611 million followed by Ministry of Health with Nu.31.335 million and Ministry of Finance with Nu.27.450 million.

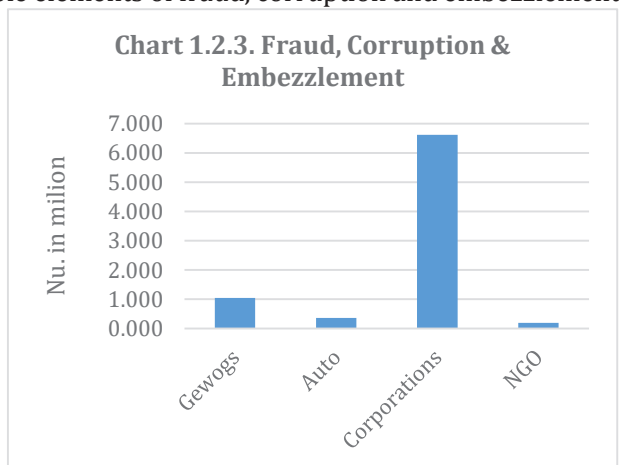
Under the non-budgetary agencies, Druk Green Power Corporation has the highest amount of reported irregularities of Nu.107.303 million followed by Bhutan Film Association with Nu.18.034 million and Penden Cement Authority Limited with irregularities of Nu.12.959 million.

The observations in AAR 2017 have been grouped into four broad audit categories. A summary of the irregularities by audit categories is given in **Chart 1.2.2** and detailed in **Tables 1.2.1 & 1.2.2** at the end of chapter. The highest amount of irregularities of Nu.168.497 million was reported under the category 'Mismanagement' followed by Nu.143.634 million under the category 'Shortfalls, Lapses and Deficiencies'. The category, 'Violations of Laws and Rules' had irregularities of Nu.86.754 million and 'Fraud, Corruption and Embezzlement' had Nu.8.227 million.



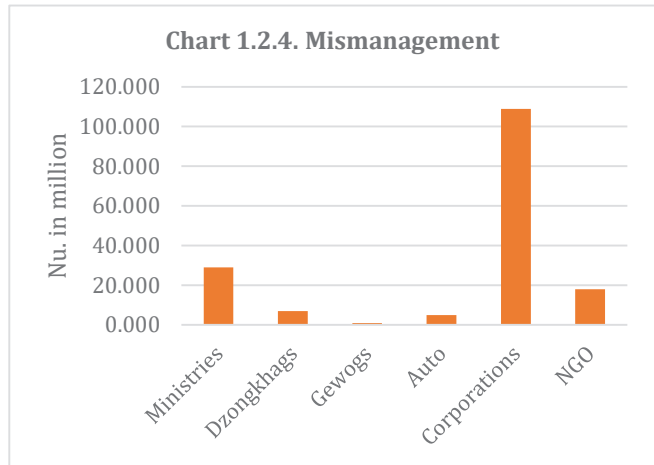
1.2.1. FRAUD, CORRUPTION AND EMBEZZLEMENT

The RAA reported cases with possible elements of fraud, corruption and embezzlement pertaining to some agencies during the year. The total amount reported under this category amounted to Nu.8.227 million representing 2.02% of the total irregularities of which Nu.6.623 million pertained to Corporations representing highest proportion with 80.50% followed by Gewogs Administration with Nu.1.043 million representing 12.68%. Autonomous Agencies with Nu.0.365 million, represented 4.44% and Non-Governmental Organisations with Nu.0.196 million represented 2.38% of the total irregularities under this category as shown in **Chart 1.2.3**.



1.2.2. MISMANAGEMENT

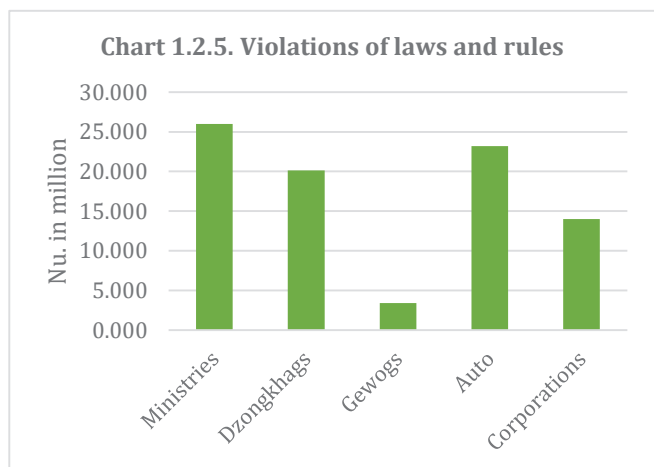
The total irregularities reported under this category amounted to Nu.168.497 million representing 41.39% of the total irregularities. The highest irregularities were reported under Corporations with Nu.108.888 million representing 64.62% followed by Ministries with irregularities of Nu.28.935 million representing 17.17%, Non-Governmental Organisations with Nu.17.912 million representing 10.63% and Autonomous Agencies had irregularities of Nu.4.925 million representing 2.92% under this category.



Dzongkhags Administration with Nu.6.892 million represented 4.09% and Gewogs Administration with Nu.0.945 million, less than 1% under this category as given in **Chart 1.2.4.**

1.2.3. VIOLATIONS OF LAWS AND RULES

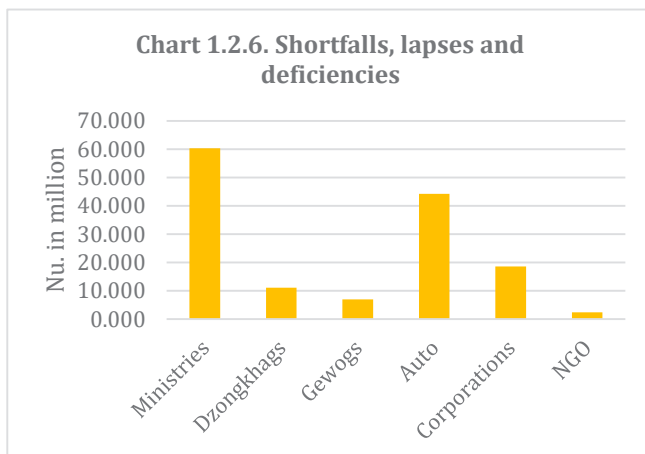
The total irregularities reported under this category amounted to Nu.86.754 million representing 21.31% of the total irregularities. As depicted in **Chart 1.2.5.**, the irregularities under Ministries with Nu.25.978 million represented 29.94% and Autonomous Agencies with Nu.23.194 million, 26.74%.



Dzongkhags Administration with Nu.20.149 million represented 23.23% and Corporations had irregularities of Nu.14.020 million representing 16.16%. Gewogs Administration with Nu.3.413 million and represented 3.93% of the total irregularities reported.

1.2.4. SHORTFALLS, LAPSES AND DEFICIENCIES

The irregularities under this category amounted to Nu.143.634 million representing 35.28% of the total irregularities. As depicted in **Chart 1.2.6.**, the Ministries had the highest amount of irregularities of Nu.60.299 million representing 41.98% of the irregularities reported under this category followed by Autonomous Agencies with Nu.44.269 million representing 30.82%. The Corporations with Nu.18.565 million represented 12.93% and Dzongkhags Administration with Nu.11.096 million, represented 7.73%. The Gewogs Administration had irregularities of Nu.6.981 million representing 4.86% and the Non-Governmental Organisations represented 1.69% with Nu.2.424 million of the total irregularities.



1.2.5. SUMMARY OF JOINT HYDROPOWER AUDITS

The irregularities reported for three Joint Audits of Hydro Power Projects amounted to Nu.3,902.652 million, of which PHPA-II had the highest irregularities with Nu.3,001.601 million followed by PHPA-I with Nu.819.240 million and the MHPA with Nu.81.811 million.

The irregularities under the audit categories are as illustrated in **Chart 1.2.7.** The highest irregularities were reported under the category Violations of Laws and Rules with Nu.3,788.679 million representing 97.08% of the total irregularities. The category Shortfalls, lapses and deficiencies had reported irregularities of Nu.107.915 million and Mismanagement with Nu.6.058 million represented 2.77% and less than 1% respectively. There were no irregularities reported under the Fraud, corruption and embezzlement category.

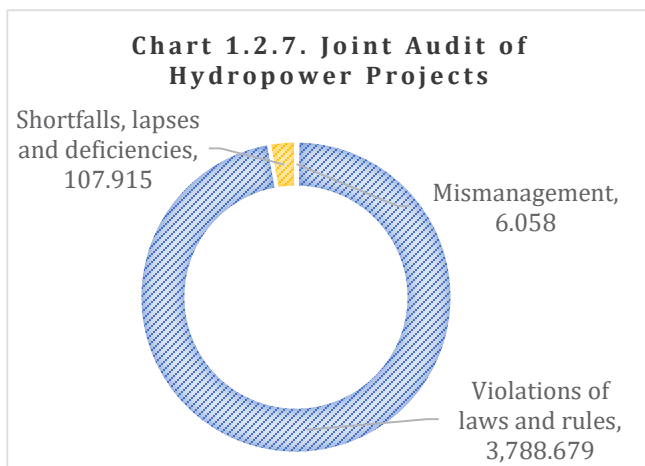


Table 1.2.1: Summary of irregularities with categories and amount involved as reported in Annual Audit Report 2017 with respect to budgetary agencies

Sl. No.	Audit Observation Category	MoWHS	MoH	MoF	MoAF	MoE	MoLHR	MoFA	MoEA	MoHCA	MOIC	Dzong khags	Gewogs	Auto	Total Nu. in million
1	Fraud, Corruption	-	-	-	-	-	-	-	-	-	-	-	0.416	0.096	0.512
1.2	Malpractices & abuses												0.416	0.096	0.512
2	Embezzlement	-	-	-	-	-	-	-	-	-	-	-	0.627	0.269	0.896
2.1	Misappropriation												0.170		0.170
2.2	Non/short- accountal												0.457	0.269	0.726
3	Mismanagement	-	2.170	26.765	-	-	-	-	-	-	-	6.892	0.945	4.925	41.697
3.1	Mismanagement of funds	2.170										6.892	0.945		10.007
3.2	Mismanagement of revenue and taxes			26.765										4.925	31.690
4	Violation of laws & rules	1.596	18.769	0.496	2.280	1.473	1.364	-	-	-	-	20.149	3.413	23.194	72.734
4.2	Violation of budgetary norms	-			0.083										0.083
4.2	Violation of accounting norms	1.236	16.534	2.197								17.847	1.024	2.445	41.283
4.3	Violation of procurement norms	0.360	2.235	0.496		1.473				-		2.113	2.389	20.749	29.815
4.4	Violation of Acts, Directives and Policies											0.189		-	0.189
4.5	Violation of other laws, rules & regulations		-				1.364							-	1.364
5	Shortfalls, lapses and deficiencies	45.015	10.396	0.189	2.787	0.263	0.138	-	0.963	0.448	0.100	11.096	6.981	44.269	122.645
5.1	Over/inadmissible/irregular/double payments	0.129	0.527	0.144	0.575				0.963			6.068	1.913	5.320	15.639
5.2	Non- maintenance of records				0.077									-	0.077
5.3	Non-reconciliation/certification of balances		0.742									0.397	-	-	1.139
5.4	Irregularities in advances	38.707		0.045	1.515	0.263		-				1.486	-	38.058	80.074
5.5	Irregularities in recoveries	5.253	9.127				0.060				0.100		1.016	0.196	15.752
5.6	Irregularities in property management									0.448			0.210	0.135	0.793
5.7	Non/short deductions	0.926					0.078					0.035	0.303	0.221	1.563
5.8	Shortfalls & uneconomical operations											3.110	0.390	0.339	3.839
5.9	Inadequate safeguard of environment & cultural heritage												0.446		0.446
5.10.	Inadequate safeguard of environment				0.620										0.620
5.11.	Missing documents/receipts												2.703		2.703
		46.611	31.335	27.450	5.067	1.736	1.502	-	0.963	0.448	0.100	38.137	12.382	72.753	238.484

Table 1.2.2: Summary of irregularities with categories and amount involved as reported in Annual Audit Report 2017 with respect to non-budgetary agencies

SI. No.	Audit Observation Category	DGPCL	PCAL	BPCL	AWPL	CDCL	DCCL	KCL	NRDCL	DHI	DPL	BFA	BTFC	CAB	Total Nu. in million
1	Fraud, Corruption	-	6.623	-	-	-	-	-	-	-	-	-	-	0.196	6.819
1.1	Malpractices & abuses		6.623												6.623
1.2	Non/short-accoutal													0.196	0.196
3	Mismanagement	107.303	1.585	-	-	-	-	-	-	-	-	17.912	-	-	126.800
3.1	Mismanagement of funds	10.283	1.585												11.868
3.2	Mismanagement of properties										17.912				17.912
3.3	Mismanagement of revenue and taxes	97.020													97.020
4	Violation of laws & rules	-	2.084	1.800	7.214	-	2.922	-	-	-	-	-	-	-	14.020
4.1	Violation of procurement norms		2.084	1.800	7.214		2.922	-							14.020
5	Shortfalls, lapses and deficiencies	-	2.668	6.072	0.536	7.459	0.506	1.214	0.060	0.050	-	0.122	2.085	0.217	20.989
5.1	Over/inadmissible/irregular/double payments					7.459				0.050					7.509
5.2	Improper maintenance of records													-	-
5.3	Non-reconciliation/certification of balances							0.130							0.130
5.4	Irregularities in advances			3.793										0.217	4.010
5.5	Irregularities in recoveries		2.668					-					1.330		3.998
5.6	Irregularities in property management						0.506				0.122				0.628
5.7	Non/short deductions				0.048										0.048
5.8	Shortfalls & uneconomical operations			2.279	0.488				0.060		-				2.827
5.9	Pending disputes & court cases							1.084							1.084
5.10.	Missing documents/receipts												0.755		0.755
		107.303	12.960	7.872	7.750	7.459	3.428	1.214	0.060	0.050	-	18.034	2.085	0.413	168.628

CHAPTER 3

1.3. DETAILED AUDIT FINDINGS

The chapter contains the summaries of unresolved significant audit observations from the audit reports issued during the year. The draft AAR 2017 reported significant issues involving Nu.730.396 million. The total unresolved significant irregularities having financial implication of Nu.407.113 million as on 31st March 2018 are reflected in the AAR 2017.

1.3.1. MINISTRIES

1.3.1.1. MINISTRY OF WORKS AND HUMAN SETTLEMENT

During the year, the RAA had issued 24 audit reports of the Ministry of Works and Human Settlement, its departments, divisions and units. There were 123 observations amounting to Nu.252.619 million of which 71 observations amounting to Nu.140.234 million were either resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion. The significant irregularities reported in the draft AAR 2017 amounted to Nu.112.385 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the Ministry, its departments, divisions and units, observations amounting to Nu.65.774 million were resolved. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.46.611 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Violation of laws and rules	1.596	4
2	Shortfalls, lapses and deficiencies	45.015	5
	Total	46.611	

1. Violation of laws and rules - Nu.1.596 million

There were cases of violation of laws and rules involving Nu.1.596 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
1.1	Non-settlement of closed work account even after four financial years	1.236
1.2	Wrong Booking of Capital Expenditure as Current Expenditure	-
1.3	Non-reduction in cost of Chamber upon reduction in its size for future payment	-

1.4	Non-rectification of defective works	-
1.5	Booking of expenditure without actual execution of work	-
1.6	Booking of expenditure against approach road to Lakhu	-
1.7	Non-fixing of Air Conditioner	0.360
1.8	Mismatch of key personnel committed in contract with that of actual deployment for supervision consultancy services for Integrated Check Post (ICP) at Rinchending, Chukha	-
Total		1.596

The cases of violation of laws and rules are as indicated below:

1.1. NON-SETTLEMENT OF CLOSED WORK ACCOUNT EVEN AFTER FOUR FINANCIAL YEARS - NU.1.236 MILLION

The Regional Office, DoR, Sarpang had not settled closed work account with a credit balance of Nu.1.236 million. The closed work booked in the financial year 2010-2011 remained unpaid even after lapse of four years. The management reported it as a system error while transferring from BAS to PEMS in 2010-2011. *AIN: 14948; Para: 1; Accountabilities: Direct: Dhan Bdr. Rai, Accountant, EID No. 8712041; Supervisory: Chet Bdr. Monger, Chief Engineer, EID No. 8908094*

1.2. WRONG BOOKING OF CAPITAL EXPENDITURE AS CURRENT EXPENDITURE

The Regional Office, DoR, Phuentsholing had wrongly booked capital expenditure of Nu.0.074 million incurred on 'Resurfacing work on Rinchending-Pasakha Highway' under the Current Expenditure head of TA/DA payments, which was in violation to the FRR 2001. The lapses had occurred apparently due to failure on part of the verifying and supervising officials in exercising necessary checks to ensure correct booking of expenditure under appropriate heads. *AIN: 14390; Para: 1.1; Accountabilities: Direct: Sonam Tshewang, Account Assist-I, EID No. 9110023; Supervisory: Dorji Wangdi, Chief Engineer, EID No. 8601100*

1.3. NON-REDUCTION IN COST OF CHAMBER UPON REDUCTION IN ITS SIZE FOR FUTURE PAYMENT

The Department of Engineering Services implemented World Bank Project (Additional Financing) had not reduced the cost for constructing/installing telecommunication chambers and networks, although Bhutan Telecom had revised and reduced dimensions and specifications of chambers from initial drawings of 1.8x1.8x1.5m to 1.5x1.5x1.325m. In addition, there were no approval accorded for the revised drawing that led to the reduction in scope of work. *AIN: 14876; Para: 2; Accountabilities: Direct: Ashok Sunar, Executive Engineer, EID No. 200601106 and Thinley Penjor Engineer, EID No. 201001177; Supervisory: Pekar Rabgay, Project Manager, PIU, EID No. 9009029*

1.4. NON-RECTIFICATION OF DEFECTIVE WORKS

- a) The Regional Office, DoR, Lobeysa had not directed the contractor to rectify defective works noted in the Resurfacing/Black Topping of the Tongtsana Road (5.26 km) at Punakha caused by the premature failure of Bitumen Sealing works. This was due to immediate execution of pavement works before allowing the required setting time for bitumen coating. *AIN: 14779; Para: 3; Accountabilities: Direct: Ugen Dorji, Executive Engineer, EID No. 9207049; Supervisory: Garja Man Rai, Chief Engineer, EID No. 8212026*
- b) The Regional Office, DoR, Lobeysa had not directed the contractor to rectify defective works noted in the construction of approach road to Waste Disposal area and Zabsa Goenba under Gasas Dzongkhag. 53 meters of L-Drains between Zameychu and Gasas SNH (2.15 km) were completely covered with mud and debris at the take off point and the falling boulders damaged another 30 meters. *AIN: 14779; Para: 4; Accountabilities: Direct: Ugen Dorji, Executive Engineer, EID No. 9207049; Supervisory: Garja Man Rai, Chief Engineer, EID No. 8212026*
- c) The Regional Office, DoR, Lobeysa had not directed the contractor to rectify defective works noted in the laying of Wet Mix Macadam and Asphalt Concrete along Punakha-Gasa Secondary National Highway. *AIN: 14779; Para: 5; Accountabilities: Direct: Ugen Dorji, Executive Engineer, EID No. 9207049; Supervisory: Garja Man Rai, Chief Engineer, EID No. 8212026*
- d) The Regional Office, DoR, Samdrupjongkhar had not rectified defective works noted in the resurfacing work on Dewathang-Phuntshothang Secondary National Highway (SNH). Defects such as cracks on the newly blacktopped road surface and peeling off of bituminous surface exposing the Wet Mix Macadam in some of the areas had occurred due to heavy traffic that arose with the establishment of coal mines in Phuntshothang. In addition, although the Dewathang-Phuntshothang Connectivity road falls under the SNH, the Regional Office, DoR had failed to take into consideration the volume of traffic while developing the bitumen specification (thickness). *AIN: 14961; Para: 9; Accountabilities: Direct: Nim Dorji, JE, Regional Office, EID No. 200507197; Supervisory: Karma, AE, EID No. 9607011*
- e) The Regional Office, DoR, Lobeysa had not directed the contractor to rectify defects noted in the resurfacing/Blacktopping of Punakha-Gasa Secondary National Highway (SNH) between chainage 21km-35km. The defective works requiring rectifications was pointed out during previous audit as well, but were not carried out at the time of audit in September 2017. *AIN: 14978; Para: 3; Accountabilities: Direct: Karma Phuntsho, Junior Engineer, EID No. 20140704534; Supervisory: Ugyen Regional Office, Dorji, Assistant Engineer-I, EID No. 9207049*
- f) The Regional Office, DoR, Trongsa had not directed the contractor to rectify defective works noted in the construction of resurfacing works of Katigang to

Khosala on Trongsa-Gelephu Primary National Highway. The premix carpeting of bitumen on the road surface in most of the stretches were found defective and not rectified. The defects had developed due to construction of poor drainage system that caused water to stagnate on the road with resultant deterioration of the strength of bitumen and further damages caused by vehicles plying on the road. In addition, the road lacked monsoon mitigation works for slide prone areas. *AIN: 14970; Para: 4.2; Accountabilities: Direct: Sonam Dorji, Assistant Engineer-IV, EID No. 9301054; Supervisory: Phuntsho, Assistant Engineer-II, EID No. 2007704*

1.5. BOOKING OF EXPENDITURE WITHOUT ACTUAL EXECUTION OF WORK

The Regional Office, DoR, Lobeysa had booked an expenditure of Nu.0.984 million without execution of works in the construction of roads at Tongshana, Punakha during FY 2016-17. The management had passed journal vouchers for adjustment of bills for Bitumen procured for the blacktopping of Tongshana Road which had been completed in the FY 2015-2016.

It was later stated that the expenditure was in fact for procurement of bitumen to be used for rectification of defective works noted during the last audit, after monsoon season was over. However, there was no bitumen at site indicating that the adjustments were made merely to avoid lapse of budget. *AIN: 14978; Para: 4.1; Accountabilities: Direct: Karma Phuntsho, Junior Engineer, EID No. 20140704534; Supervisory: Ugyen Dorji, Assistant Engineer-I, EID No. 9207049*

1.6. BOOKING OF EXPENDITURE AGAINST APPROACH ROAD TO LAKHU

The Regional Office, DoR, Lobeysa had booked an expenditure of Nu.1.050 million in June 2017 towards the cost of Bitumen and Emulsion for the black-topping works in the construction of approach road at Lakhu. The materials were not received from Central Stores in Phuentsholing even at the time of audit in September 2017 and it was later revealed that the expenditure was booked to avoid lapse of fund. *AIN: 14978; Para: 6; Accountabilities: Direct: Karma Phuntsho, Junior Engineer, EID No. 20140704534; Supervisory: Ugyen Dorji, Assistant Engineer-I, EID No. 9207049*

1.7. NON-FIXING OF AIR CONDITIONER – NU.0.360 MILLION

The Regional Office, DoR, Phuentsholing had made payments of Nu.0.360 million to the contractor for 'Providing & fixing of window type Air Conditioner and drawing TV cable line' in the construction of Sub-Division Office at Samtse. However, the air conditioning equipment had not been installed and were found lying idle at the office. The lapse had occurred due to lack of supervision and monitoring of work and certifying the contractor's claims without proper verification. *AIN: 15018; Para: 5.1.3; Accountabilities: Direct: Ugyen Tenzin, Assistant Engineer-III, EID No. 200607204; Supervisory: T.B. Powdel, Executive Engineer, EID No. 9412010*

1.8. MISMATCH OF KEY PERSONNEL COMMITTED IN CONTRACT WITH THAT OF ACTUAL DEPLOYMENT FOR SUPERVISION CONSULTANCY SERVICES

The Department of Engineering Services had violated the provisions of the contract in accepting replacement of key personnel for supervision consultancy services in the construction of Integrated Check Post (ICP) at Rinchening, Chhukha. As per the provisions of the contract *“The Project Manager shall approve any proposed replacement of key personnel only if their relevant qualifications and abilities are substantially equal to or better than those of the personnel listed in the Schedule”*.

However, the Department had accepted two lesser qualified engineers in place of the committed Supervision Construction Engineer with 17 years of experience vide letter No.MoWHS/DES/ESD/STR-07(02)/2016-2017/1037 dated 21st September 2016. *AIN: 14797; Para: 4; Accountabilities: Direct: Dechen Norbu, Executive Engineer, EID No. 200601096; Supervisory: Tenzin, Director, DES, EID No. 9801115*

2. Shortfalls, lapses and deficiencies - Nu.45.015 million

There were cases of shortfalls, lapses and deficiencies involving Nu.45.015 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
2.1	Non-employment of TTI graduates and interns in the construction company and recoverable penalty	0.926
2.2	Excess Payment	0.129
2.3	Award of contract without obtaining environment clearance from National Environment commission	0
2.4	Non-renewal of Environment clearance	0
2.5	Outstanding advances	43.960
Total		45.015

The cases of shortfalls, lapses and deficiencies are as indicated below:

2.1. NON-EMPLOYMENT OF TTI GRADUATES AND INTERNS IN THE CONSTRUCTION COMPANY AND RECOVERABLE PENALTY - NU.0.926 MILLION

The Regional Office, DoR, Trongsa had not levied penalties amounting to Nu.0.926 million on contractors for breach of contract, by not engaging TTI/VTI graduates in the construction works as committed during tendering and award of contract work. The PRR allows awarding of preference score to contractors for the number of VTI graduates employed and committed to be engaged for internship. During the year 2016-2017, the Regional Office had evaluated and awarded to various contractors who committed to recruit TTI/VTI graduates and interns during tendering.

However, contractors had failed to engage said graduates and interns at the time of execution of works and were liable to pay penalties for the following works:

- a. Black Topping works on Tang GC Road - Nu.0.085 million;
- b. Black Topping works on Nubji-Korphu GC road - Nu.0.247 million;
- c. Black Topping on Bjeezam-Bemji GC Road – Nu.0.203 million;
- d. Construction of Dangdung Bridge at Rafee-Khosala Bypass road – Nu.0.243 million; and
- e. Construction of Chulekha Bridge at Nabji-Korphoog GC road – Nu.0.149 million.

The lapses had occurred due to non-compliance to the special conditions of the contracts. *AIN: 14970; Para: 8; Accountabilities: Direct: Sonam Dorji, Assistant Engineer-IV, EID No. 9301054; Tashi Dorji, Assistant Engineer-III, EID No. 2107149; Sonam Choki, Junior Engineer, EID No. 20140704531; Supervisory Accountability : Sangay Dorji, Executive Engineer, EID No. 9307024; Phuntsho, Assistant Engineer-II, EID No. 2007704; Tashi Dorji, Assistant Engineer-III, EID No. 2107149*

2.2. EXCESS PAYMENT TO CONTRACTOR - NU.0.129 MILLION

The Regional Office, DoR, Trongsa had made excess payments of Nu.0.129 million to the contractor in the resurfacing works of Katigang to Khosala on Trongsa-Gelephu Primary National Highway due to differences in the quantities of works claimed as against the actual works executed at site. *AIN: 14970; Para: 4.1; Accountabilities: Direct: Sonam Dorji, Assistant Engineer-IV, EID No. 9301054; Supervisory: Phuntsho, Assistant Engineer-II, EID No. 2007704*

2.3. AWARD OF CONTRACT WITHOUT OBTAINING ENVIRONMENT CLEARANCE FROM NECS

The Regional Office, DoR, Trongsa had not obtained Environmental Clearance from the National Environment Commission Secretariat for the improvement work on Serpang-Ura PNH (chainage 205-247) road widening works awarded at Nu.12.300 million against the estimated amount of Nu.21.136 million. *AIN: 14970; Para: 6; Accountabilities: Direct: Khamba Dorji, Engineer, EID No. 9207044; Supervisory: Tougay Choedup, Chief Engineer, EID No. 9107099*

2.4. NON-RENEWAL OF ENVIRONMENTAL CLEARANCE

The Regional Office, DoR, Trongsa had not renewed the expired Environmental Clearance for the construction of Refee-Khosala bypass Road (0.00-6.00 Km). As per the Environmental Assessment Act of Bhutan 2000, an Environment Clearance for a project was required to be reviewed, revised and renewed at least once in five years, unless a shorter period was stated. *AIN: 14970; Para: 7; Accountabilities: Direct: Roshan Giri, Site Engineer, EID No. 200901089; Supervisory: Phuntsho, Assistant Engineer-II, EID No. 2007704*

2.5. OUTSTANDING ADVANCES - NU.43.960 MILLION

- a) The Regional Office, DoR, Tingtibi had overdue advances amounting to Nu.34.547 million against parties. Public Works Advances amounting to

Nu.24.167 million were released from the Letter of Credit account for procurement of Bitumen. Nu.10.380 million were released from Project Letter of Credit account as Secured advances, Mobilization advance, etc. related to court cases. *AIN: 14966; Para: 2.1 and 2.2.; Accountabilities: Direct: Tenzin Wangchu, Accountant, EID No. 9404031; Thinley Namgyel, Accountant, EID No. 9604090; Supervisory: Karma Dorji, Chief Engineer, EID No. 9107122*

- b) The Department of Engineering Services had overdue advances amounting to Nu.5.253 million against officials. Public Works Advances of Nu.1.164 million were given for 'Kalikhola River Protection Works', and Nu.4.089 million for 'Bomdeling Flood Protection works' during the financial year 2016-2017. The accumulation of huge outstanding advances had occurred due to lack of proper follow-up mechanism over the releases of funds and progress of works as well as submission of adjustment accounts. *AIN: 14797; Para: 1; Accountabilities: Direct: Prakash Gurung, Assistant Engineer-III, EID No. 200508202; Nima Wangdi, Engineer, EID No. 20150105088; Supervisory: Phub Rinzin, Chief Engineer (Director) EID No. 9207069; Pema, Executive Secretary, EID No. 9801096; Tashi Gyeltshen, Drungpa, EID No. 9208036; Tshering Wangchuk, Dzongkhag Engineer, EID 9307023*
- c) The Regional Office, DoR, Trongsa had overdue Public Works Advances amounting to Nu.4.160 million against parties paid during FY 2015-2016 and 2016-2017. *AIN: 14970; Para: 5; Accountabilities: Direct: Tsheten Wangchuk, Account Assistant-IV, EID No. 9404043; Supervisory: Tougay Choedup, Chief Engineer, EID No. 9107099*

1.3.1.2. MINISTRY OF HEALTH

During the year, the RAA had issued 21 audit reports of the Ministry of Health, its departments, division and units. There were 27 observations amounting to Nu.56.003 million of which six observations amounting to Nu.22.137million were either resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion. The significant irregularities reported in the draft AAR 2017 amounted to Nu.33.866 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the Ministry, its departments, divisions and units, observations amounting to Nu.2.531 million were resolved. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.31.335 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Mismanagement	2.170	3
2	Violation of laws and rules	18.769	4
3	Shortfalls, lapses and deficiencies	10.396	5
Total		31.335	

1. Mismanagement – Nu.2.170 million

The case of mismanagement is as indicated below:

1.1. AVOIDABLE EXPENDITURE DUE TO IMPROPER PLANNING WITH RESULTANT WASTAGE OF GOVERNMENT RESOURCES - NU.2.170 MILLION

The Department of Medical Supplies and Health Infrastructure had incurred an avoidable expenditure of Nu.2.170 million in the construction of approach road to old Dewathang Hospital due to improper planning with resultant wastage of huge resources in the GOI funded project 'Construction of 40 bedded Dzongkhag Hospital, Dewathang'. The approach road was constructed at a cost of Nu.2.673 million to connect Out Patient Department and Operation Theater (OT) taking into consideration the smooth and safe transport of serious patients from the ward to OT as well as safety and hygiene of the patients visiting the Hospital.

However, road valuing Nu.0.503 million only were found at site, with rest of road valuing Nu.2.170 million demolished to create space for the Construction of new 40 bedded Dewathang Hospital. The construction of an approach road despite having knowledge of upcoming new hospital at the same location were indicative of lack of proper planning which led to wastage of public resources. *AIN: 14998; Para: 1; Accountabilities: Direct: Dorji Rabten, Project Manager, EID No. 2107156; Gyembo, Civil Engineer, EID No. 20130101174; Supervisory: Kuenzang Namgyel, Chief Engineer, EID No. 200301027*

2. Violation of Laws & Rules – Nu.18.769 million

There were cases of violations of laws and rules involving Nu.18.769 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
2.1	Refund of LD for Samtse Hospital construction project from another PLC fund	10.640
2.2	Inappropriate booking of expenditure	5.894
2.3	Procurement of extension kits through Limited Tender	1.353
2.4	Non-levy of liquidated damages (LD) against incomplete medical supplies	0.882
2.5	Medical supplies accepted without undergoing proper Quality Inspection (QI) procedures	0.00
	Total	18.769

The cases of violations of laws and rules are as indicated below:

2.1. REFUND OF LIQUIDATED DAMAGE FOR SAMTSE HOSPITAL CONSTRUCTION PROJECT FROM ANOTHER PLC FUND - NU.10.640 MILLION

The Department of Medical Supplies and Health Infrastructure had made refund of Nu.10.640 million to M/s Gongphel Construction vide Voucher No. 6.22 on 1st June 2017 on account of 'refund of liquidated damages imposed for 92 days delay in construction of 40 bedded Samtse Hospital' (PLC account No. 208.01/2022). The refund was made as per the Arbitral Award (*Case Reference No: CAFC/2016-17/03* of the Arbitral Tribunal) and was paid from the GOI funded project '*Construction of 40-bedded Dzongkhag Hospital, Dewathang*'; *Tsirang Hospital*; and *MCH building at JDWNRH* (PLC account No.208.01/2024).

Use of project fund for other projects was not appropriate as it would impede the work progress of the project. Instead, the refund should have been made from specific project fund or by obtaining corresponding release from the government if the same was deposited to RGR Account. *AIN: 14998; Para: 3; Accountabilities: Direct: Ugyen Tenzin, Project Manager, EIN No. 9507022; Sonam Jamtsho, Former Director, EID No. 9306020; Supervisory: Tsheten Dorji, Offtg. Chief Engineer, EID No. 9407002*

2.2. INAPPROPRIATE BOOKING OF EXPENDITURE - NU.5.894 MILLION

The Department of Medical Supplies and Health Infrastructure had made inappropriate booking of expenditure of Nu.5.894 million in the GOI funded project '*Construction of 40-bedded Dzongkhag Hospital, Dewathang*'. Scrutiny of documents revealed that Nu.0.574 million was paid to M/s Mowongpa Water Solutions on 1st June 2016 as "*Final payment for supply and installation of firefighting system in the New PHL building at Serbithang*", and Nu.5.320 million (from the total of Nu. 10.640 million) was paid to M/s Gongphel Construction on 6th January, 2017 as "*Refund of liquidated damages as per the resolution of the arbitration case for the construction of 40 bedded Samtse Hospital*", both were booked from the budget for '*Construction of 40 bedded Dzongkhag Hospital, Dewathang*' (FIC 2958).

Since all projects have individual finance codes, the booking of expenditures of other projects under FIC 2958 '*Construction of 40-bedded Dzongkhag Hospital, Dewathang*' was inappropriate and had inflated the expenditure of the project. The concerned accountant and the supervising officials had failed to exercise necessary checks to ensure the correct reporting of expenditure under respective hospital constructions. *AIN: 14998; Para: 2; Accountabilities: Direct: Dorji Rabten, Project Manager, EID No. 2107156; Supervisory: Kuenzang Namgyel, Chief Engineer, EID No. 200301027*

2.3. PROCUREMENT OF EXTENSION KITS THROUGH LIMITED TENDER - NU.1.353 MILLION

The Ministry of Health implemented '*Global Fund to fight AIDS, Tuberculosis and Malaria Program*' (for Tuberculosis) project had awarded the contract for procuring Village Health Worker (VHW) extension kits worth Nu.1.353 million through 'Limited Tender'

in violation to the Procurement Rules and Regulations (PRR) 2009. As per the PRR 2009, the procurement of Goods & Consultancy Services above Nu.0.300 million require 'Open Tender/Bidding'. The deviation from the prescribed threshold limit had restricted wider participation from potential bidders and hence, not obtained competitive prices. *AIN: 14838; Para: 1; Accountabilities: Direct: Nim Dem, Health Assistant, DoPH, EID No. 200707211; Supervisory: Mindu Dorji, Offtg. CPO, NCDD, EID No. 8204036*

2.4. NON-LEVY OF LIQUIDATED DAMAGES AGAINST INCOMPLETE MEDICAL SUPPLIES - NU.0.882 MILLION

The Department of Medical Supplies and Health Infrastructure had not levied liquidated damages amounting to Nu.0.882 million for the medical supplies worth Nu.12.962 million that was not supplied. The LD was not levied apparently due to non-renewal of performance guarantee and lack of adequate co-ordination amongst relevant Divisions and Units of the DMSHI. *AIN: 14945; Para: 1; Accountabilities: Direct: Tshering Chenzom, PO, EID No. 200705051; Yangley Dorji, APO, EID No. 200607051; Thinley Dema, APO, EID No. 2012050353; Tshewang Jamtsho, PO, EID No. 200605041; Jangchup Peljor, Pharmacist, EID No. 20140103198; Pema Wangchuk, Pharmacist, EID No. 9003051; Supervisory: Rudra Mani Dhimal, CPO, EID No. 2001022*

2.5. MEDICAL SUPPLIES ACCEPTED WITHOUT UNDERGOING PROPER QUALITY INSPECTION PROCEDURES

The DMSHI had procured 14 patient monitors worth Nu.1.540 million (Nu.0.110 million per unit) out of which six monitors worth Nu.0.660 million were supplied without complete accessories like power cable and temperature probe. As a result, six patient monitors had remained idle. The lapses had occurred apparently due to inspection of the equipment on sample basis by the Quality Inspection Team of Health Care & Diagnostic Division. *AIN: 14945; Para: 2; Accountabilities: Direct: Thinley Norbu, OT Technologist, EID No. 2107060; Supervisory: Devi Bhakta Acharya, CPO, EID No. 2101174*

3. Shortfalls, lapses and deficiencies – Nu.10.396 million

There were cases of shortfalls, lapses and deficiencies involving Nu.10.396 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
3.1	Non-settlement of outstanding advances against BPCL	9.127
3.2	Obtaining of excess release of Refundable Deposit Releases than the actual payments to be made to the contractors/parties	0.538
3.3	Excess/double/inadmissible Payments	0.527
3.4	Excess refund of refundable deposits against shortage in refundable release obtained from DPA	0.204
3.5	Non-production of records of procurement	-
	Total	10.396

The cases of shortfalls, lapses and deficiencies are as indicated below:

3.1. NON-SETTLEMENT OF OUTSTANDING ADVANCES AGAINST BPCL - NU.9.127 MILLION

The Department of Medical Services and Health Infrastructure had outstanding Public Works Advances amounting to Nu.9.127 million released to the Bhutan Power Corporation Limited, Thimphu for the relocation of 2x1500 KVA and 1250 KVA substation. The PW Advances given from the GoI Funded Project 'Construction of Gyaltsuen Jetsuen Pema Mother and Child Hospital' had remained unadjusted for over 2 years at the time of audit in October 2017. *AIN: 15017; Para: 2; Accountabilities: Direct: Sonam Tshering, Engineer (E), EID No. 9910689U; Supervisory: Kunzang Namgyel, Chief Engineer, EID No. 200301027*

3.2. REFUNDABLE DEPOSIT RELEASES OBTAINED IN EXCESS OF ACTUAL PAYMENTS - NU.0.538 MILLION

The Department of Medical Supplies and Health Infrastructure implemented 'Construction of 40-bedded new Samtse Hospital' project funded by the GOI had received refundable releases amounting to Nu.5.979 million from the DPA, MoF of which the project had refunded total of Nu.5.441 million leaving a balance of Nu.0.538 million which was neither paid to contractor/suppliers nor deposited back into the refundable deposit account at the end of the financial year 2015-16.

The lapses had apparently occurred due to processing of excess release with DPA instead of requisitioning the refundable release based on the actual claims of the contractors/parties. *AIN: 14989; Para: 4.1; Accountabilities: Direct: Chandra Moni Panda, Accounts Asst. EID No. 200307139; Supervisory: Choening Pelden, DCAO, EID No. 9610067*

3.3. EXCESS/ INADMISSIBLE PAYMENTS IN THE CONSTRUCTION OF 40-BEDDED NEW SAMTSE HOSPITAL - NU.0.527 MILLION

- a) The Department of Medical Supplies and Health Infrastructure implemented 'Construction of 40-bedded new Samtse Hospital' project funded by the GOI had made excess payments of Nu.0.395 million for civil works, road and landscaping works. The quantities of works claimed in the contractor's Bill and Measurement Book was higher than the actual quantity of works executed at site with resultant over payment to the contractor. The lapses had occurred apparently due to inadequate supervision and improper verification of contractor's bills and recording of measurements in the MB without cross verifying with the actual quantum of works executed at site by the Site Engineer. The Supervising Engineer had also failed to exercise necessary verification to ensure the admissibility of contractor's claims. *AIN: 14989; Para: 1.2; Accountabilities: Direct: Deki Yangzom, JE Civil, CID No. 11902001031; Supervisory: Ugyen Tenzin, Project Manager, EID No. 9507022*
- b) The Department of Medical Supplies and Health Infrastructure implemented 'Construction of 40-bedded new Samtse Hospital' project funded by the GOI had

made payments of Nu.0.132 million to contractor for the items of work 'providing and fixing electrical works, HVAC, Fire-Fighting and Medical gas items' not executed at site. The lapses had occurred apparently due to inadequate supervision and improper verification of contractor's bills and recording of measurements in the MB without cross verifying with the actual quantum of works executed at site by the Site Engineer. The Supervising Engineer had also failed to exercise necessary checks to ensure the admissibility of contractor's claims. *AIN: 14989; Para: 1.1; Accountabilities: Direct: Tshering Wangmo, JE Electrical, CID No. 11005003094; Supervisory: Dechen Dema, Dy. Executive Engineer, EID No. 200801061*

3.4. REFUNDABLE DEPOSITS PAID IN EXCESS OF ACTUAL RELEASES OBTAINED - NU.0.204 MILLION

The Department of Medical Supplies and Health Infrastructure had refunded Nu.3.975 million to contractors/suppliers against the refundable releases of Nu.3.771 million obtained from the DPA, MoF during the financial year 2016-17 in the GOI funded project 'Construction of 40-bedded new Samtse Hospital'. The balance amount of Nu.0.204 million were found met from normal budgetary releases. *AIN: 14989; Para: 4.3; Accountabilities: Direct: Chandra Moni Panda, Accounts Asst. EID No. 200307139; Supervisory: Choening Pelden, DCAO, EID No. 9610067*

3.5. NON-PRODUCTION OF RECORDS OF PROCUREMENT

The Ministry of Health had not produced procurement related records and documents such as tender documents; bidding documents; and tender evaluation reports, for the procurement of various drugs and medical supplies valuing Nu.7.049 million in the 'Global Fund to fight AIDS, Tuberculosis and Malaria Program' (for HIV/AIDS). The Project Management and JDWNRH Management neither produced relevant documents during audit, nor responded to the audit finding prior to finalization of the audit report and AAR 2017. Non-production of records is considered a lapse of serious nature. *AIN: 14839; Para: 4; Accountabilities: Direct: Ugyen Dorji, Pharmacist, JDWNRH, EID No. 200201121; Supervisory: Kezang Jigme, Head, Procurement Division, JDWNRH, EID No. 8604079*

1.3.1.3. MINISTRY OF FINANCE

During the year, the RAA had issued 14 audit reports of the Ministry of Finance, its departments, divisions and projects. There were 21 observations amounting to Nu.41.176 million of which five observations amounting to Nu.1.317 million were either resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion. The significant irregularities reported in the draft AAR 2017 amounted to Nu.39.859 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the Ministry, its Departments, Divisions and Units, observations amounting to

Nu.12.409 million were resolved. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.27.450 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Mismanagement	26.765	3
2	Violation of laws and rules	0.496	4
3	Shortfalls, lapses and deficiencies	0.189	5
Total		27.450	

1. Mismanagement - Nu.26.765 million

There were cases of mismanagement involving Nu.26.765 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
1.1	Overdue Outstanding Taxes	10.664
1.2	Inadmissible waiver of fines and penalties	16.101
Total		26.765

The cases of mismanagement are as indicated below:

1.1. OVERDUE TAXES - NU.10.664 MILLION

The following Regional Revenue and Customs Offices had outstanding revenue aggregating Nu.10.664 million. Some amounts were outstanding for over two years. There is thus, a need for further strengthening the follow-up mechanisms to ensure timely realisation of taxes.

- a) Regional Revenue and Customs Office, Thimphu had cases of outstanding Business Income Tax (BIT) and Personal Income Tax (PIT) amounting to Nu.0.568 million due from various business units and individuals. *AIN: 14877; Para: 1; Accountabilities: Direct: Deki Wangmo, Deputy Collector, EID No. 200701109; Supervisory: Nidup Gyeltshen, Regional Director, EID No. 9610072*
- b) Regional Revenue and Customs Office, Thimphu had 20 cases of outstanding Business Income Tax (BIT) and 3 cases of outstanding Corporate Income Tax (CIT) amounting to Nu.4.449 million from various business units. The business units/tax payers had failed to pay the BIT and CIT even after serving reminders. *AIN: 14388; Para: 2; Accountabilities: Direct: Kencho Dorji, Joint Collector, EID No. 200401096; Supervisory: Nidup Gyeltshen, Regional Director, EID No. 9610072*
- c) Regional Revenue and Customs Office, Thimphu had not collected Bhutan Sales Tax (BST) amounting to Nu.0.577 million from ten business units including hotels, resorts, restaurants and cable services. The taxes were due for periods ranging from 12 months to 18 months at the time of audit in January 2017. *AIN: 14388; Para: 1; Accountabilities: Direct: Rinzin Wangmo, Deputy Collector, EID No. 200501079; Supervisory: Nidup Gyeltshen, Regional Director, EID No. 9610072*

- d) Regional Revenue and Customs Office, Paro had cases of outstanding Business Income Tax (BIT) and outstanding Corporate Income Tax (CIT) amounting to Nu.0.580 million due from two business units. *AIN: 14343; Para: 2; Accountabilities: Direct: Tempa Darjey, Dy. Collector, EID No. 200501078; Supervisory Accountability: Bimal Kumar Pradhan, Regional Director, EID No. 9610074*
- e) Regional Revenue and Customs Office, Thimphu had not collected Bhutan Sales Tax (BST) amounting to Nu.4.490 million from various business units. *AIN: 14877; Para: 2; Accountabilities: Direct: Rinzin Wangmo, Deputy Collector, EID No. 200501079; Supervisory: Nidup Gyeltshen, Regional Director, EID No. 9610072*
- f) Regional Revenue and Customs Office, Paro had not collected Bhutan Sales Tax (BST) from five business units including hotels, homestays and restaurants. The taxes were due for periods ranging from 6 to 12 months. *AIN: 14914; Para: 2; Accountabilities: Direct: Yeshey Gyeltshen, Joint Collector, EID No. 200501082; Supervisory: Bimal Kumar Pradhan, Regional Director, EID No. 9610074*

1.2. INADMISSIBLE WAIVER OF FINES AND PENALTIES - NU.16.101 MILLION

The Regional Revenue and Customs Office, Thimphu had cases of inadmissible waiver of fines and penalties by the Regional Tax Appeal Committee (RTAC) amounting to Nu.16.101 million that were beyond the prescribed ceilings. The RTAC is authorized to waive off fines and penalties up to Nu.0.200 million and the governing regulations were as noted below:

- Chapter 7 Clause 48 of Income Tax Act of the Kingdom of Bhutan 2001 stipulates as '*Any penal interest or fine imposed on the taxable income or entity may be waived in whole or in part by the department on satisfaction that the violation of the provision of the Act was unintentional*';
- Department of Revenue and Custom's Circular no. *DRC/TAX-AL/CL3768* dated 6th May, 2013 sets the maximum limit as '*Enhance the waiver authority limit to Nu.200,000.00 per case to the Regional Tax Appeal Committee to waive-off fines and penalties*'; and
- DRC Appeal directives letter no. *DRC/TAX-AL/GEN/21/464* dated 24th August 2017, revealed that the RTAC can exercise its authority irrespective of the tax amount involved.

The Department had submitted a Note to the Ministry of Finance seeking enhancement of waiver authority. Considering the ramifications of approving such proposals there is a need to thoroughly examine the merits and demerits of such proposals having regard to the possible loss of revenue and need to ensure that such authority is exercised in due compliance to the Income Tax Act of the Kingdom of Bhutan 2001. *AIN: 14877; Para: 3; Accountabilities: Direct: Deki Wangmo, Deputy Collector, EID No. 200701109; Supervisory: Nidup Gyeltshen, Regional Director, EID No. 9610072*

2. Violation of Laws and Rules – Nu.0.496 million

There were cases of violation of laws and rules involving Nu.0.496 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
2.1	Payment at higher rates and without execution of works	0.496
2.2	Execution of Sub-standard work	-
	Total	0.496

The cases of violation of laws and rules are as indicated below:

2.1. PAYMENT AT HIGHER RATES AND WITHOUT EXECUTION OF WORKS - NU.0.496 MILLION

The Regional Revenue and Customs Office, Gelephu had made excess payments of Nu.0.496 million in the construction of Regional Revenue and Customs Office building at Gelephu in the installation of 11KV power supply line. The contractor was paid for works not executed as well as at rates higher than the quoted rates. *AIN: 14980; Para: 1.1; Accountabilities: Direct: Kezang, Sr. Adm. Assistant, EID No. 2107120; Wangchuk Namgay, Site Supervisor, CID No. 10709002514; Supervisory: Sonam Dorji, Regional Director, EID No. 2001014; Ugyen Norbu, Regional Director; EID No. 9711003*

2.2. EXECUTION OF SUB-STANDARD WORK

The Regional Revenue and Customs Office, Phuentsholing had accepted sub-standard works in the construction of Pre-fabricated Customs office at Rinchending. The contractor had not used aggregate in the flooring works as required and thus the floor had defects in several areas. The management had not directed the contractor to rectify the defects. The lapses had occurred mainly due to poor workmanship, improper supervision and monitoring by the dealing official, and the failure on the part of the Supervising Officer to exercise necessary checks to ensure the quality of work done. *AIN: 14990; Para: 1.2; Accountabilities: Direct: Karma Wangdi, Administrative Officer, EID No. 200705100; Supervisory: Sonam Dorji, Regional Director, EID. No. 2001014*

3. Shortfalls, lapses and deficiencies - Nu.0.189 million

There were cases of shortfalls, lapses and deficiencies involving Nu.0.189 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
3.1	Outstanding Personal Advances	0.045
3.2	Excess Payment due to improper verification of works done	0.144
	Total	0.189

The cases of shortfalls, lapses and deficiencies are as indicated below:

3.1. OUTSTANDING PERSONAL ADVANCES - NU.0.045 MILLION

The Regional Revenue and Customs Office, Gelephu had overdue Personal Advances amounting to Nu.0.045 million against officials and were due since FY 2015-2016. *AIN: 14980; Para: 2; Accountabilities: Direct: Kezang. Sr. Adm. Asstt. EID No. 2107120; Chhimi Rinzin, Custom Inspector, EID No. 9508037; Supervisory: Ugyen Norbu, Regional Director, EID No. 9711003*

3.2. EXCESS PAYMENT DUE TO IMPROPER VERIFICATION OF WORKS DONE - NU.0.144 MILLION

The Regional Revenue and Customs Office, Phuentsholing had made excess payments amounting to Nu.0.144 million in the construction of Pre-fabricated Customs office at Rinchening. The excess payment included double payment for 'PCC flooring with neat finish'; payments for providing and applying wood stains, varnishes, polish and synthetic coats made without execution at site; and for the electrical items of work. The lapse had occurred apparently due to failure to properly scrutinize and regulate the claims of the contractor. *AIN: 14990; Para: 1.1; Accountabilities: Direct: Karma Wangdi, Administrative Officer, EID No. 200705100; Supervisory: Sonam Dorji, Regional Director, EID No. 2001014*

1.3.1.4. MINISTRY OF AGRICULTURE AND FORESTS

During the year, the RAA had issued 76 audit reports of the Ministry of Agriculture and Forests, its departments, divisions and units. There were 87 observations amounting to Nu.54.008 million of which 54 observations amounting to Nu.22.948 million were either resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion in the draft AAR 2017. The significant irregularities reported in the draft AAR 2017 amounted to Nu.31.060 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the Ministry, its departments, divisions and units, observations amounting to Nu.25.993 million were resolved. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.5.067 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Mismanagement	-	3
2	Violations of laws and rules	2.280	4
3	Shortfalls, lapses and deficiencies	2.787	5
	Total	5.067	

1. Mismanagement

The case of mismanagement is as indicated below:

1.1. SUBSTANTIAL LAPSE OF YEARLY BUDGET FUND INDICATING UNREALISTIC PLANNING AND BUDGETING

The Agriculture Research and Development Centre in Samtenling, Gelephu had cases of substantial fund being lapsed for three consecutive financial years from 2013-2014 to 2015-2016. An amount of Nu.2.943 million, Nu.0.606 million and Nu.1.024 million had lapsed in 2013-2014, 2014-2015 and 2015-2016 respectively. The lapses are indicative of either poor planning/budgeting and/or poor implementation of planned activities. *AIN: 14691; Para: 1; Accountabilities: Direct: Tenzin Dema, Accountant, EID No. 9206027; Neelam Pradhan, Sector Head, Field Crops, EID No. 8707025; Chogyel Samdrup, Sector Head, Livestock, EID No. 8106013; Norbu Gyeltshen, Sector Head, Forestry, EID No. 9211033; Sherab Tenzin, Accountant EID No. 200307162; Tsheten Lhundup, Sector Head, Horticulture, EID No. 8805190; Supervisory: Gangja Singh Rai, Officiating Program Director, EID No. 2101014*

2. Violation of Laws and Rules – Nu.2.280 million

There were cases of violation of laws and rules involving Nu.2.280 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
2.1	Excess deposit into Refundable Deposit Accounts	1.171
2.2	Payment made without supporting documents	0.665
2.3	Settlement of budgetary related expenses from Security and Earnest Money deducted/recovered	0.361
2.4	Excess payments on account of Deposit Work	0.083
	Total	2.280

The cases of violation of laws and rules are as indicated below:

2.1. EXCESS DEPOSIT INTO REFUNDABLE DEPOSIT ACCOUNTS - NU.1.171 MILLION

The Jigme Dorji National Park, Damji had made excess deposits amounting to Nu.1.171 million into the Refundable Deposit Accounts. The management had reported receipts amounting to Nu.0.173 million on account of deduction/recovery of refundable deposit during the year from contractors/suppliers, but had deposited Nu.1.344 million into the refundable deposit account from the overall savings of the budgetary fund with resultant reduction of yearend fund balance to the extent of Nu.1.171 million. *AIN: 15004; Para: 2.1; Accountabilities: Direct: Tshering Wangchuk, Accountant, EID No. 200207191; Supervisory: Namgay, Offtg. CFO, EID No. 9810002*

2.2. PAYMENT MADE WITHOUT SUPPORTING DOCUMENTS - NU.0.665 MILLION

The Jigme Dorji National Park, Damji had failed to produce relevant supporting documents for expenditures aggregating to Nu.0.665 million. The various expenditures

includes payments of TA/DA, meeting expenses, purchase of office stationery, remittance of 2% TDS to RRCO and for 10% security deposits recovered and deposited into ARA. These were in violation of financial rules and regulations. The lapses had occurred apparently due to lack of proper supervision and monitoring over the accounts personnel, which is indicative of lack of internal controls and the failure to exercise due diligence while approving the payments. *AIN: 15004; Para: 1.1; Accountabilities: Direct: Tshering Wangchuk, Accountant, EID No. 200207191; Supervisory: Lhendrup Tharchen, Ex-CFO and Namgay, Offtg. CFO, EID No.200801028 and 9810002*

2.3. SETTLEMENT OF BUDGETARY RELATED EXPENSES FROM SECURITY AND EARNEST MONEY DEDUCTED/RECOVERED - NU.0.361 MILLION

The Jigme Dorji National Park, Damji had made payments amounting to Nu.0.361 million on account of refund of security/retention money to the Contractors/Suppliers without obtaining equivalent refundable release from DPA. The expenditures were met from Security and Earnest Money deducted/recovered as for the financial year 2016-17.

In addition, the management had paid contractor's Running Bill claims from the budget for TA/DA payments of field staffs without any supporting documents pertaining to the payments. This had thus resulted into non-booking of expenditure under respective activity with resultant understatement of reported expenditure and overstatement of yearend fund balance. *AIN: 15004; Para: 2.2; Accountabilities: Direct: Tshering Wangchuk, Accountant, EID No. 200207191; Supervisory: Namgay, Offtg. CFO, EID No. 9810002*

2.4. EXCESS EXPENDITURE ON ACCOUNT OF DEPOSIT WORK - NU.0.083 MILLION

The Jigme Dorji National Park, Damji had booked an expenditure for deposit works amounting to Nu.1.856 million against Non-Revenue release of Nu.1.773 million received for deposit works with resultant excess expenditure of Nu.0.083 million. Instead of obtaining equivalent release from client agencies and DPA, the differential payments were met from the normal budgetary release. The excess payment pertained to expenses incurred for TA/DA of officials and expenses on the Good Governance Meeting at Gasa Dzongkhag. *AIN: 15004; Para: 2.3; Accountabilities: Direct: Tshering Wangchuk, Accountant, EID No. 200207191; Supervisory: Namgay, Offtg. CFO, EID No. 9810002*

3. Shortfalls, lapses and deficiencies – Nu.2.787 million

There were cases of shortfalls, lapses and deficiencies involving Nu.2.787 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
3.1	Delay in implementation of project activity	-
3.2	Pending cases lying unsettled	0.620
3.3	Excess/Inadmissible/Double Payments	0.575
3.4	Outstanding advances	1.484
3.5	Irregular adjustments of advances	0.030
3.6	Payment without supporting documents	0.078
	Total	2.787

The cases of shortfalls, lapses and deficiencies are as indicated below:

3.1. DELAY IN IMPLEMENTATION OF PROJECT ACTIVITY

The Department of Forests and Park Services had signed the project “*To Enhance the Management Effectiveness of Jigme Khesar Strict Nature Reserve (JKSNR)*” with the Bhutan Trust Fund for Environmental Conservation (BT FEC) in July 2016. The BT FEC had provided Nu.1.500 million during the year 2016-2017 for construction of office building for the JKSNR, Haa but work had not been executed and the entire fund had lapsed. Subsequently, in the year 2017-2018, Nu.5.000 million had been allocated.

However, there was very little progress in the implementation of the activities at the time of audit in September 2017 and tender announcements were also not made. The management reported that delays had occurred due to delay in the actual signing of the project agreement by two months, and delay in granting approval for the land by the Dzongkhag Tshogdu. In addition, the Engineering Division of the MoAF had been unable to provide architectural design and estimates for the office building due to non-availability of an independent Architect/Engineer with the Ministry.

The Management reported that all pre-requisites were under progress and the work is expected to commence by third week of March 2018. *AIN: 14898; Para: 1; Accountabilities: Direct: Ugyen Tshering, Sr. FR, EID No. 2108014; Supervisory: Sonam Tobgay, Chief Forestry Officer, EID No.: 200401058*

3.2. PENDING OFFENCE CASES - NU.0.620 MILLION

The Divisional Forest Office, Paro had not realised fines and compensations amounting to Nu.0.620 million for five pending offence cases, including one case of ‘*Pseudo Ginseng*’ for which the DoFPS was required to review and fixed fine as the particular forest product was not included in Forest and Nature Conservation Rules (FNCR) 2006.

The cases had been forwarded to the Department of Forests and Park Services since the perpetrators refused to settle the case with the Division. Also, there was an additional pending case of illegal timber (21 Mixed Conifer logs) unloaded at M/s Wangwood Sawmill which remained unresolved. *AIN: 15011; Para: 3; Accountabilities: Direct: Kaka Tshering, CFO, EID No. 8205001; Supervisory: Kaka Tshering, CFO, EID No. 8205001*

3.3. EXCESS/INADMISSIBLE/DOUBLE PAYMENTS - NU.0.575 MILLION

- a) The 'Remote Rural Communities Development Project' implemented by Drungkhag Adminsitration, Dophuchen, Samtse had made excess payments of Nu.1.715 million in the construction of Denchukha-Kaduri farm road. Excess amounts were claimed by the contractor for laying of hume pipes and construction of various walls along the road. During the re-verification of the rectification works, it has been established that works valuing Nu.1.514 million were completed, leaving a balance of Nu.0.201 million as recoverable. *AIN: 14829; Para: 1.1; Accountabilities: Direct: Penjor, Junior Engineer, EID No. 20140103488; Supervisory: Karma Jurmi, Drungpa, EID No. 9208031*
- b) The Wangchuk Centennial National Park, Bumthang had made excess payments of Nu.0.227 million to contractor due to improper verification of quantities of works executed at site in the construction of 2-unit staff quarter at Nasiphel. The lapses had occurred due to less deduction for doors and windows from the deductible quantity from CRM wall. *AIN: 14424; Para: 8; Accountabilities: Direct: Pema Letho, Engineer, EID No. 20150105051; Supervisory: Tshering Dhendup, CFO, EID No. 200801031*
- c) The Divisional Forest Office, Paro had made excess payments of Nu.0.114 million to contractor in the construction of Office-cum-Residence at Nursery under Shaba Gewog, Paro Dzongkhag due to inflated measurements. The final measurements for items executed were different from the dimensions provided in the drawings. In addition, there were no approvals for the changes made at site. Also, the contractor had claimed for excess measurements instead of actual work executed at site. The lapses had occurred due to failure of site engineer in discharging his responsibilities diligently. *AIN: 15011; Para: 1.1. & 1.2.; Accountabilities: Direct: Rinchen Tshering, AE Dzongkhag Engineer, EID No. 200407007; Supervisory: Phub Thinley, Gewog Forest Extension Officer, EID No. 9908065.*
- d) The Jigme Dorji National Park, Damji had made double payments of Nu.0.033 million on account of TA/DA and mileage claims due to improper verification of claims by the accountant and non-maintenance of travel register. *AIN: 15004; Para: 3.1; Accountabilities: Direct: Tshering Wangchuk, Accountant, EID No. 200207191; Supervisory: Namgay, Offtg. CFO, EID No. 9810002*

3.4. OUTSTANDING ADVANCES - NU.1.484 MILLION

- a) The Wangchuk Centennial National Park, Bumthang had overdue outstanding advances amounting to Nu.0.898 million against Bhutan Power Corporation Limited, Wangdue. The advance was released on 5th January 2016 against the deposit work for installation of 3 phase electricity connection for Western Range Office in Sephu. However, the BPCL had neither provided the electricity connections, nor liquidated/adjusted the dues as of 31st December 2017. *AIN: 14424; Para: 3;*

Accountabilities: Direct: Sangay Penjor, Forest Ranger, EID No. 200507153; Supervisory: Tshering Dhendup, CFO, EID No. 200801031

- b) The Jigme Dorji National Park, Damji had overdue outstanding advances amounting to Nu.0.586 million against officials and contractors. Personal Advances amounted to Nu.0.071 million and Public Works Advances amounted to Nu.0.515 million. Some advances were due since 2009-2010. *AIN: 15004; Para: 1.2; Accountabilities: Direct: Tshering Wangchuk, Accountant, EID No. 200207191; Supervisory: Lhendrup Tharchen, Ex-CFO EID No. 200801028; Namgay, Offtg. CFO, EID No. 9810002*

3.5. IRREGULAR ADJUSTMENTS OF ADVANCES - NU.0.030 MILLION

The Jigme Dorji National Park, Damji had shown adjustment of entire advances amounting to Nu.0.433 million as against the entitled travel claims of Nu.0.403 million with resultant irregular adjustment by Nu.0.030 million for monitoring of Cordyceps harvesting activities for the Financial Year 2016-2017. The concerned dealing official had not exercised due diligence while making payments/adjustment of advances for officials. *AIN: 15004; Para: 3.2; Accountabilities: Direct: Sonam Wangchuk, Accountant, EID No. 200807278; Supervisory: Namgay, Offtg. CFO, EID No. 9810002*

3.6. PAYMENT WITHOUT SUPPORTING DOCUMENTS - NU.0.078 MILLION

The Wangchuck Centennial National Park, Bumthang had booked and adjusted expenditure amounting to Nu.0.078 million without original vouchers and bills, which included rectification of budget lines and correction of booking heads. Similar lapses were pointed out in previous audit as well. *AIN: 15036; Para: 2; Accountabilities: Direct: Karma Phuntsho, Accountant, EID No. 8901101; Supervisory: Tshering Dhendup, CFO, EID No. 200801031*

1.3.1.5. MINISTRY OF EDUCATION

During the year, the RAA had issued 88 audit reports of the Ministry of Education, its departments, divisions and units. There were 218 observations amounting to Nu.91.810 million of which 214 observations amounting to Nu.88.533 million were either resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion. The significant irregularities reported in the draft AAR 2017 amounted to Nu.3.277 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the Ministry, its departments, divisions and units., observations amounting to Nu.1.541 million were resolved. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.1.736 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Violations of laws and rules	1.473	3
2	Shortfalls, lapses and deficiencies	0.263	5
	Total	1.736	

1. Violation of Laws and Rules - Nu.1.473 million

The case of violation of laws and rules are as indicated below:

1.1. IRREGULAR BOOKING INTO THE CLOSED WORK ACCOUNT AND NON-SUPPLY OF GOODS - NU.1.473 MILLION

The Department of School Education had booked a sum of Nu.1.473 million under the Closed Work Account for procurement of 36 desktop computers (Ci5 with genuine Windows 10 OS). The contract was awarded to supplier on 23rd June 2016. The amount of Nu.1.473 million was deposited into refundable deposit account under the closed work account on 24th June 2016. Booking of expenditure under closed work account immediately after placing the supply order without actual receipt of goods not only violated the budgetary norms but also inflated the reported expenditure of the Department.

In addition, the supplier had failed to deliver goods even after a lapse of more than 10 months at the time of audit in June 2017. Subsequently, the department obtained the release of equivalent amount from DPA and deposited into Audit Recoveries Account. *AIN: 14805; Para: 2; Accountabilities: Direct: Ngawang Norbu, APO, EID No. 20121100941; Supervisory: Kaka, EMO, EID No. 9507290*

2. Shortfalls, lapses and deficiencies – Nu.0.263 million

The case of shortfalls, lapses and deficiencies is as indicated below:

2.1. NON-ADJUSTMENT OF ADVANCES – NU.0.263 MILLION

The Ministry of Education implemented UNICEF Project had overdue advances amounting to Nu.0.263 million that was released as Public Works Advances for Construction of ECCD Center at Ramechen, Wangdue. The accumulation of overdue advances were indicative of inadequate and ineffective follow up by the project management in timely recovery of the outstanding advances. *AIN: 14888; Para: 2; Accountabilities: Direct: Jamyang Choeden, Chief Program Officer, EID No. 8707009; Karma Gayleg, Dy. Chief Program Officer, EID No. 8906034; Supervisory: Karma Sonam Chophel, DEO, EID No. 96007071; Tshering Penjor, DEO, EID No. 9208069; Kencho Wangdi, Dy. Chief DEO, EID No. 8906011*

1.3.1.6. MINISTRY OF LABOUR AND HUMAN RESOURCE

During the year, the RAA had issued 12 audit reports of the Ministry of Labour and Human Resource, its departments, divisions and units. There were 10 observations amounting to Nu.5.282 million of which five observations amounting to Nu.3.326 million were either resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion. The significant irregularities reported in the draft AAR 2017 amounted to Nu.1.956 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the Ministry, its departments, divisions and units, observations amounting to Nu.0.454 million were resolved. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.1.502 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Violation of laws and rules	1.364	4
2	Shortfalls, lapses and deficiencies	0.138	5
	Total	1.502	

1. Violation of laws and rules - Nu.1.364 million

There was a case violation of laws and rules as indicated below:

1.1. NON-EMPLOYMENT OF PARTICIPANTS AFTER REGULARIZATION AND ITS IMPLICATION - NU.1.364 MILLION

The Department of Employment had not recovered a sum of Nu.1.364 million from its partner agency, an employer - M/s iSoft, Thimphu for breach of contract caused by the agency's inability to provide job to participants for a minimum of two years after regularization under the Government of India (GoI) funded project "Guaranteed Employment Program under Economic Stimulus Plan (ESP)". As per the agreement signed between employer and the Ministry, "The participants shall work with particular employer for two years after the attached period", and that "If the employer contravenes any provisions of the agreement except in accordance with the procedure laid down by the MoLHR, the employer shall reimburse 20% of the total amount paid by MoLHR to the Ministry and also pay the participant in lump sum".

The Department had failed to exercise due diligence as there was no investigation done to validate the genuineness of grounds for non-employment of participants by the agency. There was neither any review carried out to validate the claims made by the employer on losses sustained by the company, nor the ministry had conducted any investigation of the matter. *AIN: 14806; Para: 1.2; Accountabilities: Direct: Chimi Rinzin, Labour Officer, EID No. 200605031; Supervisory: Sherab Tenzin, Director General, EID No. 8709028*

2. Shortfalls, lapses and deficiencies – Nu.0.138 million

There were cases of shortfalls, lapses and deficiencies involving Nu.0.138 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
2.1	Non-deduction of 3% TDS	0.078
2.2	Outstanding advances	0.060
	Total	0.138

The cases of shortfalls, lapses and deficiencies are as indicated below:

2.1. NON-DEDUCTION OF 3% TDS - NU.0.078 MILLION

The Thimphu Institute of Zorig Chusum had not deducted 3% TDS amounting to Nu.0.078 million from payments made to trainer for intricate wood carving training. The trainer was invited from Nepal to impart skills and technique of four-dimension carving to Bhutanese wood carvers. *AIN: 14894; Para: 1; Accountabilities: Direct: Jigme Dorji, Principal, EID No. 9407142; Supervisory: Tshewang Peldon, Principal, EID No. 9006081*

2.2. OUTSTANDING ADVANCES – NU.0.060 MILLION

The Thimphu Institute of Zorig Chusum had overdue advances of Nu.0.060 million against an official. *AIN: 14894; Para: 2; Accountabilities: Direct: Jigme Dorji, Principal, EID No. 9407142; Supervisory: Tshewang Peldon, Principal, EID No. 9006081*

1.3.1.7. MINISTRY OF ECONOMIC AFFAIRS

During the year, the RAA had issued 18 audit reports of the Ministry of Economic Affairs, its departments, divisions and units. There were 23 observations amounting to Nu.39.727 million of which 18 observations amounting to Nu.37.940 million were either resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion. The significant irregularities reported in the draft AAR 2017 amounted to Nu.1.787 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the Ministry, its departments, divisions and units, observations amounting to Nu.0.824 million were resolved. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.0.963 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Shortfalls, lapses and deficiencies	0.963	5
	Total	0.963	

1. Shortfalls, lapses and deficiencies - Nu.0.963 million

There were cases of shortfalls, lapses and deficiencies involving Nu.0.963 million as indicated below:

1.1. EXCESS PAYMENT – NU.0.963 MILLION

- The Department of Industry had made excess payment of Nu.0.866 million to the Construction Development Corporation Limited. Payments were found made in excess of quantities of works executed in the construction of approach road and Girder Bridge at Bondeyma Industrial Estate in Mongar. *AIN: 14630; Para: 1.3; Accountabilities: Direct: Sarada Devi Giri, Site Engineer (Contract), CID No. 21214000008; Supervisory: Karuna Chhetri, Assistant Engineer, EID No. 200207056*
- The Department of Trade had made excess payment of Nu.0.193 million to the contractor in the construction of exhibition showroom at Changzamtog Industrial

Area. Payment were made for quantities in excess of works actually executed at site for items including cornices, post and panels. Subsequently, upon remeasurement the excess payment was established as Nu.0.097 million. The lapses had occurred apparently due to negligence on the part of Site Engineer and failure on the part of Supervising Officer to exercise necessary checks to ensure the admissibility of contractor's claims. *AIN: 14366; Para: 2.2; Accountabilities: Direct: Kezang Phuntsho, Engineer, DCSI, CID No. 11107002086; Supervisory: Zecko, Chief Trade Officer, EID No. 9009055*

1.3.1.8. MINISTRY OF HOME AND CULTURAL AFFAIRS

During the year, the RAA had issued 22 audit reports of the Ministry of Home and Cultural Affairs its departments, divisions and units. There were 18 observations amounting to Nu.1.953 million of which eight observations amounting to Nu.1.009 million were either resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion. The significant irregularities reported in the draft AAR 2017 amounted to Nu.0.944 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the Ministry, its departments, divisions and units, observations amounting to Nu.0.496 million were resolved. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.0.448 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Violation of laws and rules	-	4
2	Shortfalls, lapses and deficiencies	0.448	5
Total		0.448	

1. Violation of Laws and Rules

There were cases of violations of laws and rules as summarised below:

Sl. No.	Observation in Brief	Nu. in million
1.1	Non-availability of estimate on additional works	-
1.2	Inadmissible payment of Pension and Provident Fund to terminated employee	-
Total		-

The cases of violations of laws and rules are as indicated below:

1.1. NON-AVAILABILITY OF ESTIMATE ON ADDITIONAL WORKS

The Regional Immigration Office, Samtse had deviations to an extent of 30.21%, with a financial implication of Nu.3.165 million, in the construction of office building. The building was completed at a cost of Nu.13.643 million as against the quoted amount of Nu.10.478 million. The expenditure had exceeded/deviated by 10.21% from the deviation limit of 20% (plus/minus) of the total estimates. Further, neither the

estimates for the additional works were available for verification, nor the site engineer concerned was available for clarifications and explanations for the deviations/additional works. *AIN: 14473; Para: 1.2; Accountabilities: Direct: Sonam Gyeltshen, Engineer, EID No. 200901082; Supervisory: Rinzin Phuntsho, Regional Director, EID No. 200601018*

1.2. INADMISSIBLE PAYMENT OF PENSION AND PROVIDENT FUND TO TERMINATED EMPLOYEE

The Regional Immigration Office, Gelephu had made inadmissible payments of pension and provident fund benefits to an employee who had been terminated. As per the BCSR 2012 Chapter 20, Clause 20.3.3.2. 'A civil servant whose services are terminated shall be entitled only to his contribution together with returns credited thereon to provident fund account' and Clause 20.3.2.2. states 'If a civil servant is terminated, he shall not be eligible for the pension benefits but entitled to refund of his contributions made to the pension account.' Hence, the employee was only eligible for provident fund contribution made by the employee. There was apparent lack of coordination between the Ministry and the RIO, Gelephu. *AIN: 14548; Para: 2; Accountabilities: Direct: Tshewang Tobgay, Former RD, EID No. 8805185; Supervisory: Dasho Tshering Dorji, Secretary, EID No. 8404121; Thinley Wangchuk, DG, EID No. 8607075; Kinley Tenzin, Offtg. DG, EID No. 200202063; Tashi Tobgay, Director, EID No. 8903101; Chador Wangdi, Director, EID No. 7906001; Damcho Duba, Offtg. CAO, EID No. 8103027; Chhimi Dorji, Chief HRO, EID No. 8003019*

2. Shortfalls, lapses and deficiencies – Nu.0.448 million

There were cases of shortfalls, lapses and deficiencies involving Nu.0.448 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
2.1	Difference in closing balances with resultant shortage	0.294
2.2	Sale proceeds collected/deducted without preparation of challans/bills	0.095
2.3	Short deduction of sales proceeds	0.059
2.4	Non-production of Measurement Book and absence of site engineer during audit	0
Total		0.448

The cases of shortfalls, lapses and deficiencies are as indicated below:

2.1. DIFFERENCE IN CLOSING BALANCES WITH RESULTANT SHORTAGE - NU.0.294 MILLION

The Royal Bhutan Police, Division II, Punakha had differences in closing stock balance of rations with resultant shortages of stock valuing Nu.0.294 million due to discrepancies in the receipts and issues of rations. The closing balance of some stocks were in excess of actual balance, while for some items the issues were in excess of purchases resulting into negative closing balance. In addition, the management had not carried out periodic

reconciliation of ration items. *AIN: 14681; Para: 2; Accountabilities: Direct: Chakten, Dedrim, PIN 3048, CID No. 11201003400; Supervisory: Karma Tshering, Colonel, SSP, PIN 85, CID No. 11306002149*

2.2. SALE PROCEEDS COLLECTED/DEDUCTED WITHOUT PREPARATION OF CHALLANS/ BILLS - NU.0.095 MILLION

The Royal Bhutan Police, Division II, Punakha had deducted sale proceeds amounting to Nu.0.095 million from the monthly salary payments of police personnel without the preparation of challans/bills. Scrutiny of the Sub-Ledger for FY 2014-15 and FY 2015-16 revealed that cost of rations issued on concessional rates and deducted from the monthly pay bills was Nu.0.651 million, whereas Nu.0.556 million only was accounted. In the absence of proper documentation/records, and lack of periodic reconciliation of accounts, the accuracy for sale of rations and related collections/deductions could not be ascertained. *AIN: 14681; Para: 1.2; Accountabilities: Direct: Chakten, Dedrim, PIN 3048, CID No. 11201003400; Supervisory: Karma Tshering, Colonel, SSP, PIN 85, CID No. 11306002149*

2.3. SHORT DEDUCTION OF SALES PROCEEDS - NU.0.059 MILLION

The Royal Bhutan Police, Division II, Punakha had made short deductions amounting to Nu.0.059 million from sale proceeds of rations issued at concession rates to police personnel. Also, the Division had not reconciled the quantities on a regular basis. *AIN: 14681; Para: 1.1; Accountabilities: Direct: Chakten, Dedrim PIN. 3048, CID No. 11201003400; Supervisory: Karma Tshering, Colonel, SSP, PIN. 85, CID No. 11306002149*

2.4. NON-PRODUCTION OF MEASUREMENT BOOK AND ABSENCE OF SITE ENGINEER DURING AUDIT

The Regional Immigration Office (RIO), Samtse had not produced the Measurement Book (MB) for scrutiny during the time of audit in December 2016. Although it was stated that the MB was being maintained by the Site Engineer and that all necessary explanations related to construction works would be provided by the Site Engineer, the concerned Site Engineer had neither submitted the MB, nor made himself available for clarifications during audit.

In addition, it was noted that the supervision and monitoring of the construction works were carried out by the Municipal Division of the Dzongkhag Administration, Samtse. However, the dealing engineer of the Municipal Division had been transferred to Dzongkhag Administration, Paro and was unavailable. In absence of requisite documents and concerned officials, the correctness of contractor's claims and payments made as well as works executed at site could not be verified. *AIN: 14473; Para: 1.1; Accountabilities: Direct: Sonam Gyeltshen, Engineer, EID No. 200901082; Supervisory: Rinzin Phuntsho, Regional Director, EID No. 200601018*

1.3.1.9. MINISTRY OF INFORMATION AND COMMUNICATIONS

During the year, the RAA had issued 10 audit reports of the Ministry of Information and Communications, its departments, divisions and units. There were 20 observations amounting to Nu.44.272 million of which 17 observations amounting to Nu.5.538 million were either resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion. The significant irregularities reported in the draft AAR 2017 amounted to Nu.38.734 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the Ministry, its departments, divisions and units, observations amounting to Nu.38.634 million were resolved. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.0.100 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Shortfalls, lapses and deficiencies	0.100	5
	Total	0.100	

1. Shortfalls, lapses and deficiencies Nu.0.100 million

The cases of shortfalls, lapses and deficiencies are as indicated below:

1.1. OUTSTANDING ADVANCES - NU.0.100 MILLION

Department of Information Technology and Telecom had overdue Public Works Advance amounting to Nu.0.100 million against an official as of June 2017. *AIN: 14789; Para: 1; Accountabilities: Direct: Sonam Wangchuk, HRO, EID No. 8202001; Supervisory: Singye Norbu, Officiating Chief HRO, EID No. 20140103323*

1.3.1.10. MINISTRY OF FOREIGN AFFAIRS

During the year, the RAA had issued nine audit reports of the Ministry of Foreign Affairs its departments, divisions and units. There were nine observations amounting to Nu.2.879 million of which three observations amounting to Nu.0.673 million were either resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion. The significant irregularities reported in the draft AAR 2017 amounted to Nu.2.206 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the Ministry, its departments, divisions and units, observations amounting to Nu.2.206 million were resolved. The total unresolved significant irregularities reflected in the AAR 2017 is as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Shortfalls, lapses and deficiencies	-	5
	Total	-	

1. Shortfalls, lapses and deficiencies

There were cases of shortfalls, lapses and deficiencies as summarised below:

Sl. No.	Observation in Brief	Nu. in million
1.1	Outstanding Advance	-
1.2	Unreconciled difference in the balances	-
	Total	-

The cases of shortfalls, lapses and deficiencies are as indicated below:

1.1. OUTSTANDING ADVANCE

The Secretariat, MoFA had overdue Public Works Advances amounting to Nu.1.410 million against an official on account of advance released for meeting expenses related to the Prime Minister's visit for TED Event in Vancouver, Canada. A total advance of US \$25,216.00 (including the official's DSA of US \$216.00) amounting to Nu.1.759 million was released in February 2016. The official had failed to submit relevant bills for adjustment upon return. The MoFA had started recovering the advance from the official from August 2016 and the principal advance amount of Nu. 1.410 million was recovered. However, the 24% penalty amounting to Nu.0.404 million remains outstanding. *AIN: 14682; Para: 1; Accountabilities: Direct: Thinley Norbu, Desk Officer, EID No. 200211057; Supervisory: Tshering Dorji, Secretary, EID No. 8404121*

1.2. UNRECONCILED DIFFERENCE IN THE BALANCES

The Royal Bhutanese Embassy, New Delhi had huge unreconciled differences in the balances of Public Expenditure Management System (PEMS) generated cash book and balances as per manual cash book maintained for Dollar Account and Rupee Account. The dollar balances had been carried forward since the inception of Embassy without reconciling it. During the financial year 2013-2014, the release of Nu.4.197 million was wrongly recorded in PEMS without the amount being credited into the Embassy's LC Account maintained with the Bank of Bhutan Limited in Thimphu which inflated the yearend closing balance, leaving negative balances in the Embassy's Dollar and Rupee bank accounts. Further, the yearend negative closing balance of the Embassy was carried forward in all subsequent years. *AIN: 14445; Para: 1; Accountabilities: Direct: Tshewang Dorji, Finance Counselor, EID No. 9811005; Supervisory: Ugyen Gonphel, Head of Chancery, EID No. 9101053*

1.3.2. DZONGKHAGS ADMINISTRATION

1.3.2.1. DZONGKHAG ADMINISTRATION, TRASHIYANGTSE

During the year, the RAA had issued three audit reports of the Dzongkhag Administration, Trashiyangtse. There were 12 observations amounting to Nu.41.266

million of which 11 observations amounting to Nu.24.940 million were either resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion in the draft AAR 2017.

The total unresolved significant irregularity reflected in the AAR 2017 amounted to Nu.16.326 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Violation of Laws & Rules	16.326	4
Total		16.326	

1. Violation of Laws & Rules - Nu.16.326 million

The case of violation of laws & rules is as indicated below:

1.1. NON-COMPLIANCE TO PROVISION OF CLOSED WORKS - NU.16.326 MILLION

The Dzongkhag Administration, Trashiyangtse in violation to financial norms had booked Nu.40.550 million under closed works as on 30th June 2016 for 12 incomplete activities which were deposited into Refundable Deposit Account. Subsequently, 11 activities were completed leaving a balance of Nu.16.326 million under closed work for the construction of Water Supply at Duksum. *AIN: 14430; Para: 1; Accountabilities: Direct: Ugyen Zangmo, AE, EID No. 200507220; Supervisory: Jigme Tshewang, Municipal Engineer EID No. 201101167*

1.3.2.2. DZONGKHAG ADMINISTRATION, GASA

During the year, the RAA had issued one audit report of the Dzongkhag Administration, Gasa. There was 14 observations amounting to Nu.6.061 million of which seven observations amounting to Nu.0.212 million were either resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion. The significant irregularities reported in the draft AAR 2017 amounted to Nu.5.849 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the agency, observations amounting to Nu.0.165 million were resolved. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.5.684 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Mismanagement	5.558	3
2	Violation of laws and rules	0.126	4
Total		5.684	

1. Mismanagement - Nu.5.558 million

There were cases of mismanagement involving Nu.5.558 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
1.1	Wasteful expenditure	4.618
1.2	Un-spent Close work balance	0.940
	Total	5.558

The cases of mismanagement are as indicated below:

1.1. WASTEFUL EXPENDITURE - NU.4.618 MILLION

The Dzongkhag Administration, Gasa had incurred expenditure of Nu.4.618 million in the construction of Gewog Connectivity road from Gasa to Laya. About 2,347 meters of the road was realigned by the contractor while trying to avoid damages to the electric transmission line and had created eight additional turnings at one location in Chamsa. However, the contractor had not informed the site engineer and Gewog Administration of the diversion/new alignment.

Based on complaints from the public an investigation was carried out which reported that the initial surveyed road alignment along the old mule track was comparatively better in terms of length, number of turnings on fragile slope, and lower cost of maintenance in the long run. In addition, an independent report from DoR, MoWHS also revealed that the turnings were created in a geologically fragile slope, which was further aggravated by the closely constructed turnings and that the new alignment would require huge mitigation works.

Subsequently, the road had been taken through initial surveyed alignment after the 11th FYP Mid-Term Review meeting rendering the entire cost of Nu.4.618 million for 2,347 meters of road wasteful. The lapses had occurred apparently due to lack of adequate communication between the contractor, site engineer and Dzongkhag Administration.

AIN: 14794; Para: 8; Accountabilities: Direct: Dorji Dhradhul, Dzongdag, EID No. 9209027; Supervisory: Dorji Dhradhul, Dzongdag, EID No. 9209027

1.2. UN-SPENT CLOSED WORK BALANCE - NU.0.940 MILLION

The Dzongkhag Administration, Gasa had retained the un-spent Closed Work balance amounting to Nu.0.940 million pertaining to the FY 2014-2015 which was not refunded to DPA, MoF even at the time of audit in May 2017. This was in contravention to the MoF Circular No. *DPA(AD)-Circular/2009-10/7579* dated April 6, 2010 which stipulates that funds deposited into the Refundable Account should be sought by the Budgetary agencies within July to clear the closed work account and under no circumstances should transactions be passed on to succeeding months. *AIN: 14794: Para: 7; Accountabilities: Direct: Penjor Dukpa, Dzongkhag Engineer, EID No. 2109163; Karma, Asstt. Finance Officer, EID No. 200407063; Supervisory: Dorji Dhradhul, Dzongdag, EID No. 9209027*

2. Violation of Laws & Rules - Nu.0.126 million

The cases of violation of laws & rules are as indicated below:

2.1. IRREGULAR ADJUSTMENT OF ADVANCES – NU. 0.126 MILLION

The Dzongkhag Administration, Gasar had made excess payments amounting to Nu.0.126 million while adjusting outstanding advances against officials. The adjustments were irregular as some were made without any supporting documents and some adjusted twice. *AIN: 14794; Para: 11.2; Accountabilities: Direct: Dorji Dhradhul, Dzongdag, EID No. 9209027; Supervisory: Dorji Dhradhul, Dzongdag, EID No. 9209027*

1.3.2.3. DZONGKHAG ADMINISTRATION, MONGGAR

During the year, the RAA had issued three audit reports of the Dzongkhag Administration, Monggar. There were 17 observations amounting to Nu.5.160 million of which 12 observations amounting to Nu.1.447 million were either resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion. The significant irregularities reported in the draft AAR 2017 amounted to Nu.3.713 million.

Based on responses received after the issue of the draft AAR 2017 and actions taken by the agency, one observation was resolved. The total unresolved significant irregularity reflected in the AAR 2017 amounted to Nu.3.713 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Mismanagement	-	3
2	Shortfalls, lapses & deficiencies	3.713	5
Total		3.713	

1. Mismanagement

The cases of mismanagement are as indicated below:

1.1. NON-RECOVERY OF 24% PENALTY

The Municipal Office under Dzongkhag Administration, Monggar had made short-deposits amounting to Nu.0.326 million on account of water and sewerage charges between the months of November 2015 and November 2016. The Municipal Office had collected a total of Nu.1.333 million on account of the water & sewerage charges, rental charges and defuse collector charges, of which Nu.0.326 million was found short-deposited by the concerned dealing official. The Dzongkhag Administration reported of having reviewed the matter and verified the actual shortage as Nu.0.302 million, which was subsequently deposited into the CD Account.

The Dzongkhag Administration also reported of having initiated administrative action against the official for the lapses vide letter numbered *MD/HRS-09/2017/4891* dated *16th June 2017* to withhold the officials annual increment for 3 years with effect from *1st July 2017*. Further, while the actual amount of Nu.0.302 million of non-revenue collections were recovered, the penal interest of 24% per annum on the actual amount was not recovered and thus still remains pending. The last date for payment was *30th June 2017* as per the letter. *AIN: 14538; Para: 5; Accountabilities: Direct: Sonam Dema, Sr. Technician, EID No. 200501079; Supervisory: Chhabi Lal Das, DE, EID No. 8808036*

2. Shortfalls, lapses & deficiencies – Nu.3.713 million

There were cases of shortfalls, lapses & deficiencies involving Nu.3.713 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
2.1	Excess payment to contractor	0.212
2.2	Irregularities in the development of Education Database Management System	3.110
2.3	Inadmissible payment of TA/DA	0.391
Total		3.713

The cases of shortfalls, lapses & deficiencies are as indicated below:

2.1. EXCESS PAYMENT TO CONTRACTOR - NU.0.212 MILLION

The Dzongkhag Administration, Monggar had made excess payments of Nu.0.212 million to contractor in the construction of Access Road to Sanitary Landfill at Brakpashong under Konbar, Mongar. The excess payment was due to differences in the quantities of work actually executed at site and quantities of work claimed for in the bills, which had apparently occurred due to improper verification and certification of contractor's bills for payment and failure on the part of the Supervising Engineer to carry out necessary checks to ensure the admissibility of contractor's claims. *AIN: 14538; Para: 1; Accountabilities: Direct: Tshering Gyeltshen, AE, EID No. 2007056; Supervisory: Sonam Tashi, DE, EID No. 200801079*

2.2. IRREGULARITIES IN THE DEVELOPMENT OF EDUCATION DATABASE MANAGEMENT SYSTEM - NU.3.110 MILLION

The Dzongkhag Administration, Monggar had irregularities in the development of the 'Education Database Management System' which costed Nu.3.110 million. The Education Database Management System was intended to provide various education information modules including student details, subject-wise & class-wise result sheets, gender-wise student pass out record, and other related information such as class attendance, class teacher, parents, etc. The system development project was conceptualized through a resolution during the 17th Annual Education Conference held from 25th-31st December 2014. The review of related documents and enquiries with officials concerned revealed the following irregularities:

- i. The payments of Nu.3.110 million was made from the overall budget savings of the Dzongkhag in absence of budget provisions;
- ii. The Ministry of Information and Communications developed 'Application Development Guidelines' and 'Application Development Methodology' was not adhered to;
- iii. The procurement norms were not followed and work was awarded directly;
- iv. The officials of the Dzongkhag ICT section were neither involved, nor end users consulted to identify requirements;

- v. Cost estimates, deliverables and timings were not determined for the project;
- vi. The payments were not directly released to the consulting firm;
- vii. The focal person appointed for the system development was already engaged for maintenance of computers & peripherals in schools under the Dzongkhag incurring additional cost of Nu.0.355 million on account of DSA and mileage;
- viii. The proposal was put up to the Dzongrab through the District Education Officer directly by the focal person, who was not an employee of the Dzongkhag;
- ix. The system had not been developed and delivered despite huge investment at the time of audit; and
- x. Payment included charges for hosting the system/service in Singapore, which may lead to issues of ownership, security and sustainability, as well as recurring costs in terms of service charges that may be dictated by the service providers.

Engaging in the development of system by individual Dzongkhag without concurrence and consultation with relevant authorities could result in duplication and waste of resources. Given the modus operandi involved in the entire project, which disregarded the prescribed norms, the possibilities of malpractice could not be ruled out. The successful development and completion of the project remains doubtful. *AIN: 14538; Para: 8; Accountabilities: Direct: Dorji Pasang, Chief DEO, EID No. 9507331; Ugyen Thinley, Asstt. DEO, EID No. 9006056; Supervisory: Dorji Pasang, Chief DEO, EID No. 9507331*

2.3. INADMISSIBLE PAYMENT OF TA/DA - NU.0.391 MILLION

The Dzongkhag Administration, Monggar had made inadmissible payments of TA/DA amounting to Nu.0.391 million to two persons who were not under the payroll of the Dzongkhag Administration. *AIN: 14538; Para: 9; Accountabilities: Direct: Kinga Rinzin, ICT, CID No. 10710002287; Sonam Darjay, BOC focal person, CID No. 10703002414; Supervisory: Ugyen Thinley, DEO, EID No. 9006056; Pasang Dorji, Accountant, EID No. 20130802307*

1.3.2.4. DZONGKHAG ADMINISTRATION, TRONGSA

During the year, the RAA had issued one audit report of the Dzongkhag Administration, Trongsa. There were 45 observations amounting to Nu.5.214 million of which 17 observations amounting to Nu.0.177 million were either resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion. The significant irregularities reported in the draft AAR 2017 amounted to Nu.5.037 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the agency, observations amounting to Nu.1.749 million were resolved. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.3.288 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Mismanagement	1.334	3
2	Violation of Laws & Rules	0.842	4
3	Shortfalls, lapses & deficiencies	1.112	5
Total		3.288	

1. Mismanagement - Nu.1.334 million

There were cases of mismanagement involving Nu.1.334 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
1.1	Non-adherence to the expert's recommendation with resultant additional/wasteful expenditure	1.334
1.2	Lapses in operation of Decentralization Support Programme Fund	-
Total		1.334

The cases of mismanagement are as indicated below:

1.1. NON-ADHERENCE TO THE EXPERT'S RECOMMENDATION WITH RESULTANT ADDITIONAL/WASTEFUL EXPENDITURE - NU.1.334 MILLION

The Dzongkhag Administration, Trongsa had incurred wasteful expenditure of Nu.1.334 million by not adhering to the expert's recommendations in the construction of two-unit staff quarters for the Dzongkhag Veterinary Hospital (DVH). The Geo-Technical Report by the Department of Geology and Mines had recommended for the construction of deep garland type drain; deep enough to intersect the flow of ground water, in order to stabilize the whole area.

However, the Dzongkhag Administration had only considered the recommendation for constructing one-storied structures and ignored the recommendation for construction of drain. During monsoon, a massive landslide behind the staff quarters resulted in the award of additional work of construction of breast wall at an estimated cost of Nu.0.508 million. The monsoon had also washed away the retaining walls in front of DVH and Staff Quarter valuing Nu.0.826 million. *AIN: 14570; Para: 28; Accountabilities: Direct: Sherab Tenzin, DLO, EID No. 9507132; Supervisory: Sherab Tenzin, DLO, EID No. 9507132*

1.2. LAPSES IN OPERATION OF DECENTRALIZATION SUPPORT PROGRAMME FUND

The Department of Local Governance, MoHCA through Dzongkhag Administration, Trongsa had allocated the *UNDP, UNCDF, SNV, and Danida funded 'Decentralization Support Programme' (DSP)* fund to Drakteng Gewog for the establishment of dairy farm in June 2003. Upon completion of the project in December 2006, the Revolving Fund Account was maintained. The DSP fund was utilised as interest free loans to beneficiaries for purchase of jersey cows and the beneficiaries were required to repay the amount in three installments in three years.

However, there were lapses in the operation of the Revolving Fund as there were no documentations and details such as operational guidelines or terms of references, bank statements. The total funds made available to Gewog or released by the donors were also not documented by the Gewog office or the Livestock Sector of the Dzongkhag. Proper books of accounts were neither maintained by the Dzongkhag Administration nor the Gewog Administration.

The bank balance as on 29th November 2016 was Nu.0.015 million against the total fund of Nu.2.100 million received (as acknowledged by the Gewog officials) for which there is no supporting documents. Out of the total fund, Nu.0.584 million was utilized for construction of ORC & Retention Wall at Tashidingkha. The Dzongkhag Administration as a central authority has been advised to initiate appropriate review and confirm the status of the funds. *AIN: 14570; Para: 25; Accountabilities: Direct: Kinzang Dorji, Gup, CID No. 11701001704; Supervisory: Kinzang Dorji, Gup, CID No. 11701001704*

2. Violation of Laws & Rules – Nu.0.842 million

There were cases of violation of laws & rules involving Nu.0.842 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
2.1	Under-booking of Expenditure	0.076
2.2	Execution of work other than specification	-
2.3	Non-rectification of defective works	-
2.4	Non/Short levy of liquidated damages	0.399
2.5	Acceptance of sub-standard works	0.367
	Total	0.842

The cases of violation of laws & rules are as indicated below:

2.1. UNDER-BOOKING OF EXPENDITURE - NU.0.076 MILLION

The Dzongkhag Administration, Trongsa had under booked capital expenditure of Nu.0.076 million for the construction of Aqua Privy Toilet and Entrance Gate at Langthel LSS. The net final bill amount of Nu.0.558 million was booked as expenditure instead of total final bill amount of Nu.0.634 million with a resultant short booking of the final bill payment by Nu.0.076 million. The lapses had occurred due to inadequate verification of Running Account Bills of the contractor by the Dzongkhag Administration. *AIN: 14570; Para: 6; Accountabilities: Direct: Kishor Kumar Rai, Accountant, EID No. 201007223; Supervisory: Sangay Chojay, Accounts Officer, EID No. 20160106472*

2.2. EXECUTION OF WORK OTHER THAN SPECIFICATION

The Dzongkhag Administration, Trongsa had accepted items of works which was not executed as per specifications in the construction of Monmaygang Jueg Irrigation Channel at Nimshong. The inspection of works executed revealed the use of soil in lieu of sand for plastering the irrigation channel. The providing and laying of hand packed

stone filling or soling with stone at the base of irrigation channel was not executed and the base was simply applied by plastering over the ground/soil. *AIN: 14570; Para: 2(a); Accountabilities: Direct: Dorji Phuntsho, EID No. 20140103501; Supervisory: Karma Wangdi, ADAO, EID No. 9007094*

2.3. NON-RECTIFICATION OF DEFECTIVE WORKS

- a) The Dzongkhag Administration, Trongsa had not directed the contractor to rectify defective works noted in the construction of Irrigation Channel at Karshong under Nubi Gewog. While it was noted that major parts of irrigation drains had been washed away due to heavy and incessant monsoon rain, the defects had occurred during the defect liability period and the contractor was liable to rectify the work. *AIN: 14570; Para: 7; Accountabilities: Direct: Phuntsho Galey, Site Engineer, EID No. 20140103513; Supervisory: Karma Wangdi, ADAO, EID No. 9507115*
- b) The Dzongkhag Administration had not directed the contractor to rectify defects noted in the ceiling works of two-unit staff quarter in the construction of Dzongkhag Veterinary Hospital. The beads for ceiling work had fallen off and the paint on the beads were not done properly as the contractor had provided a very thin coat of acrylic washable distemper. In addition, the gaps between the pre-laminated particleboards were very wide. The lapses had occurred due to improper monitoring and supervision exercised by the official concerned. *AIN: 14570; Para: 31; Accountabilities: Direct: Passang Dorji, DPE, EID No. 820141; Supervisory: Phuntsho Galey, JE, EID No. 2014103513*
- c) The Dzongkhag Administration had not directed the contractor to rectify defects noted in the construction of working bench with tiles in laboratory that was awarded as an additional work in the construction of Dzongkhag Veterinary Hospital. The support walls for the RCC bench were unevenly constructed and tilted. *AIN: 14570; Para: 32; Accountabilities: Direct: Passang Dorji, DPE, EID No. 820141; Supervisory: Phuntsho Galey, JE, EID No. 2014103513*

2.4. NON/SHORT LEVY OF LIQUIDATED DAMAGES - NU.0.399 MILLION

- a) The Dzongkhag Administration, Trongsa had not levied liquidated damages of Nu.0.195 million for delay in supply of sewer suction cum jetting machine by 61 days. *AIN: 14570; Para: 23; Accountabilities: Direct: Tshewang Rinzin, EID No. 200608017; Supervisory: Tshewang Rinzin, EID No. 200608017*
- b) The Dzongkhag Administration, Trongsa had not levied liquidated damages amounting to Nu.0.136 million for delays in completion of the construction of MonmaygangJueg Irrigation Channel at Nimshong. The contract period was from 7th November 2015 to 7th June 2016 and at the time of audit in November 2017, the work was still incomplete. *AIN: 14570; Para: 2(b); Accountabilities:*

Direct: Dorji Phuntsho, EID No. 20140103501; Supervisory: Karma Wangdi, ADAO, EID No. 9007094

- c) The Dzongkhag Administration, Trongsa had short deducted liquidated damages amounting to Nu.0.068 million from the contractor for delay in completion of works in the site development works and construction of approach road for the proposed BHU-I at Dangdung. The Dzongkhag Administration had deducted Nu.0.085 million as LD for delays, but upon re-computation, the contractor was liable for LD of Nu.0.153 million which resulted in short deduction by Nu.0.068 million. The lapses had occurred due to inadequate internal controls to review the computations of applicable liquidated damages in passing the contractor's bills by the dealing officials. *AIN: 14570; Para: 15(a); Accountabilities: Direct: Phuntsho Galay, JE, EID No. 20140103513; Supervisory: Passang Dorji, DPE, EID No. 8201041*

2.5. ACCEPTANCE OF SUB-STANDARD WORKS - NU.0.367 MILLION

- a) The Dzongkhag Administration, Trongsa had accepted sub-standard paneling works valuing Nu.0.237 million noted in both constructions of the two-unit staff quarter and the Dzongkhag Veterinary Hospital. The finishing on the paneling work was not up to the standard and the surface was rough despite applying two coats of polish. *AIN: 14570; Para: 29; Accountabilities: Direct: Passang Dorji, DPE, EID No. 820141; Supervisory: Phuntsho Galey, JE, EID No. 2014103513*
- b) The Dzongkhag Administration, Trongsa had accepted defective works valuing Nu.0.130 million noted in the flooring works in the construction of Dzongkhag Veterinary Hospital. The workmanship for providing and laying marble chips flooring was found inadequate, the marble was not polished properly for providing smooth surface and shine. The floor was found uneven with many undulations. *AIN: 14570; Para: 33; Accountabilities: Direct: Passang Dorji, DPE, EID No. 820141; Supervisory: Phuntsho Galey, JE, EID No. 2014103513*
- c) The Dzongkhag Administration, Trongsa had accepted defective works noted in the construction of Gallery and RCC Wall at Sherabling Higher Secondary School. Major cracks had developed on basketball court and the structure was unusable. Despite rectifications carried out, problems had still persisted due to instability of soil. The lapses had apparently occurred due to non-conducting of geo-feasibility study for landscape on which the basketball court was constructed. *AIN: 14570; Para: 16(c); Accountabilities: Direct: Phuntsho Galay, JE, EID No. 20140103513; Supervisory: Passang Dorji, DPE, EID No. 8201041*
- d) The Dzongkhag Administration, Trongsa had accepted defective works in the construction of two-unit staff quarter for the Dzongkhag Veterinary Hospital. The marble chips flooring in both toilets were poorly executed and the uneven floor was causing water to pool and stagnate. In addition, there were defects in

the plumbing works as evident from the water seepage noticed on the outer walls of the toilets. *AIN: 14570; Para: 30; Accountabilities: Direct: Passang Dorji, DPE, EID No. 820141; Supervisory: Phuntsho Galey, JE, EID No. 2014103513*

3. Shortfalls, lapses & deficiencies – Nu.1.112 million

There were cases of shortfalls, lapses & deficiencies involving Nu.1.112 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
3.1	Double payment to contractor	0.142
3.2.	Inadmissible payments	0.445
3.3.	Excess payment	0.525
	Total	1.112

The cases of shortfalls, lapses & deficiencies are as indicated below:

3.1. DOUBLE PAYMENT TO CONTRACTOR - NU.0.142 MILLION

The Dzongkhag Administration, Trongsa had made double payments amounting to Nu.0.142 million to the contractor in the construction of Dzongkhag Veterinary Hospital. It was noted that the items of works paid in full in 1st Running Account (RA) Bill were included and paid in the 2nd RA bill resulting in double payment for the same work. *AIN: 14570; Para: 38; Accountabilities: Direct: Passang Dorji, DPE, EID No. 820141; Supervisory: Phuntsho Galey, JE, EID No. 201410351*

3.2. INADMISSIBLE PAYMENTS - NU.0.445 MILLION

- a) The Dzongkhag Administration, Trongsa had made inadmissible payments of allowances amounting to Nu.0.379 million to officials on long term trainings/leave. The officials were paid full salaries beyond 12 months. Allowances were also found paid which were inadmissible. The lapses had occurred due to inadequate internal controls in sanctioning of leave and regulating the entitlements. *AIN: 14570; Para: 22; Accountabilities: Direct: Phub Dorji, EID No. 20101681; Supervisory: Phub Dorji, EID No. 20101681*
- b) The Dzongkhag Administration, Trongsa had made inadmissible payments of allowances amounting to Nu.0.066 million to an official on study leave without salary. The lapses had apparently occurred due to lack of communication between the relevant sector and finance section. *AIN: 14570; Para: 21; Accountabilities: Direct: Ugyen Tenzin, EID No. 200807133; Supervisory: Ugyen Tenzin, EID No. 200807133*

3.4. EXCESS PAYMENT – NU.0.525 MILLION

- a) The Dzongkhag Administration, Trongsa had made excess payments amounting to Nu.0.166 million in the construction of MonmaygangJueg Irrigation Channel

at Nimshong due to payments made for quantities in excess of quantities actually executed at site. The lapses had occurred due to inadequate monitoring and supervision of the works by the Supervising Engineer as well as certification of work without completion to avoid budget lapse. *AIN: 14570; Para: 2(c); Accountabilities: Direct: Dorji Phuntsho, EID No. 20140103501; Supervisory: Karma Wangdi, ADAO, EID No.9007094*

- b) The Dzongkhag Administration, Trongsa had made excess payments amounting to Nu.0.164 million to the contractor in the construction of Two-Unit Staff Quarter. Excess payments were on account of non-deduction of Pad foundation from the walls, wrong measurement of height and non-deduction of RCC beams and columns from the brickwork in superstructure, and double payments for 'providing and laying dry earth bedding'. The lapses had occurred apparently due to lack of due diligence exercised by officials concerned while certifying the claims. *AIN: 14570; Para: 39; Accountabilities: Direct: Passang Dorji, DPE, EID No. 820141; Supervisory: Phuntsho Galey, JE, EID No. 2014103513*
- c) The Dzongkhag Administration, Trongsa had made excess payments amounting to Nu.0.107 million to the contractor in the site development works and construction of approach road for the proposed BHU-I at Dangdung due to payments made for quantities in excess of quantities actually executed at site. The lapses had occurred apparently due to inadequate monitoring and supervision of the site during the execution as well as certifying the claims of the contractor. *AIN: 14570; Para: 15(b); Accountabilities: Direct: Phuntsho Galay, JE, EID No. 20140103513; Supervisory: Passang Dorji, DPE, EID No. 8201041*
- d) The Dzongkhag Administration, Trongsa had made excess payments amounting to Nu.0.056 million to the contractor in the construction of Dzongkhag Veterinary Hospital due to non-deduction of RCC beams and columns from the brickwork in superstructures. *AIN: 14570; Para: 37; Accountabilities: Direct: Passang Dorji, DPE, EID No. 820141; Supervisory: Phuntsho Galey, JE, EID No. 2014103513*
- e) The Dzongkhag Administration, Trongsa had made excess payments of Nu.0.032 million in the construction of six-unit classroom block at Samcholing Primary School due to payments made for the items not provided at site and measurements beyond the actual work done. The Dzongkhag had accepted the lapses which had occurred due to inadequate monitoring and supervision of the site during the execution as well as certifying the claims of the contractor. *AIN: 14570; Para: 19; Accountabilities: Direct: Dendup Wangmo, EID No. 200807183; Supervisory: Passang Dorji, DPE, EID No. 8201040*

1.3.2.5. DZONGKHAG ADMINISTRATION, PARO

During the year, the RAA had issued two audit reports of the Dzongkhag Administration, Paro. There were 34 observations amounting to Nu.5.632 million of which 32 observations amounting to Nu.3.222 million were either resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion.

The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.2.410 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Violation of Laws & Rules	0.931	4
2	Shortfalls, lapses & deficiencies	1.479	5
Total		2.410	

1. Violation of Laws & Rules - Nu.0.931 million

The case of violation of laws & rules is as indicated below:

1.1. NON-LEVY OF LIQUIDATED DAMAGES AND ABNORMAL GRANT OF TIME EXTENSION - NU.0.931 MILLION

The Dzongkhag Administration, Paro had not levied liquidated damages amounting to Nu.0.931 million for delays and non-completion of works in the reconstruction of Jela Dzong. In addition, the management had not terminated the contract upon expiry of contract period on 2nd December 2015, and had instead granted time extensions, in anticipation that the works will be completed in the extended period. The case is sub judice. *AIN: 14565; Para: 8.2; Accountabilities: Direct: Kencho Wangdi, Asstt. Engineer, EID No. 200409002; Supervisory: Kencho Dorji, Dzongkhag Engineer, EID No. 9707052*

2. Shortfalls, lapses & deficiencies - Nu.2.410 million

The case of shortfalls, lapses & deficiencies is as indicated below:

2.1. EXCESS PAYMENT - NU.1.479 MILLION

The Dzongkhag Administration, Paro had made excess payments of Nu.1.479 million in the reconstruction of Jela Dzong. The Dzongkhag Administration had paid the contractor a total of Nu.10.790 million against the value of actual works executed of Nu.9.312 million. Review of the Running Account Bills revealed that bill payments were not based on actual physical progress of work executed at site, but were instead paid based on the estimated quantities as per the Bill of Quantities. The concerned site engineer had failed to exercise due diligence while verifying claims/bills for payments, and while maintaining the measurement book. The case is sub judice. *AIN: 14565; Para: 8.1; Accountabilities: Direct: Kencho Wangdi, Asstt. Engineer, EID No. 200409002; Supervisory: Kencho Dorji, Dzongkhag Engineer, EID No. 9707052*

1.3.2.6. DZONGKHAG ADMINISTRATION, PUNAKHA

During the year, the RAA had issued one audit report of the Dzongkhag Administration, Punakha. There was six observations amounting to Nu.2.264 million of which four observations amounting to Nu.0.143 million were either resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion.

The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.2.121 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Violation of Laws & Rules	-	4
2	Shortfalls, lapses & deficiencies	2.121	5
Total		2.121	

1. Violation of Laws & Rules

The case of violation of laws & rules is as indicated below:

1.1. NON-DECLARATION OF ASSET FOR THE YEAR 2015

An official of the Dzongkhag Administration, Punakha had not declared his assets as per the Asset Declaration Rules 2012. *AIN: 14629; Para: 5; Accountabilities: Direct: Kinley Wangdi, Sr. Forest Ranger III, EID No. 200507173; Supervisory: Sangay Wangchuk, Internal Auditor, EID No. 2014010338*

2. Shortfalls, lapses & deficiencies - Nu.2.121 million

The case of shortfalls, lapses & deficiencies is as indicated below:

2.1. LAPSES IN THE LAYING OF SEWER NETWORKS AT KHURUTHANG TOWN - NU.2.121 MILLION

The Dzongkhag Administration, Punakha had not enforced terms and conditions of the contract for the reinstatement of roads damaged by the contractor for laying of Sewer Networks at Khuruthang town. The damages were neither repaired by the contractor, nor equivalent cost of Nu.1.260 million recovered from the contractor. Also, the Dzongkhag Administration had not deducted 2% rebate of Nu.0.276 million offered by the contractor. Further, the contractor was paid for 92 manholes against 86 standard manhole chambers executed at site as observed during physical verification with resultant excess payment of Nu.0.584 million. The Site Engineer and the Supervising Engineer had failed to exercise due diligence in monitoring and supervising the works executed as well as failed to properly verify claims for payment of bills. *AIN: 14629; Para: 1; Accountabilities: Direct: Aiman Limboo, AE, EID No. 2012010014; Supervisory: Tandin Dorji, DE, EID No. 200401026*

1.3.2.7. DZONGKHAG ADMINISTRATION, DAGANA

During the year, the RAA had issued one audit report of the Dzongkhag Administration, Dagana. There was 11 observations amounting to Nu.2.829 million of which five observations amounting to Nu.0.710 million were either resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion. The significant irregularities reported in the draft AAR 2017 amounted to Nu.2.119 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the agency, observations amounting to Nu.0.327 million were resolved. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.1.792 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Violation of Laws & Rules	1.039	4
2	Shortfalls, lapses and deficiencies	0.753	5
	Total	1.792	

1. Violation of Laws & Rules - Nu.1.039 million

There were cases of violation of laws & rules involving Nu.1.039 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
1.1	Payment without supporting documents	0.050
1.2	Deficiencies in payment and adjustment of advances	0.800
1.3	Non-declaration and late submission of Asset Declaration	0.189
	Total	1.039

The cases of violation of laws & rules are as indicated below:

1.1. PAYMENT WITHOUT SUPPORTING DOCUMENTS - NU.0.050 MILLION

The Dzongkhag Administration, Dagana had made payments amounting to Nu.0.050 million based on the approvals, but without any supporting documents such as bills and cash memos to substantiate the expenditure. The administration reported that the payments were made for the Construction of a temporary Choekhang for the consecration of the Dzong. The Dzongkhag Administration indicated that the expenses were incurred for sawing of timber, transportation, construction and decoration of the Choekhang, but there were no relevant documents to validate the expenditure. *AIN: 14526; Para: 7.2; Accountabilities: Direct: Choki Dorji, Acctt. Asstt. EID No. 2009071882; Supervisory: Dophu, Accounts Officer, EID No. 200607056*

1.2. DEFICIENCIES IN PAYMENT AND ADJUSTMENT OF ADVANCES - NU.0.800 MILLION

The Dzongkhag Administration, Dagana had overdue advances amounting to Nu.0.800 million for more than two years. An advance of Nu.1.500 million had been released to the Lam Neten of Dagana Dzongkhag for procurement of Thongdrel. The Gups of 14 gewogs had agreed to contribute Nu.0.100 million each from the GDG funds and the Dratshang had agreed to contribute the remaining Nu.0.100 million to raise Nu.1.500 million for the Thongdrel.

However, the Dzongkhag Administration had received only Nu.0.700 million deposited by seven gewogs into the Moelam Chhenmo Account. Two gewogs had not made the contribution of Nu.0.200 million as agreed. The remaining Nu.0.600 million was due for refund from the Lam Neten, being the amount of Nu.0.500 million issued as cheques to Lam Neten by five Gewogs and Nu.0.100 million contributions of the Dratshang, which was initially paid by the Dzongkhag Administration. *AIN: 14526; Para: 7.1; Accountabilities: Direct: Daw Wangdi, Rabdhey Drungchen, CID No. 10306000794; Karma Tshering, Drujegang Gup, CID No. 10310001047; Dhan Bdr. Rana, Tsendagang Gup, CID No. 10309000585; Supervisory: Tenzin Namgay, Lam Neten, CID No. 11903000335; Dophu, Accounts Officer, EID No. 200607056*

1.3. NON-DECLARATION AND LATE SUBMISSION OF ASSET DECLARATION - NU.0.189 MILLION

Three officials of the Dzongkhag Administration, Dagana had not submitted their Asset Declarations for the years 2014 and 2015 as required under the Asset Declaration Rules 2012. The officials were liable to pay a penalty amount of Nu.0.189 million as per the Asset Declaration Rules at the time of audit on 15th October 2016. *AIN: 14526; Para: 4.1; Accountabilities: Direct: Sonam Jamtsho, FR-II, EID No. 9412048; Kinga Singye, LRA-V, EID No. 200809006; Kinley Tenzin, VP, EID No. 200502024; Supervisory: Sonam Yangzom, HRO EID No.201101023*

2. Shortfalls, lapses & deficiencies - Nu.0.753 million

There were cases of shortfalls, lapses & deficiencies involving Nu.0.753 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
2.1	Non-recovery of penalties imposed for balance work not executed and submission of false Bank Guarantee	0.455
2.2	Excess payment to contractor	0.298
Total		0.753

The cases of shortfalls, lapses & deficiencies are as indicated below:

2.1. NON-RECOVERY OF PENALTIES IMPOSED FOR BALANCE WORK NOT EXECUTED AND SUBMISSION OF FALSE BANK GUARANTEE - NU.0.455 MILLION

The Dzongkhag Administration, Dagana had not recovered Nu.0.455 million on account of penalty for non-completion of work valuing to Nu.3.348 million in the construction of two storied Bhutan Agriculture and Food Regulatory Authority Office at Dagana. As per GCC 60.1 of SBD, penalty should be applied 20% for the work not completed but not beyond a maximum of 10% of the initial contract price. The case was forwarded to Royal Court of Justice, Dagana vide letter no. BAFRA/DD/20/2015-16/83 dated 30th March 2016 and is sub judice.

Further, the contractor had submitted a Bank Guarantee in lieu of performance security for the contract work, which pertained to the construction of Drasha at Paga Goenpa, under Chukha Dzongkhag. *AIN: 14526; Para; 3.2; Accountabilities: Direct: Ugyen Dorji, In-Charge, EID No. 8106021; Dzeko Dorji, In-charge, EID No. 2008108; Supervisory: Jamyang Phuntsho, Chief, EID No. 2101017*

2.2. EXCESS PAYMENT TO CONTRACTOR - NU.0.298 MILLION

The Dzongkhag Administration, Dagana had made excess payments of Nu.0.298 million on account of advances granted to the contractor which were not recovered in full at the time of termination of contract. The management had failed to recover the advances released to the contractor before terminating the contract as the quantity of work executed at site was not enough to liquidate the contractor's advances. The case was forwarded to the Royal Court of Justice, Dagana vide letter number BAFRA/DD/20/2015-16/83 dated 30th March 2016 and is sub judice. *AIN: 14526; Para: 3.1; Accountabilities: Direct: Ugyen Dorji, In-charge, EID No. 8106021; Dzeko Dorji, In-charge, EID No. 2008108; Supervisory: Jamyang Phuntsho, Chief, EID No. 2101017*

1.3.2.8. DZONGKHAG ADMINISTRATION, PEMAGATSHEL

During the year, the RAA had issued four audit reports of the Dzongkhag Administration, Pemagatshel. There were two observations amounting to Nu.1.819 million of which one observation amounting to Nu.0.240 million was resolved prior to the compilation of the draft AAR 2017. The significant irregularities reported in the draft AAR 2017 amounted to Nu.1.579 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the agency, observations amounting to Nu.0.154 million were resolved. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.1.425 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Shortfalls, lapses & deficiencies	1.425	5
Total		1.425	

1. Shortfalls, lapses & deficiencies - Nu.1.425 million

The case of shortfalls, lapses & deficiencies is as indicated below:

1.1. NON-RECOVERY OF ADVANCE EVEN AFTER COMPLETION OF WORKS - NU.1.425 MILLION

The Dungkha Administration, Nganglam had overdue advances amounting to Nu.1.425 million against contractor that was not recovered even after completion of works in the construction of boundary wall at Potonala. The work was completed on 1st March 2016 and handed over on 3rd March 2016. While the initial value of work awarded was Nu.4.727 million, after reduction in the scope of work, the value of work was reduced to Nu.3.007 million. A total of Nu.2.323 million were paid to the contractor on account of 10% Mobilization Advance and 75% Secured Advance against materials brought to site, of this only Nu.0.898 had been adjusted leaving a balance of Nu.1.425 million. The case had been forwarded to the Royal Court of Justice and is subjudice. *AIN: 14474; Para: 1.1; Accountabilities: Direct: Pabita Rai, JE, EID No. 201101227; Supervisory: Pema Tobgyel, Dasha Dungpa, EID No. 8805185*

1.3.2.9. DZONGKHAG ADMINISTRATION, WANGDUEPHODRANG

During the year, the RAA had issued two audit reports of the Dzongkhag Administration, Wangduephodrang. There were 12 observations amounting to Nu.1.444 million of which 10 observations amounting to Nu.0.877 million were either resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion. The significant irregularities reported in the draft AAR 2017 amounted to Nu.0.567 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the agency, observations amounting to Nu.0.098 million were resolved. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.0.469 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Violation of Laws & Rules	0.469	4
Total		0.469	

1. Violation of Laws & Rules - Nu.0.469 million

The cases of violation of laws & rules are as indicated below:

1.1. UN-SPENT CLOSED WORK BALANCE - NU.0.469 MILLION

The Dzongkhag Administration, Wangduephodrang had an un-spent Closed Work balance amounting to Nu.0.469 million pertaining to FY 2014-2015 which was not refunded to DPA, MoF even at the time of audit in April 2017. This was in contravention to the MoF Circular No. *DPA(AD)-Circular/2009-10/7579* dated 6th April 2010 which stipulates that funds deposited into the Refundable Account should be sought by the Budgetary agencies within July to clear the closed work account and under no

circumstances should transactions be passed on to succeeding months. *AIN: 14743; Para: 5; Accountabilities: Direct: Kelzang Wangchuk, AE, EID No. 9507036; Supervisory: Lhapchu, DE, EID No. 8601092*

1.3.2.10. DZONGKHAG ADMINISTRATION, HAA

During the year, the RAA had issued one audit report of the Dzongkhag Administration, Haa. There was five observations amounting to Nu.1.747 million of which three observations amounting to Nu.0.748 million were either resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion. The significant irregularities reported in the draft AAR 2017 amounted to Nu.0.999 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the agency, observations amounting to Nu.0.541 million were resolved. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.0.458 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Shortfalls, lapses & deficiencies	0.458	5
Total		0.458	

1. Shortfalls, lapses & deficiencies - Nu.0.458 million

There were cases of shortfalls, lapses & deficiencies involving Nu.0.458 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
1.1	Whereabouts of balance of Nu.0.010 million retained and non-production of distribution list	0.397
1.2.	Outstanding advances	0.061
Total		0.458

The cases of shortfalls, lapses & deficiencies are as indicated below:

1.1. WHEREABOUTS OF BALANCE FUND OF NU.0.010 MILLION RETAINED AND NON-PRODUCTION OF DISTRIBUTION LIST - NU.0.397 MILLION

The Dzongkhag Administration, Haa had failed to produce documents for a sum Nu.0.010 million pertaining to the Firewood Royalty Income received from IMTRAT for audit verification. The balances had been retained by the Gups/gewogs and were not recovered by the Dzongkhag Administration. Discrepancies were noted in the amounts of disbursed to households as against actual amounts disbursed to gewogs (based on total number of households).

Further, the management failed to produce records/distribution lists for the disbursement of the Firewood Royalty Income amounting to Nu.0.397 million that were distributed to the six gewogs and Haa Throm for two consecutive years from 2014-15 to 2015-16. *AIN: 14438; Para: 3.2; Accountabilities: Direct: Ugyen, Ex-Gup, Bji CID No.*

10501001692; Chundu, Ex Gup, Katsho, CID No. 10503000855; Tobgay, Ex-Gup, Sombay, CID No. 10505000666; Tenzin Jambay, Ex-Gup, Esu, CID No. 10502000312; Nim Dorji, Ex-Gup, Gakidling, CID No. 10505000396; and Tshewang Tandin, Ex-Gup, Samar, CID No. 10504001879; Supervisory: Ugyen, Ex- Gup, Bji, CID No. 10501001692; Chundu, Ex-Gup, Katsho, CID No. 10503000855; Tobgay, Ex-Gup, Sombay, CID No. 10505000666; Tenzin Jambay, Ex-Gup, Esu, CID No. 10502000312; Nim Dorji, Ex-Gup, Gakidling, CID No. 10505000396; and Tshewang Tandin, Ex-Gup, Samar, CID No. 10504001879

1.2. OUTSTANDING ADVANCES - NU.0.061 MILLION

The Dzongkhag Administration, Haa had overdue advances amounting to Nu.0.061 million lying unadjusted against official and parties. There were Personal Advances amounting to Nu.0.048 million given as salary advance and Public Works Advances amounting to Nu.0.013 million given as fuel advance for approach road clearing and connection works for the new Royal Guest House construction. *AIN: 14438; Para: 4; Accountabilities: Direct: Karma Wangdi, Offtg, AFO, EID No. 9704035; Supervisory: Dasho Kinzang Dorji, Dzongda, EID No. 9306022*

1.3.2.11. DZONGKHAG ADMINISTRATION, THIMPHU

During the year, the RAA had issued two audit reports of the Dzongkhag Administration, Thimphu. There were two observations amounting to Nu.0.416 million of which no observations were resolved prior to the compilation of the draft AAR 2017.

The total unresolved significant irregularity reflected in the AAR 2017 amounted to Nu.0.416 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Violation of Laws & Rules	0.416	4
Total		0.416	

1. Violation of Laws & Rules - Nu.0.416 million

There were cases of violation of laws & rules involving Nu.0.416 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
1.1	Defective works in the construction of Depsiphakha LAP	0.416
1.2	Delay in completion of works at Depsiphakha LAP	-
Total		0.416

The cases of violation of laws & rules are as indicated below:

1.1. DEFECTIVE WORKS IN THE CONSTRUCTION OF DEPSIPHAKHA LAP - NU.0.416 MILLION

The Dzongkhag Administration, Thimphu had not rectified defective works valuing Nu.0.416 million in the construction works executed for Depsiphakha Local Area Plan

(LAP). Defects were noted in the Granular sub-base, black topping and drainage works at site with pot holes, sinking of roads with resultant peeling off of black topping and cracks. *AIN: 14457; Para: 1; Accountabilities: Direct: Tenzin Wangda, Engineer, EID No. 9607027; Supervisory: Chabililal Das, Chief Engineer, EID No. 8808036*

1.2. DELAYS IN COMPLETION OF WORKS AT DEPSIPHAKHA LAP

The Dzongkhag Administration, Thimphu had delays in the completion of Depsiphakha LAP. While the Contractor had completed the construction of RCC tank, pump house, installation of Water pump and Electrical works, the testing and commissioning of the water pump had not been carried out at the Depsiphakha LAP as the thrust blocks at the mainline had burst during the testing of the pump. This indicated inadequacies in the installation of water supply system, and thus raises questions on the technical soundness of the entire project. *AIN: 14457; Para: 2; Accountabilities: Direct: Tenzin Wangda, Engineer, EID No. 9607027; Supervisory: Chabililal Das, Chief Engineer, EID No. 8808036*

1.3.2.12. DZONGKHAG ADMINISTRATION, SAMDRUP JONGKHAR

During the year, the RAA had issued four audit reports of the Dzongkhag Administration, Samdrup Jongkhar. There was 13 observations amounting to Nu.1.016 million of which 10 observations amounting to Nu.0.946 million were either resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion. The significant irregularities reported in the draft AAR 2017 amounted to Nu.0.070 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the agency, one observation amounting to Nu.0.035 million were resolved. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.0.035 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Shortfalls, lapses & deficiencies	0.035	5
Total		0.035	

1. Shortfalls, lapses & deficiencies - Nu.0.035 million

There were cases of shortfalls, lapses & deficiencies involving Nu.0.035 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
1.1	Non-deduction of lump sum rebate	0.035
Total		0.035

The cases of shortfalls, lapses & deficiencies are as indicated below:

1.1. NON-DEDUCTION OF LUMP SUM REBATE - NU.0.035 MILLION

The Dzongkhag Administration, Samdrup Jongkhar had not deducted lump sum rebate of Nu.0.035 million offered by the Contractor in the construction of Caretaker's Residence at Jomotshangkha Dungkhag. The lapses had occurred due to negligence on the part of the concerned Site Engineer, Supervising Engineer and Accounts Section to deduct the lump sum rebate offered by the contractor. *AIN: 14303; Para: 3; Accountabilities: Direct: Tashi Phuntsho, Junior Engineer, EID No. 201101232; Supervisory: Lamdra Wangda, Dungpa, EID No. 9507335*

1.3.3. GEWOGS ADMINISTRATION

1.3.3.1. GEWOGS ADMINISTRATION UNDER PARO DZONGKHAG

I. NAJA

During the year, the RAA had issued one audit report of the Gewog Administration, Naja. There were 14 observations amounting to Nu.2.183 million of which seven observations amounting to Nu.0.977 million were either resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion. The significant irregularities reported in the draft AAR 2017 amounted to Nu.1.206 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the Gewog Administration, three observations were resolved. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.1.206 million as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Mismanagement	0.400	3
2	Shortfalls, lapses and deficiencies	0.806	5
	Total	1.206	

1. Mismanagement - Nu.0.400 million

The case of mismanagement involving Nu.0.400 million is as indicated below:

1.1. UNAUTHORIZED DIVERSION OF FUND - NU.0.400 MILLION

The Gewog Administration, Naja had made unauthorized diversion of fund amounting to Nu.0.400 million expended for the constructions of two new farm roads measuring 720 meters and 207 meters without obtaining Environmental Clearance. The expenditure was met from the maintenance budget for 'Improvement of Drali Waju Farm Road under Betekha Chiwog' which did not actually exist. *AIN: 14601; Para: 6.1 & 6.2;*

Accountabilities: Direct: Kado, Ex-Gup, CID No. 10807001121; Supervisory: Kinley Wangdi, Gup, CID No.10807002291

2. Shortfalls, lapses and deficiencies - Nu.0.806 million

There were cases of shortfalls, lapses and deficiencies involving Nu.0.806 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
2.1.	Inadmissible payment	0.306
2.2.	Excess payment	0.500
2.3.	Acceptance of defective works	-
	Total	0.806

The cases of shortfalls, lapses and deficiencies are as indicated below:

2.1. INADMISSIBLE PAYMENT - NU.0.306 MILLION

The Gewog Administration, Naja had made inadmissible payment of Nu.0.306 million in the maintenance of Farm Road at lower Tshendu Gonpa. The contractor had claimed for items of work which required use of Road Roller that was not actually deployed at site with resultant inadmissible payment. The Site Engineer had passed the bills without verifying the actual deployment of machinery at site. The lapses were indicative of weak internal controls. *AIN: 14601; Para: 2; Accountabilities: Direct: Sonam Choden, Asst. Engineer, EID No. 200707078; Supervisory: Kado, Ex-Gup, CID No. 10807001121*

2.2. EXCESS PAYMENT - NU.0.500 MILLION

The Gewog Administration, Naja had made excess payment of Nu.0.500 million for works not executed in the construction of Susuna farm road. The contractor had claimed for quantities in excess for items of work actually executed at site. The lapses had occurred due to improper verification of contractor's bills against the actual quantities of works executed at site by the Site Engineer and due to failure on the part of the Supervising Engineer to exercise necessary checks to ensure the admissibility of contractor's claims. *AIN: 14601; Para: 3.2; Accountabilities: Direct: Kado, Ex-Gup, CID No. 10807001121; Kelzang Wangmo, GAO, EID NO. 200804007; Kinzang Wangdi, Accountant, EID No. 8712032; Sonam Choden, Asst. Engineer, EID No. 200707078; Supervisory: Kinley Wangdi, Gup, CID No. 10807002291*

2.3. ACCEPTANCE OF DEFECTIVE WORKS

The Gewog Administration, Naja had accepted defective works in the maintenance of Jangbekha Lhakhang. The maintenance works carried out at an estimated cost of Nu.0.500 million had major defects including cracks on several parts of the RRM wall, sinking of ground at some parts of the boundary wall and certain portions of the boundary wall collapsed.

The lapses had occurred mainly due to the poor workmanship and lack of technical capacity of the community contractor, which was further aggravated by the laxity and failure of the concerned Site Engineer and the Supervising Engineer to exercise necessary checks to ensure quality of works done by the community contractor. *AIN: 14601; Para: 7; Accountabilities: Direct: Sonam Choden, Asst. Engineer, EID No. 200707078; Supervisory: Kado, Ex-Gup, CID No. 10807001121*

II. WANGCHANG

During the year, the RAA had issued one audit report of the Gewog Administration, Wangchang. There were ten observations amounting to Nu.0.992 million of which one observation amounting to Nu.0.013 million was either resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion. The significant irregularities reported in the draft AAR 2017 amounted to Nu.0.980 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the Gewog Administration, one observation was resolved. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.0.980 million as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Mismanagement	0.500	3
2	Shortfalls, lapses and deficiencies	0.480	5
Total		0.980	

The Gewog Administration, Wangchang had awarded the contract for 'Electric Water Pump System to draw water from the river' for irrigation to M/s Ghana Builders, Thimphu on 25th June 2015. It was completed at a cost of Nu.5.167 million. However, it was found non-functional at the time of audit in December 2016. The review of the water supply system revealed the following deficiencies:

1. Mismanagement - Nu.0.500 million

There were cases of mismanagement involving Nu.0.500 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
1.1.	Irregularities in providing and fixing of 30 HP Centrifugal Pumps	-
1.2.	Unjustified & extravagant payment for 30HP Electric Motor pumps - Nu.0.500	0.500
Total		0.500

The cases of mismanagement are as indicated below:

1.1. IRREGULARITIES IN PROVIDING AND FIXING OF WATER PUMPS AND HDPE PIPES

The Centrifugal Pumps with the specification of one 50 Horsepower (HP) electric motor pump was found changed to two 30 HP electric motor pumps and the diameter of HDPE pipes were increased from specified 180mm to 200mm. *AIN: 14596; Para: 1.6; Accountabilities: Direct: Kencho Wangdi, Engineer, EID No. 200409002; Supervisory: Thinley Dorji, Ex-Gup, CID No. 10811002122*

1.2. UNJUSTIFIED & EXTRAVAGANT PAYMENT FOR 30HP ELECTRIC MOTOR PUMPS – NU.0.500 MILLION

The Gewog Administration had procured two 30 HP electric motor pumps at Nu.0.500 million (Nu.0.250 million each) against the specification of one 50 HP electric motor pump with a quoted rate of Nu.0.065 million which had additional financial implication of Nu. 0.435 million. This resulted into an unjustified & extravagant payment for one 30 HP electric motor pump. The lapses had occurred apparently due to laxity of the dealing officials in exploring for the most competitive prices, when the rate for the alternative pump was abnormally high. *AIN: 14596; Para: 1.7 & 1.8; Accountabilities: Direct: Kencho Wangdi Engineer, EID No. 200409002; Supervisory: Thinley Dorji, Ex-Gup, CID No. 10811002122*

2. Shortfalls, lapses and deficiencies - Nu.0.480 million

There were cases of shortfalls, lapses and deficiencies involving Nu.0.480 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
2.1.	Non-accountal of extracted materials	0.446
2.2.	Excess payment	0.034
2.3.	Defective Work	-
	Total	0.480

The cases of shortfalls, lapses and deficiencies are as indicated below:

2.1. NON-ACCOUNTAL OF EXTRACTED MATERIALS - NU.0.446 MILLION

The Gewog Administration, Wangchang had paid Nu.0.446 million on account of hard rock cutting at an analyzed rate of Nu.348.46 per cubic meter for 1,280.30 cubic meter (40% of 3199.94 cubic meter of earth work excavation). However, the hard rock extracted was neither found accounted for in the 'Material at Site' (MAS) register, nor was the value of hard rock adjusted from the payments to contractor. The lapses had occurred apparently due to negligence on the part of the Site Engineer from making necessary record entries in the MAS register. *AIN: 14596; Para: 1.1; Accountabilities: Direct: Kencho Wangdi Engineer, EID No. 200409002; Supervisory: Thinley Dorji, Ex-Gup, CID No. 10811002122*

2.2. EXCESS PAYMENT - NU.0.034 MILLION

The Gewog Administration, Wangchang had made excess payment of Nu.0.034 million for items of works not executed as per Bill of Quantities (BoQ). The lapses had occurred due to improper verification of contractor's claims without ascertaining the actual quantity of work executed as per BoQ by the Site Engineer. *AIN: 14596; Para: 1.4; Accountabilities: Direct: Kencho Wangdi Engineer, EID No. 200409002; Supervisory: Thinley Dorji, Ex-Gup, CID No. 10811002122*

2.3. DEFECTIVE WORKS

The Gewog Administration, Wangchang had not directed the contractor to rectify defects noted in Electric Water Pump system as follows:

- a. Cracks had developed and the layer of cement plaster on the floor and partition of RRM wall of the Reservoir tank was peeling off;
- b. the HDPE pipe joints were found dislocated/detached at several joints; and
- c. The RRM wall and plinth protection at Water Pump House had developed major cracks.

The lapses had occurred due to poor workmanship and lack of proper supervision and monitoring of work by concerned site supervisor. *AIN: 14596; Paras: 1.3, 1.5 & 1.9; Accountabilities: Direct: Kencho Wangdi Engineer, EID No. 200409002; Supervisory: Thinley Dorji, Ex-Gup, CID No. 10811002122*

III. DOPSHARI

During the year, the RAA had issued one audit report of the Gewog Administration, Dopshari. There were ten observations amounting to Nu.1.006 million of which three observations amounting to Nu.0.044 million were either resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion. The significant irregularities reported in the draft AAR 2017 amounted to Nu.0.962 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the agency, observations amounting to Nu.0.311 million were resolved. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.0.651 million as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Fraud, Corruption & Embezzlement	0.377	1 & 2
2	Shortfalls, lapses and deficiencies	0.274	5
Total		0.651	

1. Fraud, Corruption and Embezzlement - Nu.0.377 million

There were cases with elements of fraud, corruption and embezzlement involving Nu.0.377 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
1.1.	Fictitious Payment for maintenance of Jeshigang Farm road	0.300
1.2.	Lapses in the maintenance of Kempa to Khamsazingkha Farm road	0.077
	Total	0.377

The cases with elements of fraud, corruption and embezzlement are as indicated below:

1.1. FICTITIOUS PAYMENT FOR MAINTENANCE OF JESHIGANG FARM ROAD - NU.0.300 MILLION

The Gewog Administration, Dopshari had made fictitious payments of Nu.0.300 million for the maintenance of Jeshigang farm road (Shari to Donam). The contract was awarded on 11th February 2016 and Final payment made on 23rd June 2016 upon submission of final bill duly verified by the Site Engineer concerned.

However, physical verification of site revealed that the farm road maintenance works had not even started at the time of audit in January 2017 and the amount had been withdrawn and paid to the former Tshogpa. The disbursement of payment without execution of work was highly irregular and in violation of budgetary and accounting norms. *AIN: 14600; Para: 1.1; Accountabilities: Direct: Chundu Dorji, Asstt. Engineer, EID No. 200707082; Jyoti Bala Rai, Accountant, EID No. 200807281; Supervisory: Dago, Ex-Gup, CID No. 10802000288*

1.2. LAPSES IN THE MAINTENANCE OF KEMPA TO KHAMSAZINGKHA FARM ROAD- NU.0.077 MILLION

The Gewog Administration, Dopshari had made payments of Nu.0.077 million for hire of excavator and tripper truck for the maintenance of farm road from Kempa to Khamsazingkha. The expenditure of Nu.0.052 million was met from the funds for 'Construction of retaining wall along Dongbu Farm Road' and Nu.0.025 million met from the funds for 'improvement of Thakchukha farm road' at Juka-Jangsa. Further, the receipt of the same was not acknowledged by the recipient on the payment voucher.

In addition, the maintenance of farm road had not started at the time of audit in November 2016. The payment disbursed without execution of work at site is highly irregular and in violation of budgetary and accounting norms.

The Gewog Administration reported that the works has been completed but appropriate actions against the concerned officials are awaited. *AIN: 14600; Para: 1.3; Accountabilities: Direct: Chundu Dorji, Asst. Engineer, EID No. 200707082; Supervisory: Dago, Ex-Gup, CID No. 10802000288*

2. Shortfalls, lapses and deficiencies - Nu.0.274 million

The case of shortfalls, lapses and deficiencies is as indicated below:

2.1. NON-EXECUTION OF RWSS AFTER PROCUREMENT OF MATERIALS - NU.0.274 MILLION

The Gewog Administration, Dopshari had incurred an expenditure of Nu.0.274 million for procurement of materials for construction of RWSS from Dorizeykha to Tserena (1.5km) for the Financial Year 2015-16. However, the works had not started and materials procured were lying unattended at site including 150 bags of cement that were damaged (set). The materials were also not accounted for in the stock register as required.

The Budget was proposed without adequate and proper consultation with the beneficiaries and the materials were procured at the close of the Financial Year to avoid the lapse of fund. The delay was attributed to lack of initiatives from Gewog Administration and non-cooperation by the beneficiaries. *AIN: 14600; Para: 7.1; Accountabilities: Direct: Thinley Dorji, Technician, EID No.20120200108; Supervisory: Dago, Ex-Gup, CID No. 10802000288*

IV. LUNGNYI

During the year, the RAA had issued one audit report of the Gewog Administration, Lungnyi. There was one observation amounting to Nu.0.300 million which was not resolved prior to the compilation of the draft AAR 2017.

The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.0.300 million as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Fraud, Corruption & Embezzlement	0.300	1 & 2
	Total	0.300	

1. Fraud, Corruption and Embezzlement - Nu.0.300 million

The case with elements of fraud, corruption and embezzlement is as indicated below:

1.1. NON-DISCLOSURE OF FUND RECEIVED FROM M/S HOTEL OLATHANG - NU.0.300 MILLION

The Gewog Administration, Lungnyi had not disclosed the receipt of Nu.0.300 million from M/s Olathang Hotel for improvement of farm road from takeoff point. M/s Olathang Hotel had provided additional financial assistance of Nu.0.300 million for improvement of steep gradient and congested turning at takeoff point by blacktopping the farm road and the amount was paid to the Ex-Gup vide voucher No.T-459 dated 9th July 2016.

However, on review of the total expenditure incurred for the activity, it was revealed that the contribution of Nu.0.300 million received from M/s Olathang hotel was neither used for construction of Farm Road, nor taken into account by the Gewog Administration. Further, the works for improvement of steep gradient and congested

turning at takeoff point was found awarded as an additional work to M/s Druk Jabab Construction for providing and laying of plain cement concrete at Nu.0.153 million. In addition, the amount was booked under closed work of M/s C.N Construction. *AIN: 14595; Para: 1; Accountabilities: Direct: Jamtsho, Gup, CID No. 10806001674; Supervisory: Rinchen Penjor, Ex-Gup, CID No. 10806001228*

V. HUNGREL

During the year, the RAA had issued one audit report of the Gewog Administration, Hungrel. There were three observations amounting to Nu.1.266 million of which two observations amounting to Nu.1.181 million were resolved prior to the compilation of the draft AAR 2017.

The total unresolved significant irregularity reflected in the AAR 2017 amounted to Nu.0.085 million as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Fraud, Corruption & Embezzlement	0.085	1 & 2
	Total	0.085	

1. Fraud, Corruption & Embezzlement - Nu.0.085 million

The case with elements of fraud, corruption and embezzlement is as indicated below:

1.1. SHORTAGE OF RWSS MATERIALS - NU.0.085 MILLION

The Gewog Administration, Hungrel had shortage of RWSS materials worth Nu.0.085 million. In addition, the stock entry was found done by Gewog Engineer instead of Gewog Administrative Officer which was highly irregular. The lapses had apparently occurred due to laxity on part of the dealing officials. *AIN: 14594; Para: 1.2; Accountabilities: Direct: Gyem Thinley, Gup, CID No. 10804000025; Supervisory: Sangay, Ex-Gup, CID No. 10804001045*

1.3.3.2. GEWOGS ADMINISTRATION UNDER GASA DZONGKHAG

I. LAYA

During the year, the RAA had issued one audit report of the Gewog Administration, Laya. There were five observations amounting to Nu.2.974 million of which two observations amounting to Nu.0.034 million were either resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion. The significant irregularities reported in the draft AAR 2017 amounted to Nu.2.940 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the Gewog Administration, observation amounting to Nu.0.200 million were resolved. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.2.740 million as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Shortfalls, lapses and deficiencies	2.740	5
	Total	2.740	

1. Shortfalls, lapses and deficiencies - Nu.2.740 million

There were cases of shortfalls, lapses and deficiencies involving Nu.2.740 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
1.1.	Payment of TA/DA claims without proper supporting documents	0.037
1.2.	Missing vouchers	2.703
	Total	2.740

The cases of shortfalls, lapses and deficiencies are as indicated below:

1.1. PAYMENT OF TA/DA CLAIMS WITHOUT PROPER SUPPORTING DOCUMENTS - NU.0.037 MILLION

The Gewog Administration, Laya had made payments of Nu.0.037 million on account of TA/DA payments without any supporting documents. The official had not submitted the TA/DA bills, Travel Authorization, Travel Allowance Claim, Office Order, Tour Report and most importantly the payments were made in cash. *AIN: 14814; Para: 4; Accountabilities: Direct: Sonam Wangchuk, Accountant, EID No. 200807278; Supervisory: Hament Gurung, Account Officer, EID No. 201201154; Lhakpa Tshering, CID No. 10403000672*

1.2. MISSING VOUCHERS - NU.2.703 MILLION

The Gewog Administration, Laya had failed to produce 27 disbursement vouchers for Nu.2.703 million. The lapses had occurred apparently due to laxity on the part of the dealing accountant who had failed to hand over the accounting records to the next dealing person before his departure. Also, the management had neither attempted to recover the money nor taken any action against the official concerned. *AIN: 14814; Para: 5; Accountabilities: Direct: Sonam Wangchuk, Accountant, EID No. 200807278; Supervisory: Hament Gurung, Account Officer, EID No. 201201154*

II. LUNANA

During the year, the RAA had issued one audit report of the Gewog Administration, Lunana. There were five observations amounting to Nu.0.207 million of which one observation amounting to Nu.0.004 million was either resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion. The significant irregularities reported in the draft AAR 2017 amounted to Nu.0.203 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the Gewog Administration, an observation amounting to Nu.0.050 million were

resolved. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.0.154 million as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Shortfalls, lapses and deficiencies	0.154	5
Total		0.154	

1. Shortfalls, lapses and deficiencies – Nu.0.154 million

There were cases of shortfalls, lapses and deficiencies involving Nu.0.154 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
1.1.	Shortage of HSD	0.078
1.2.	Irregular adjustment/payment	0.038
1.3.	Double payment of TA/DA claims	0.038
Total		0.154

The cases of shortfalls, lapses and deficiencies are as indicated below:

1.1. SHORTAGE OF FUEL - NU.0.078 MILLION

The Gewog Administration, Lunana had shortages of 1,610 liters of High Speed Diesel (HSD) fuel worth Nu.0.078 million. A total of 10,210 liters of HSD fuel was purchased exclusively for fueling the Central Machinery Unit's excavator, of which the logbook records reflected usages of 7,400 liters and stock balance of 1,200 liters (six barrels) with resultant shortage of 1,610 liters. The lapses had occurred due to lack of adequate checks and proper system for receipts and issue of fuel at site. *AIN: 14809; Para: 2.1; Accountabilities: Direct: Sherab Chopel, GAO, EID No. 200705080; Supervisory: Gyembo Tshering, Ex-Gup, CID NO. 10404000122; Kaka, Gup, CID No. 10404000432*

1.2. IRREGULAR ADJUSTMENT/PAYMENT - NU.0.038 MILLION

The Gewog Administration, Lunana had made excess payment of Nu.0.038 million due to arithmetical error in the bill submitted by Gewog Administrative Officer for repairing the drilling machine used in the construction of farm road from Goentsephu to Ramina. The lapses had occurred apparently due to negligence of concerned officials in processing the payments without proper scrutiny of the supporting documents. *AIN: 14809; Para: 2.2; Accountabilities: Direct: Sherab Chopel, GAO, EID No. 200705080; Supervisory: Gyembo Tshering, Ex-Gup, CID NO. 10404000122; Kaka, Gup, CID No. 10404000432*

1.3. DOUBLE PAYMENT OF TA/DA CLAIMS - NU.0.038 MILLION

The Gewog Administration, Lunana had made double payments of Nu.0.038 million on account of TA/DA paid to Gewog Officials in the construction of Ramina Farm Road. The lapses had occurred apparently due to lack of proper internal controls. *AIN: 14809; Para:*

2.4; Accountabilities: Direct: Sherab Chopel, GAO, EID No. 200705080; Gyembo Tshering, Ex-Gup, CID NO. 10404000122; Supervisory: Gyembo Tshering, Ex-Gup, CID NO. 10404000122; Kaka, Gup, CID No. 10404000432

III. KHAMOED

During the year, the RAA had issued one audit report of the Gewog Administration, Khamoed. There was one observation amounting to Nu.0.123 million which was partially resolved for Nu.0.023 million prior to the compilation of the draft AAR 2017.

The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.0.100 million as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Shortfalls, lapses and deficiencies	0.100	5
	Total	0.100	

1. Shortfalls, lapses and deficiencies - Nu.0.100 million

The case of shortfalls, lapses and deficiencies is as indicated below:

1.1. SHORTAGES OF FUEL - NU.0.100 MILLION

The Gewog Administration, Khamoed had shortages of 2,087 liters of High Speed Diesel (HSD) fuel worth Nu.0.100 million. The Gewog Administration had incurred an expenditure of Nu.0.772 million in FY 2015-16 for procurement of HSD to fuel machineries hired from CMU Bumthang for the construction/maintenance of various Farm Road and Irrigation Chanel under GDG funding. The verification of expenditure vouchers, bills/PoL cash memos, stock ledger and Machine Log Book revealed shortage of 2,087 litres of HSD. The lapses occurred apparently due to lack of checks and balance in procurement and issue of HSD. *AIN: 14788; Para: 1; Accountabilities: Direct: Ugyen Tshering, Ex-Mangmi, CID No.10401000040, Supervisory: Karma Tshering, Ex-Gup, CID No. 10401000250*

IV. KHATOED

During the year, the RAA had issued one audit report of the Gewog Administration, Khatoed. There was one observation amounting to Nu.0.063 million which was not resolved prior to the compilation of the draft AAR 2017.

The total unresolved significant irregularity reflected in the AAR 2017 amounted to Nu.0.063 million as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Violation of Laws & Rules	0.063	4
	Total	0.063	

1. Violation of Laws and Rules

The case of violation of laws and rules is as indicated below:

1.1. IRREGULARITIES NOTED IN THE CONSTRUCTION OF DATALUM TO DATAPANGCHU FARM ROADS – NU.0.063 MILLION

The Gewog Administration, Khatoed had withdrawn an amount of Nu.0.250 million and retained it in the form of demand draft due to non-completion of construction of Farm Road from Datalum to Datapangchu funded by the GDG, during the Financial Year 2015-16 in contravention to FRR 2001.

As per records, the work had been completed within the deadline and handed over to the Gewog Administration on 5th February 2016, while the work was actually executed after close of financial year. An expenditure of Nu.0.250 million was booked against the procurement of fuel with fake cash memo to avoid lapse of fund and thus execute the work at later stage by the contractor. The stock entries were recorded by other Gewog officials. The value for actual works executed amounting to Nu.0.117 million and the amount of Nu.0.250 million retained by the Gewog Administration was not tallied. The 2% TDS deducted from the contractor's bills and the balance amount of Nu.0.133 million (from the amount retained) after paying contractor were not recorded. The booking of expenditure based on fake bills to avoid the lapse of fund was a serious offence. *AIN: 14813; Para: 1; Accountabilities: Direct: Jochu, GAO EID. No. 201105011; Supervisory: Thinley Wangdi, Gup, CID No.: 10404000432; Jochu, GAO EID. No. 201105011*

1.3.3.3. GEWOGS ADMINISTRATION UNDER PEMAGATSHEL DZONGKHAG

I. CHIMONG

During the year, the RAA had issued one audit report of the Gewog Administration, Chimong. There were five observations amounting to Nu.0.955 million of which three observations amounting to Nu.0.055 million were either resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion. The significant irregularities reported in the draft AAR 2017 amounted to Nu.0.900 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the Gewog Administration, one observation was resolved. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.0.900 million as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Violation of Laws & Rules	0.900	4
	Total	0.900	

1. Violations of laws and rules - Nu.0.900 million

The case of violation of laws and rules is as indicated below:

1.1. DEFECTIVE DEBRI-WORK IN PAINTING OF CHIMUNG LHAKHANG - NU.0.900 MILLION

The Gewog Administration, Chimong had not directed the contractor to rectify defective works valuing Nu.0.900 million noted in the Debris painting of Chimung Lhakhang. The Gewog Administration had accepted substandard work where some of the debris paintings were patchy due to replacement of the original painting. Further, the paintings had been cut and re-fixed in places due to electrical fittings and switch boxes. The lapses had occurred mainly due to poor workmanship and supervision. *AIN: 14330; Para: 3.2; Accountabilities: Direct: Sonam Chophel, AE, EID No. 8808110; Supervisory Accountability: Yeshe Wangdi, Gup, CID No. 10901000609*

II. DUNGMIN

During the year, the RAA had issued one audit of the Gewog Administration, Dungmin. There were two observations amounting to Nu.0.640 million which were not resolved prior to the compilation of the draft AAR 2017.

The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.0.640 million as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Mismanagement	-	3
2	Violation of Laws & Rules	0.640	4
Total		0.640	

1. Mismanagement

The case of mismanagement is as indicated below:

1.1. SHORTAGE OF MATERIALS IN THE GEWOG STORE

The Gewog Administration, Dungmin had shortage of materials in store as noted during the joint physical verification such as furniture, cutlery, electrical items, pipes, tools & implements, chadi items, etc. The lapses had occurred due to improper handling/taking and lack of accountability. *AIN: 14331; Para: 2; Accountabilities: Direct: Ugyen Tshering, Gup, CID No. 10903002312; Supervisory: Ugyen Tshering, Gup, CID No. 10903002312*

2. Violations of laws and rules - Nu.0.640 million

The case of violation of laws and rules is as indicated below:

2.1 NON-UTILISATION OF FUND RETAINED UNDER CLOSED WORK EVEN AFTER CLOSE OF FINANCIAL YEAR - NU.0.640 MILLION

The Gewog Administration, Dungmin had booked Nu.0.639 million as final expenditure for the construction of Farm Road from Dungmin to Woongborang and construction of store-cum-Kitchen at Gewog Centre under closed works in violation to the accounting norm, which included Nu.0.194 million brought forward from FY 2014-2015. The status

of the work were not communicated as of 31st March 2018. *AIN: 14331; Para: 1; Accountabilities: Direct: Yezer, Accounts Assistant, EID No. 200901068; Supervisory: Yezer, Accounts Assistant, EID No. 200901068*

III. KHAR

During the year, the RAA had issued one audit report of the Gewog Administration, Khar. There was one observation amounting to Nu.0.384 million which was not resolved prior to the compilation of the draft AAR 2017.

The total unresolved significant irregularity reflected in the AAR 2017 amounted to Nu.0.384 million as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Violation of Laws & Rules	0.384	4
	Total	0.384	

1. Violations of laws and rules - Nu.0.384 million

The case of violation of laws and rules is as indicated below:

1.1. NON-UTILIZATION OF FUND RETAINED UNDER CLOSED WORK - NU.0.384 MILLION

The Gewog Administration, Khar had booked Nu.0.384 million as final expenditure for the incomplete construction of Khar Lhaxhang under closed works which included Nu.0.102 million brought forward from FY 2014-2015. This was in violation of the accounting norms. *AIN: 14328; Para: 1; Accountabilities: Direct: Yezer, Accounts Officer, EID No. 200901068; Supervisory: Choedup, Ex-Gup, CID No. 10904000417*

IV. CHOEKHORLING

During the year, the RAA had issued one audit report of the Gewog Administration, Choekhorling. There was one observation, which was not resolved prior to the compilation of the draft AAR 2017.

The total unresolved significant irregularities reflected in the AAR 2017 is as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Violation of Laws & Rules	-	4
	Total	-	

1. Violations of laws and rules

The case of violation of laws and rules is as indicated below:

1.1. NON-LEVY OF LIQUIDATED DAMAGES FOR DELAY IN COMPLETION OF FARM ROAD CONSTRUCTION

The Gewog Administration, Choekhorling had not levied liquidated damages of 0.05% per day subject to maximum of 10% of the initial contract amount for actual delay in the completion of farm road construction from Gewog Centre to Choekhorling village. The contractor had only completed the initial first cutting and back cutting, and permanent structures had not started at the time of audit in October 2016. *AIN: 14326; Para: 1; Accountabilities: Direct: Pabita Rai, JE, EID No. 201101227; Supervisory: Damcho Zangmo, Offtg. DE, EID No. 9707078; Samten Choeda, AE, EID No. 9812001*

1.3.3.4. GEWOG ADMINISTRATIONS UNDER MONGGAR DZONGKHAG

I. SALING

During the year, the RAA had issued one audit report of the Gewog Administration, Saling. There were eight observations amounting to Nu.0.885 million of which six observations amounting to Nu.0.324 million were either resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion.

The total unresolved significant irregularity reflected in the AAR 2017 amounted to Nu.0.561 million as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Violation of Laws & Rules	0.258	4
2	Shortfalls, lapses and deficiencies	0.303	5
Total		0.561	

1. Violations of Laws and Rules - Nu.0.258 million

The case of violation of laws and rules is as indicated below:

1.1. NON-LEVY OF LIQUIDATED DAMAGES FOR DELAY IN COMPLETION OF MEETING HALL - NU.0.258 MILLION

The Gewog Administration, Saling had not levied liquidated damages of Nu.0.258 million from the contractor for a delay of 190 days for the construction of Meeting Hall at Lingmithang. Further, there was failure on the part of the Supervising Engineer to carry out necessary checks to ensure the admissibility of contractor's claims indicating lack of internal controls. *AIN: 14568; Para: 4(d); Accountabilities: Direct: Tenzin Dema, JE, EID No. 200707076; Supervisory: Choney Dorji, Gup, CID No. 10704001091*

2. Shortfalls, lapses and deficiencies - Nu.0.303 million

The cases of shortfalls, lapses and deficiencies is as indicated below:

2.1. NON DEDUCTION OF REBATE OFFERED - NU.0.303 MILLION

The Gewog Administration, Saling had not deducted Nu.0.303 million offered as lump sum rebate by the contractor in the construction of Meeting Hall at Lingmithang. The lapses had occurred apparently due to improper verification and certification of contractor's bills for payment by site engineer which is indicative of lack of internal controls. *AIN: 14568; Para: 4(a); Accountabilities: Direct: Tenzin Dema, JE, EID No. 200707076; Supervisory: Choney Dorji, Gup, CID No. 10704001091*

II. MONGGAR

During the year, the RAA had issued one audit report of the Gewog Administration, Monggar. There were two observations amounting to Nu.0.411 million which were not resolved prior to the compilation of the draft AAR 2017.

The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.0.411 million as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Shortfalls, lapses and deficiencies	0.411	5
	Total	0.411	

1. Shortfalls, lapses and deficiencies - Nu.0.411 million

There were cases of shortfalls, lapses and deficiencies involving Nu.0.411 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
1.1.	Under payment	0.180
1.2.	Non-payment of Final Bill balance amount to contractor	0.231
	Total	0.411

The cases of shortfalls, lapses and deficiencies are as indicated below:

1.1. UNDER PAYMENT - NU.0.180 MILLION

The Gewog Administration, Monggar had made under payment of Nu.0.180 million due to wrong measurement and wrong application of quoted amount in the construction of L-Shaped drain, providing base course & causeway at Konbar farm road. The quantities of work executed did not commensurate with the quantities passed for payment in the final bill. The contractor had quoted Nu.0.120 million for construction of one causeway, whereas the payment made was only Nu.0.040 million with a resultant under payment of Nu.0.080 million. *AIN: 14509; Para: 1.1; Accountabilities: Direct: Tshering Gyeltshen, AE, EID No. 2007056; Supervisory: Tenzin Wangchuk, Gup, CID No. 10709004083*

1.2. NON-PAYMENT OF FINAL BILL BALANCE AMOUNT TO CONTRACTOR - NU.0.231 MILLION

The Gewog Administration, Mongar had not paid Nu.0.231 million to the contractor in the construction of L-Shaped drain, to provide base course & causeway at Konbar farm road. The contractor's Final Running Bill amounted to Nu.0.979 million of which only Nu.0.748 million were paid at the end of the financial year, leaving a balance of Nu.0.231 million as unpaid due to the non-availability of fund balance. *AIN: 14509; Para: 1.2; Accountabilities: Direct: Tshering Gyeltshen, AE, EID No. 2007056; Supervisory: Tenzin Wangchuk, Gup, CID No. 10709004083*

III. TSAMANG

During the year, the RAA had issued one audit report of the Gewog Administration, Tsamang. There were three observations amounting to Nu.0.274 million of which one observation amounting to Nu.0.053 million was resolved prior to the compilation of the draft AAR 2017.

The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.0.221 million as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Fraud, Corruption & Embezzlement	0.040	1 & 2
2	Shortfalls, lapses and deficiencies	0.181	5
Total		0.221	

1. Fraud, Corruption and Embezzlement - Nu.0.040 million

The case with elements of fraud, corruption and embezzlement is as indicated below:

1.1. NON- ACCOUNTAL OF THE MACHINE HIRING CHARGES COLLECTED FROM THE BENEFICIARIES - NU.0.040 MILLION

The Gewog Administration, Tsamang had collected Nu.0.040 million from two households (Nu.0.020 million each) for the construction of 300-meter approach road to Labi village from main farm road. The contributions were neither accounted in the books of accounts nor refunded to the households and the expenditure was found booked from the GDG budget. The lapses are indicative of lack of integrity and ethics on the part of officials involved. *AIN: 14569; Para: 3; Accountabilities: Direct: Sonam Jamtsho, Gewog Clerk, CID No. 10715001625; Supervisory: Sonam Darjay, Gup, CID No. 10715001963*

2. Shortfalls, lapses and deficiencies - Nu.0.181 million

The case of shortfalls, lapses and deficiencies is as indicated below:

2.1. PAYMENTS FOR WORKS NOT EXECUTED/SHORT EXECUTED AT SITE - NU.0.181 MILLION

The Gewog Administration, Tsamang had made payments of Nu.0.181 million to the community contractor, Banjar Meser Phendey Tshogpa for works not/short executed in the construction of Toilet-cum-Kitchen at Banjar Lhaxhang. The amount recoverable also includes cost of left over materials used from Banjar Lhaxhang Construction. *AIN: 14569; Para: 1; Accountabilities: Direct: Kinley Penjor, AE, EID No. 201001714; Supervisory: Sonam Darjay, Gup, CID No. 10715001963*

IV. SILAMBI

During the year, the RAA had issued one audit report of the Gewog Administration, Silambi. There were three observations amounting to Nu.0.141 million of which two observations amounting to Nu.0.086 million were either resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion.

The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.0.055 million as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Violation of Laws & Rules	0.055	4
	Total	0.055	

1. Violations of Laws and Rules - Nu.0.055 million

The case of violation of laws and rules is as indicated below:

1.1. NON-FORFEITURE OF BID SECURITY FOR WITHDRAWAL OF BIDS DURING VALIDITY PERIOD - NU.0.055 MILLION

The Gewog Administration, Silambi in contravention to PRR 2009 had not forfeited the bid security of Nu.0.055 million for withdrawal of bid security during the bid validity period in the Construction of Community Information Centre and one unit toilet at Nagor under Silambi Gewog. The contract was awarded to lowest evaluated bidder, but later the contractor had submitted an appeal to the Dzongkhag Administration, requesting for rejection of his bidding documents. Accordingly, the Dzongkhag Level Tender Committee (DLTC) had rejected the bid with the condition to forfeit his bid security (EMD) amounting to Nu.0.055 million. However, the same bid security deposit was not forfeited. *AIN: 14558; Para: 2 (a); Accountabilities: Direct: Padam Bdr. Rai, JE, EID No. 2012010021; Supervisory: Dorji Wangchuk, Gup, CID No. 10713001850*

V. NARANG

During the year, the RAA had issued one audit report of the Gewog Administration, Narang. There was one observation amounting to Nu.0.046 million which was not resolved prior to the compilation of the draft AAR 2017.

The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.0.046 million as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Shortfalls, lapses and deficiencies	0.046	5
Total		0.046	

1. Shortfalls, lapses and deficiencies - Nu.0.046 million

The case of shortfalls, lapses and deficiencies is as indicated below:

1.1. EXCESS PAYMENT - NU.0.046 MILLION

The Gewog Administration, Narang had made excess payments of Nu.0.046 million in the construction of Retaining wall at Khalong Junction due to payments made for quantities in excess of works executed at site. The lapses had occurred apparently due to improper verification and certification of contractor's bills for payment which is indicative of weak internal controls. *AIN: 14503; Para: 1; Accountabilities: Direct: Tshewang Rinzin, AE III, EID No. 9301052; Supervisory: Tandin Wangchuk, Gup, CID No. 10705003815*

VI. GONGDU

During the year, the RAA had issued one audit report of the Gewog Administration, Gongdu. There were two observations amounting to Nu.0.103 million of which one observation amounting to Nu.0.059 million was resolved prior to the compilation of the draft AAR 2017.

The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.0.044 million as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Fraud, Corruption & Embezzlement	0.044	1 & 2
Total		0.044	

1. Fraud, Corruption and Embezzlement - Nu.0.044 million

The case with elements of fraud, corruption and embezzlement is as indicated below:

1.1. SHORT ACCOUNTAL OF REVENUE - NU.0.044 MILLION

The Gewog Administration, Gongdu had not deposited Nu.0.044 million collected as Rural Taxes including Land Tax; House Tax; Cattle Tax into the Gewog Administration's CD Account for the year 2015. The lapses had occurred apparently due to poor check and balance system in the Gewog Administration to ensure timely deposit of the tax collected. *AIN: 14610; Para: 2; Accountabilities: Direct: Tashi Tenzin, Gaydrung, CID No. 10706000766; Supervisory: Dorji Tshering, Gup, CID No. 10706000868*

1.3.3.5. GEWOGS ADMINISTRATION UNDER SARPANG DZONGKHAG

I. GAKIDLING

During the year, the RAA had issued one audit report of the Gewog Administration, Gakidling. There was one observations amounting to Nu.0.742 million which was not resolved prior to the compilation of the draft AAR 2017.

The unresolved significant irregularity reflected in the AAR 2017 amounted to Nu.0.742 million as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Shortfalls, lapses and deficiencies	0.742	5
	Total	0.742	

1. Shortfalls, lapses and deficiencies – Nu.0.742 million

The case of shortfalls, lapses and deficiencies is as indicated below:

1.1. NON-RECEIPT OF REFUND AGAINST EXCESS PAYMENT AND OTHER LEVIES ON TERMINATION OF CONTRACT - NU.0.742 MILLION

The Gewog Administration, Gakidling had terminated the contract for construction of farm road from Char to Sarpang Seer vide letter No.GA/PA-7(06)/2016-17/678 dated 14th October 2016 based on the decision of the 8th Dzongkhag Tender Committee Meeting held 10th October 2016.

Subsequently, the contractor was notified to refund excess payment of Nu.0.811 million vide letter No. GA/PA-7(06)/2016-17/701 dated 10/11/2016. The valuation of work executed was worked out as Nu.3.344 million and the total payment till 30th June 2016 amounted to Nu.4.165 million i.e. Mobilisation Advance of Nu.0.570 million; 1st RA Bill of Nu.1.948 million; and 2nd RA Bill of Nu.1.647 million.

However, review of the valuation of works executed and payments revealed that the total amount refundable by the contractor on termination of contract was miscalculated and the correct excess payment amounted to Nu.0.742 million.

The lapses had occurred mainly due to negligence on the part of officials verifying and passing the payment. *AIN: 14551; Para: 1; Accountabilities: Direct: Sigyal Wangchuk, JE, EID No. 20140103486; Supervisory: Nim Dorji Sherpa, Gup, CID No. 11307002551*

II. GELEPHU

During the year, the RAA had issued one audit report of the Gewog Administration, Gelephu. There were four observations amounting to Nu.0.644 million of which two observations amounting to Nu.0.296 million were either resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion.

The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu. 0.349 million as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Violation of Laws & Rules	0.196	4
2	Shortfalls, lapses and deficiencies	0.153	5
Total		0.349	

1. Violations of laws and rules - Nu.0.196 million

The case of violation of laws and rules is as indicated below:

1.1. NON-LEVY OF LIQUIDATED DAMAGES - NU.0.196 MILLION

The Gewog Administration, Gelephu had not levied liquidated damages of Nu.0.196 million for non-completion of works in the maintenance of Passangchhu Irrigation Channel at Pelrithang Khatoe. The contractor had neither submitted work completion report nor the final bill. The lapses had occurred due to non-compliance to contract terms and conditions. *AIN: 14627; Para: 1.3; Accountabilities: Direct: Ugyen Phuntsho, JE, EID No. 20140103485; Supervisory: Ugyen Wangchuk, Gup, CID No. 11306002353*

2. Shortfalls, Lapses and Deficiencies - Nu.0.153 million

The case of shortfalls, lapses and deficiencies is as indicated below:

2.1. EXCESS PAYMENT - NU.0.153 MILLION

The Gewog Administration, Gelephu had made excess payments of Nu.0.153 million in the maintenance of Passangchhu Irrigation Channel at Pelrithang Khatoe. The total cost of work as per the final measurement of works executed was Nu.1.383 million, but the contractor was paid Nu.1.536 million through 5 Running Account Bills. The excess payment against running bills indicated that the bills were entertained without proper verification of the works executed. *AIN: 14627; Para: 1.1; Accountabilities: Direct: Ugyen Phuntsho, JE, EID No. 20140103485, CID No. 10103001714; Supervisory: Ugyen Wangchuk, Gup, CID NO.11306002353*

III. UMLING

During the year, the RAA issued one audit report of the Gewog Administration, Umling. There were two observations amounting to Nu.0.730 million of which one observations amounting to Nu.0.552 million was resolved prior to the compilation of the draft AAR.

The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.0.178 million as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Shortfalls, lapses and deficiencies	0.178	5
Total		0.178	

1. Shortfalls, Lapses and Deficiencies - Nu.0.178 million

The case of shortfalls, lapses and deficiencies is as indicated below:

1.1. NON-ADJUSTMENT OF ADVANCES - NU.0.178 MILLION

The Gewog Administration, Umling had overdue advances amounting to Nu.0.178 million against officials for the FY 2015-2016. Nu.0.010 million pertained to Public Work Advances for Social Forestry Day and Nu.0.168 million pertained to Mobilisation Advances for construction of Irrigation channels at Thongjazor & Tashithang, and for the maintenance of Gup's office. *AIN: 14636; Para: 1; Accountabilities: Direct: Sonam Wangchuk, Accountant, EID No. 200607343; Supervisory: Ugyen Norbu, Gup, CID No. 11315000142*

IV. SAMTENLING

During the year, the RAA had issued one audit report of the Gewog Administration, Samtenling. There were six observations amounting to Nu.0.356 million of which five observations amounting to Nu.0.286 million were either resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion.

The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.0.069 million as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Shortfalls, lapses and deficiencies	0.069	5
	Total	0.069	

1. Shortfalls, Lapses and Deficiencies - Nu.0.069 million

The case of shortfalls, lapses and deficiencies is as indicated below:

1.1. EXCESS PAYMENT - NU.0.069 MILLION

The Gewog Administration, Samtenling had made excess payments for works not executed valuing Nu.0.069 million in the construction of causeways for the farm road from Gewog office to Dungkarling. The lapses had occurred due to lack of proper supervision by the Site Engineer and the Supervising Officer while certifying payments. *AIN: 14591; Para: 1.1; Accountabilities: Direct: Kinley Penjor, Engineer, EID No. 20120100128, CID No. 11915001111; Supervisory: Kumar Mongar, Gup, CID No. 11301000014*

1.3.3.6. GEWOGS ADMINISTRATION UNDER TSIRANG DZONGKHAG

I. GOSARLING

During the year, the RAA had issued one audit report of the Gewog Administration, Gosarling. There were two observations amounting to Nu.0.043 million of which one

observation amounting to Nu.0.004 million did not qualify for inclusion in the draft AAR 2017.

The unresolved significant irregularity reflected in the AAR 2017 amounted to Nu.0.039 million as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Fraud, Corruption & Embezzlement	0.039	1 & 2
Total		0.039	

1. Fraud, Corruption and Embezzlement - Nu.0.039 million

The case of fraud, corruption and embezzlement is as indicated below:

1.1. PAYMENT MADE WITHOUT RECEIVING GOODS AND NON-LEVY OF LIQUIDATED DAMAGES - NU.0.039 MILLION

The Gewog Administration, Gosarling had procured religious items worth Nu.0.394 million for the Manidara Lhaxhang. Of the total amount, items worth Nu.0.347 million were not received but paid in full. However, items including those not received were reflected as issued against 'Goods Issue Notes' which were duly approved by the controlling officials. The payments for items which were not received and booking of expenditure were in deviation to the Accounting and Financial norms. Moreover, false preparation of 'Goods Issue Notes' and issue of items which were not yet delivered by the supplier was highly irregular and warrants action against the defaulter.

In addition, the management had not levied 10% liquidated damages amounting to Nu.0.039 million for delay in supply of goods. *AIN: 14399; Para: 1; Accountabilities: Direct: Kharka Bdr. Tamang, Gup, CID No. 11804000645; Supervisory: Kharka Bdr. Tamang, Gup, CID No. 11804000645*

II. PUNGTENCHHU

During the year, the RAA had issued one audit report of the Gewog Administration, Pungtenchhu. There was one observation amounting to Nu.0.132 million which was not resolved prior to the compilation of the draft AAR 2017.

The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.0.132 million as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Shortfalls, lapses and deficiencies	0.132	5
Total		0.132	

1. Shortfalls, Lapses and Deficiencies - Nu.0.132 million

The case of shortfalls, lapses and deficiencies is as indicated below:

1.1. SHORT SUPPLY OF RELIGIOUS ITEMS FOR PHUNTENCHU LHAKHANG - NU.0.132 MILLION

The Gewog Administration, had procured religious items worth Nu.1.125 million for Tashicholing Lhakhang vide work order No.PG-07/2015-2016/85 dated 31.05.2016. Of the total amount, items worth Nu.0.132 million were not received at the time of audit in October 2016, but payments were made in full. Further, some of the items were found kept with the Cultural Officer as the items required rectifications. Also, the management had not imposed liquidated damages for late supply of the items. *AIN: 14403; Para: 1; Accountabilities: Direct: Shivalal Kararai, Gup, EID No. 11808001206; Supervisory: Shivalal Kararai, Gup, EID No. 11808001206*

1.3.3.7. GEWOGS ADMINISTRATION UNDER PUNAKHA DZONGKHAG

I. BARP

During the year, the RAA had issued one audit report of the Gewog Administration, Barp. There were four observations amounting to Nu.0.846 million of which three observations amounting to Nu.0.039 million were either resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion. The total unresolved significant irregularities reflected in the draft AAR 2017 amounted to Nu.0.807 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the Gewog Administration, one observation amounting to Nu. 0.022 million was resolved. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.0.785 million as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Violation of Laws & Rules	0.785	4
	Total	0.785	

1. Violation of Laws & Rules - Nu.0.785 million

The case of violation of laws and rules is as indicated below:

1.1. ACCEPTANCE OF SUBSTANDARD WORKS EXECUTED IN MAINTENANCE OF FARM ROAD - NU.0.785 MILLION

The Gewog Administration, Barp had accepted substandard quality of work executed in the maintenance of Yuewakha farm road awarded to Community Contractor at Nu.1.030 million. The base course laid on the causeway worth Nu.0.683 million did not meet the required thickness of 0.25m and was found worn out/washed away exposing the stone soling. In addition, the cause way constructed at a cost of Nu.0.101 million was found to be too narrow at the curves. The Gewog Administration and Site Engineer had failed to verify the quality of the work executed at site which indicated passing of bills without actually verifying the works executed as per the specification in the BOQ. *AIN: 14645;*

Para: 1; Accountabilities: Direct: Rinchen Gyelpo, Asst. Engineer, EID No. 200901081; Supervisory: Tandin Dorji, DE, EID No. 200401026

II. GOENSHARI

During the year, the RAA had issued one audit report of the Gewog Administration, Goenshari. There were two observations amounting to Nu.0.162 million which were not resolved prior to the compilation of the draft AAR 2017.

The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.0.162 million as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Fraud, Corruption & Embezzlement	0.117	1 & 2
2	Mismanagement	0.045	3
Total		0.162	

1. Fraud, Corruption and Embezzlement - Nu.0.117 million

The case with elements of fraud, corruption and embezzlement is as indicated below:

1.1. IRREGULAR ADJUSTMENT OF REPAIR AND MAINTENANCE AGAINST THE LEASE RENT OF KOMA TSHACHU - NU.0.117 MILLION

The Gewog Administration, Goenshari had irregularly accepted adjustment of Nu.0.117 million on account of repair and maintenance charges of *Koma Tshachu* from the annual lease fees. As against a total of annual lease fees of Nu.0.137 million for 2015 and 2016, the lessee had deposited Nu.0.020 million into the Gewog's CD Account and remaining Nu.0.117 million adjusted as expenditure incurred for repair and maintenance works without supporting documents and obtaining approval from the Gewog Tshogde. *AIN: 14656; Para: 2; Accountabilities: Direct: Gem Dorji, CID No. 11003000106; Supervisory: Yeshe Dorji, Goenshari Gup, CID No. 11003000462*

2. Mismanagement - Nu.0.045 million

The case of mismanagement is as indicated below:

2.1. IRREGULAR USE OF BUDGETARY FUND - NU.0.045 MILLION

The Gewog Administration, Goenshari had paid Nu.0.045 million to contractors on account of refund of 10% retention/security deposits from the budgetary fund during FY 2015-2016 without obtaining equivalent release from the Department of Public Accounts (DPA), MoF. The budgetary fund balance should have been surrendered to DPA, MoF at the end of the financial year. *AIN: 14656; Para: 1; Accountabilities: Direct: Kencho Dorji, Accounts Assistant, EID No. 9709047; Supervisory: Chencho Dorji, Accounts Officer, EID No. 201101055*

III. TALOG

During the year, the RAA had issued one audit report of the Gewog Administration, Talog. There were three observations amounting to Nu.0.137 million of which two observations amounting to Nu.0.021 million were either resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion.

The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.0.116 million as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Shortfalls, lapses and deficiencies	0.116	5
	Total	0.116	

1. Shortfalls, lapses and deficiencies - Nu.0.116 million

The case of shortfalls, lapses and deficiencies is as indicated below:

1.1. NON-ACHIEVEMENT OF WATER SUPPLY SCHEME AND OTHER LAPSES - NU.0.116 MILLION

The Gewog Administration, Talog had irregularities in the Rural Water Supply Scheme (RWSS) rehabilitation and for the spring protection works during the FY 2015-2016 as under:

- i. Materials costing Nu.0.079 million were procured for the RWSS work at Pachakha of which materials worth Nu.0.044 million were found missing during the joint physical verification and the rest were found lying idle under custody of Tshogpa.
- ii. HDPE pipes costing Nu.0.100 million was procured for Nobgang village of which pipes worth Nu.0.035 million were found short and rest were found unutilised.
- iii. The stock entries were made by unauthorized officials and reflected as directly issued to site.
- iv. Muster Roll payments aggregating to Nu.0.036 million was shown as paid to masons for works that were not executed at site.

The Gewog Administration had been asked to submit the completion report and comprehensive investigation report on missing materials and irregular payment of muster roll. *AIN: 14655; Para; 1; Accountabilities: Direct: Lal Bdr. Chhetri, Asst. Engineer, EID No. 200607012; Supervisory: Tandin Dorji, DE, EID No. 200401026*

IV. KABJISA

During the year, the RAA had issued one audit report of the Gewog Administration, Kabjisa. There were two observations amounting to Nu.0.138 million which were not resolved prior to the compilation of the draft AAR 2017. The significant irregularities reported in the draft AAR 2017 amounted to Nu.0.138 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the Gewog Administration, one observations amounting to Nu.0.045 million was resolved. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.0.093 million as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Violation of Laws & Rules	0.093	4
Total		0.093	

1. Violations of laws and rules - Nu.0.093 million

The case of violation of laws and rules is as indicated below:

1.1. NON-LEVY OF LIQUIDATED DAMAGES FOR DELAY IN COMPLETION OF WORK - NU.0.093 MILLION

The Gewog Administration, Kabjisa had not levied liquidated damages amounting to Nu.0.093 million for delay in completion of works in the maintenance of Eusakha to Dophukha farm road measuring 1.2 km. The construction works were supposed to be completed by 12th May, 2016 but were incomplete and abandoned as noted during audit in December, 2016. The management reported that despite several reminders the contractor had failed to complete the work in time and that the Gewog Tender Committee was in the process of terminating the contract. *AIN: 14654; Para: 2; Accountabilities: Direct: Thinley Dorji, Asst. Engineer, EID No. 201001712; Supervisory: Tandin Dorji, DE, EID No. 200401026*

1.3.3.8. GEWOGS ADMINISTRATION UNDER WANGDUEPHODRANG DZONGKHAG

I. GASETSHOWOM

During the year, the RAA had issued one audit report of the Gewog Administration, Gasetshowom. There were three observations amounting to Nu.0.096 million which were not resolved prior to the compilation of the draft AAR 2017.

The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.0.096 million as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Violation of Laws & Rules	-	4
2	Shortfalls, lapses and deficiencies	0.096	5
Total		0.096	

1. Violations of laws and rules

There were cases of violation of laws & rules as summarised below:

Sl. No.	Observation in Brief	Nu.in million
1.1	Construction of Farm Road in excess of length approved in the Environmental Clearance	-
1.2	Construction of Farm Road without Environmental Clearance	-
	Total	-

The cases of violation of laws and rules are as indicated below:

1.1. CONSTRUCTION OF FARM ROAD IN EXCESS OF LENGTH APPROVED IN THE ENVIRONMENTAL CLEARANCE

The Gewog Administration, Gasetshowom had obtained Environmental Clearance for the construction of 1,508 metres of Shingkhey-Phakha farm road against which the contractor was allowed to construct 1,930 metres, thereby resulting in excess road construction of 422 meters without Environmental Clearance. *AIN: 14774; Para: 2.1; Accountabilities: Direct: Kinzang Thinley, Gup, CID No. 11907000824; Supervisory: Kinzang Thinley, Gup, CID No. 11907000824*

1.2. CONSTRUCTION OF FARM ROAD WITHOUT ENVIRONMENTAL CLEARANCE

The Gewog Administration, Gasetshowom had not obtained the Environment Clearance for the construction of 600 meters Dhelum Farm Road. The lapses had occurred due to poor coordination between the Gewog Administration and Dzongkhag Administration (Environment Section) in obtaining and providing the Environment Clearance. *AIN: 14774; Para: 2.2; Accountabilities: Direct: Kinzang Thinley, Gup, CID No. 11907000824; Supervisory: Kinzang Thinley, Gup, CID No. 11907000824*

2. Shortfalls, Lapses and Deficiencies - Nu.0.096 million

The case of shortfalls, lapses and deficiencies is as indicated below:

2.1. OUTSTANDING ADVANCES - NU.0.096 MILLION

The Gewog Administration, Gasetshowom had overdue advances amounting to Nu.0.096 million on account of Public Works Advance pertaining to Fiscal Year 2013-2014. *AIN: 14774; Para: 1; Accountabilities: Direct: Kinzang Thinley, Gup, CID No. 11907000824; Supervisory: Kinzang Thinley, Gup; CID No. 11907000824*

II. NYISHO

During the year, the RAA had issued one audit report of the Gewog Administration, Nyisho. There were two observations amounting to Nu.0.015 million of which one observations amounting to Nu.0.015 million did not qualify for inclusion in the draft AAR 2017.

The unresolved significant irregularity reflected in the AAR 2017 is as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Shortfalls, lapses and deficiencies	-	5
	Total	-	

1. Shortfalls, Lapses and Deficiencies

The case of shortfalls, lapses and deficiencies is as indicated below:

1.1. OUTSTANDING PUBLIC WORKS ADVANCES

The Gewog Administration, Nyisho had overdue Public Works Advances pertaining to the financial year 2015-2016. *AIN: 14802; Para: 1; Accountabilities: Direct: Tshering Dorji, GAO, EID No. 201105031; Supervisory: Dorji, Gup, CID No. 11910000347*

III. ATHANG

During the year, the RAA had issued one audit report of the Gewog Administration, Athang. There were three observations of which one observation was resolved prior to the compilation of the draft AAR 2017.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the Gewog Administration, one observation was resolved. The unresolved significant irregularity reflected in the AAR 2017 is as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Violation of Laws & Rules	-	4
	Total	-	

1. Violations of laws and rules

The case of violation of laws and rules is as indicated below:

1.1. NON-ACHIEVEMENT OF GRADIENT IN THE CONSTRUCTION OF FARM ROAD

The Gewog Administration, Athang had not achieved the standard gradient for 'Level Terrain' of 0 to 10 per cent, for about 80 meters in the construction of farm road from Lopokha to Zhubizung due to change of alignment from the previously surveyed alignment.

As per the Guidelines on Road Classification System and Delineation of Construction and Maintenance Responsibilities 2009, *Level terrain should be 0 to 10 per cent; Rolling terrain between 10 to 25 per cent; Mountainous terrain between 25 to 60 per cent; and Steep terrain to be more than 60 per cent.*

The longitudinal gradient was found to be more than 10 percent. The Site Engineer confirmed that gradient for the particular stretch was around 15 per cent. The lapses apparently occurred due to lack of proper feasibility study prior to commencing the

works. *AIN: 14768; Para: 2; Accountabilities: Direct: Phub Dorji, AE, EID No. 2007080; Supervisory: Khandu Dorji, Gup, CID No.11901000845*

IV. KAZHI

During the year, the RAA had issued one audit report of the Gewog Administration, Kazhi. There were six observations amounting to Nu.0.110 million of which three observations amounting to Nu.0.110 million were either resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the Gewog Administration, two observations were resolved. The unresolved significant irregularity reflected in the AAR 2017 is as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Violation of Laws & Rules	-	4
	Total	-	

1. Violations of laws and rules

The case of violation of laws and rules is as indicated below:

1.1. ACCEPTANCE OF DEFECTIVE WORKS IN MAINTENANCE OF FARM ROAD

The Gewog Administration, Kazhi had accepted defective works in ‘providing and laying Granular Sub-Base course (GSB)’ for the maintenance of farm road from Chuchuna to Chagina & from Nyedokha to Dangu. Materials directly extracted from local quarry without proper gradation were used for laying GSB in the farm road construction. The use of uneven sized stones had resulted in uneven road surface due to which the roads were bumpy even after laying of GSB and other binding materials on top. The substandard work was confirmed through quality test for density, gradation and aggregate on a portion of the road that was extracted for the test. The Gewog Administration and officials concerned failed to supervise and monitor the work which is evident from the poor workmanship of the works executed. *AIN: 14803; Para: 3; Accountabilities: Direct: Wangdi, Gup, CID No. 11911001253; Supervisory: Wangdi, Gup, CID No. 11911001253*

1.3.3.9. GEWOG ADMINISTRATIONS UNDER SAMTSE DZONGKHAG

I. TENDRUK

During the year, the RAA had issued two audit reports of the Gewog Administration, Tendruk. There were two observations amounting to Nu.0.041 million which were not resolved prior to the compilation of the draft AAR 2017. The significant irregularities reported in the draft AAR 2017 amounted to Nu.0.041 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the Gewog Administration, one observation was resolved. The unresolved significant irregularity reflected in the AAR 2017 amounted to Nu.0.041 million as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Fraud, Corruption & Embezzlement	0.041	1 & 2
	Total	0.041	

1. Fraud, Corruption and Embezzlement - Nu.0.041 million

The case with elements of fraud, corruption and embezzlement is as indicated below:

1.1. MISAPPROPRIATION OF CASH - NU.0.041 MILLION

The Gewog Administration, Tendruk had a case of misappropriation of cash amounting to Nu.0.041 million. The cash was withdrawn by the former Gup vide cheque No. 3750002 dated 23rd December 2015, but no voucher was prepared for the payment. The Gaydrung informed that the cash was withdrawn for construction of shed for fire extinguisher in the Gewog. However, the structure had not been constructed even after a lapse of 11 months at the time of audit in March 2016. The misappropriation had occurred apparently due to abuse of authority by the former Gup during his tenure. *AIN: 14292; Para: 1; Accountabilities: Direct: Sonam Jamtsho, Geydrung, CID No. 11812001576; Supervisory: Pema Wangchuk, Ex-Gup, CID No. 11216000382*

1.3.3.10. GEWOGS ADMINISTRATION UNDER TRONGSA DZONGKHAG

I. KORPHU

During the year, the RAA had issued one audit report of the Gewog Administration, Korphu. There were two observations amounting to Nu.0.227 million which were not resolved prior to the compilation of the draft AAR 2017. The significant irregularities reported in the draft AAR 2017 amounted to Nu.0.227 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the Gewog Administration, one observations amounting to Nu.0.188 million were resolved. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.0.039 million as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Violation of Laws & Rules	0.039	4
	Total	0.039	

1. Violations of laws and rules - Nu.0.039 million

The case of violation of laws and rules is as indicated below:

1.1. NON-LEVY OF LIQUIDATED DAMAGES FOR DELAY IN SUPPLY OF BRIDGE PARTS - NU.0.039 MILLION

The Gewog Administration, Korphu had not levied 10% liquidated damages amounting to Nu.0.039 million for delay in supply of bridge parts by 23 days as on 5th August 2016. The Gewog Administration had made payment of bills without receiving the materials from the supplier. The lapses had occurred due to failure on part of the Dzongkhag Administration to depute committee/engineer to verify the parts before dispatch. *AIN: 14576; Para: 1; Accountabilities: Direct: Dorji Phuntsho, JE, EID No. 20140103501; Supervisory: Tshetrim Dorji, Ex. Gup, CID No. 11702000957*

II. LANGTHIL

During the year, the RAA had issued one audit report of the Gewog Administration, Langthil. There were two observations amounting to Nu.0.039 million which were not resolved prior to the compilation of the draft AAR 2017.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the Gewog Administration, one observation amounting to Nu.0.039 million was resolved. The total unresolved significant irregularity reflected in the AAR 2017 is as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Violation of Laws & Rules	-	4
Total		-	

1. Violations of laws and rules

The case of violation of laws and rules is as indicated below:

1.1. NON-SUBMISSION OF DOCUMENTS TO THE DNP FOR PROCUREMENT OF HDPE PIPES

The Gewog Administration had procured HDPE pipes valuing Nu.0.242 million for the construction of irrigation channel and RWSS, but had not submitted invoices for the procurements to the Department of National Properties, MoF as required vide circular No. FM/DNP/GP-46/2014-2015/422 dated 8th September 2015 for cross verification of rebate deposited by Bhutan Polythene Company Limited. *AIN: 14575; Para: 2; Accountabilities: Direct: Tashi Tshomo, Accountant, EID No. 201007228; Supervisory: Sonam Dendup, Gup, CID No. 11703000276*

III. DRAAGTENG

During the year, the RAA had issued one audit report of the Gewog Administration, Draagteng. There were three observations amounting to Nu.0.026 million of which one observations amounting to Nu.0.026 million were either resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the Gewog Administration, one observation was resolved. The unresolved significant irregularity reflected in the AAR 2017 is as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Violation of Laws & Rules	-	4
	Total	-	

1. Violations of laws and rules

The case of violation of laws and rules is as indicated below:

1.1. NON-SUBMISSION OF DOCUMENTS TO DNP FOR PROCUREMENT OF HDPE PIPES

The Gewog Administration had procured HDPE pipes valuing Nu.0.840 million for the construction of irrigation channel and RWSS, but had not submitted invoices for the procurements to the Department of National Properties, MoF as required vide circular No. FM/DNP/GP-46/2014-2015/422 dated 8th September 2015 for cross verification of rebate deposited by Bhutan Polythene Company Limited. *AIN: 14609; Para: 2; Accountabilities: Direct: Tashi Tshomo, Accountant, EID No. 201007228; Supervisory: Galley Chopel, Ex Gup, CID No. 11701001613*

1.3.3.11. GEWOGS ADMINISTRATION UNDER DAGANA DZONGKHAG

I. LHAMOI DZINGKHA

During the year, the RAA had issued two audit reports of the Gewog Administration, Lhamoi Dzingkha. There was one observation pointed out in the reports involving Nu.4.772 million, which was not resolved prior to the compilation of the draft AAR 2017.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the agency, observations amounting to Nu.4.772 million were partially resolved. The total unresolved significant irregularities reflected in the AAR 2017 is as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Shortfalls, lapses and deficiencies	-	5
	Total	-	

1. Shortfalls, lapses and deficiencies

The case of shortfalls, lapses and deficiencies is as indicated below:

1.1. IRREGULARITIES IN THE CONSTRUCTION OF NU.4.772 MILLION WORTH FARM ROAD FROM SIBSOONI TO NAUTALAY

The Gewog Administration, Lhamoi Dzingkha had irregularities in the construction of 3.2 KM farm road from Sibsooni to Nautalay valuing Nu.4.772 million. The Gewog Administration had taken over the works before completion and it was agreed that the balance works of constructing culvert would be executed after the monsoon season. However, the casting of slab for the construction of culvert was not executed at the time of audit in November 2016 as the heavy monsoon had damaged the abutments and wing walls. In addition, there was no fund for reconstructing the damaged works.

Also, the disaster focal person had failed to report to the Department of Disaster Management for additional financial support. The road remains unpliable as the culverts are yet to be completed. The lapses had occurred due to the negligence of Gewog Administration and the disaster focal person. *AIN: 14607; Para: 1; Accountabilities: Direct: Sherab Gyeltshen, Ex-Gup, CID No.11309000261; Laxuman Koirala, Mangmi, CID No. 11309001060; Indra Bdr. Sunar, Former Sibsooni Tshogpa, CID No. 11309002395; Prakash Gurung, Asst. Engineer-IV, EID No. 200508202; Singye Dorji, Gewog Accountant, EID No. 20141204884; Sonam Wangdi, Agri. Extension Officer, EID No. 9507114; Supervisory: Surja Bdr. Limbo, Gup, CID No. 11309001455*

II. DRUJEYGANG

During the year, the RAA had issued one audit report of the Gewog Administration, Drujeygang. There were 11 observations pointed out in the reports involving Nu.0.456 million, out of which seven observations amounting to Nu.0.456 million was resolved prior to the compilation of the draft AAR 2017.

The total unresolved significant irregularities reflected in the AAR 2017 are as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Fraud, Corruption & Embezzlement	-	1 & 2
2	Mismanagement	-	3
3	Violation of Laws & Rules	-	4
Total		-	

1. Fraud, Corruption & Embezzlement

The case with elements of fraud, corruption & embezzlement of is as indicated below:

1.1. CMU MACHINE USED FOR LOADING STONE FROM PRIVATE QUARRY

The Ex-Gup of Gewog Administration, Drujeygang had misused CMU machineries hired for executing GDG funded works. As per complaints made by public, a total of 300 trips had been made for transporting stones from M/s UP Construction Private Quarry to Yungtsibi (Yungtsi Zero Point) between 14th May and 29th June 2016. Upon enquiry with machine driver, he stated that the machine was used for loading 70 trips of base course materials. The Gewog Administration was recommended to work out and recover the hiring charges for the duration of misuse of CMU machineries. *AIN: 14525; Para: 1.6;*

Accountabilities: Direct: Thinley Wangchuk, Ex-Gup, CID No. 10302000650; Supervisory: Karma Tshering, Gup, CID No. 10310001047

2. Mismanagement

The case of mismanagement as indicated below:

2.1. CONSTRUCTION OF HINDU TEMPLE ON PRIVATE LAND

The Gewog Administration, Drujeygang had awarded the construction of Hindu Temple on a 22 decimal land purchased by the public of Pangna Hindu Committee (PHC) as a community contract for Nu.1.000 million. The PHC had initially decided to construct the temple at Nu.0.600 million. No explanation was provided as to why the PHC was not given a chance to construct the temple at the cost lower than that of the community contract. At the time of audit in November 2016, the structure was found to have been kept idle without rendering any services to the public and also the transfer of thram and ownership of land was not processed with resultant wastage of resources. *AIN: 14525; Para: 5; Accountabilities: Direct: Thinley Wangchuk, Ex-Gup, CID No. 10302000650; Supervisory: Karma Tshering, Gup, CID No. 10310001047*

3. Violation of Laws & Rules

There were cases of violation of laws & rules as summarised below:

Sl. No.	Observation in Brief	Nu.in million
3.1	Irregular construction of two parallel roads without obtaining approval	-
3.2	Change of alignment without approval	-
Total		-

The cases of violation of laws & rules are as indicated below:

3.1. IRREGULAR CONSTRUCTION OF TWO PARALLEL ROADS WITHOUT OBTAINING APPROVAL

The Gewog Administration, Drujeygang had constructed a second farm road parallel to the old farm road that connected to Namdruchholing Goenpa. The newly constructed, second farm road had disturbed soil stability and was also in bad condition with soil erosion taking place at various locations posing risk to the old road. The approval or endorsement from the Gewog Tshogde for the construction of the new farm road was not on record. Hence, the work initiated at the discretion of the then Gup was not in line with the Gewog Chatrim. Further, the amount spent on constructing the second farm road was not only wasteful but the road added no value to the already existing road. *AIN: 14525; Para: 1.4; Accountabilities: Direct: Thinley Wangchuk, Ex-Gup, CID No. 10302000650; Supervisory: Karma Tshering, Gup, CID No. 10310001047*

3.2. CHANGE OF ALIGNMENT WITHOUT APPROVAL

The Gewog Administration, Drujeygang had changed alignment of the farm road from Pangna to Gewog Centre and illegally diverted 500 meters of the road towards the house of Ex-Gup. There was no approval from the competent authority for the diversion of road. *AIN: 14525; Para: 1.5; Accountabilities: Direct: Thinley Wangchuk, Ex-Gup, CID No. 10302000650; Supervisory: Karma Tshering, Gup, CID No. 10310001047*

1.3.3.12. GEWOGS ADMINISTRATION UNDER SAMDRUPJONGKHAR DZONGKHAG

I. DEWATHANG

During the year, the RAA had issued one audit report of the Gewog Administration, Dewathang. There were three observations of which one observation was resolved prior to the compilation of the draft AAR 2017. Two significant irregularities were reported in the draft AAR 2017.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the Gewog Administration, one observation was resolved. The unresolved significant irregularity reflected in the AAR 2017 is as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Shortfalls, lapses and deficiencies	-	5
Total		-	

1. Shortfalls, Lapses and Deficiencies

The case of shortfalls, lapses and deficiencies is as indicated below:

1.1. NON-RECONCILIATION OF NON-BUDGETARY FUND

The Gewog Administration, Dewathang had unreconciled differences of Nu.0.090 million between the receipts of 10% Securities/Earnest Money and the deposit of the same into the Refundable Deposit Account maintained with the DPA, MoF, and difference of Nu.0.064 million between the refundable releases obtained from DPA, MoF and refunds made to the parties.

The Gewog Administration had not fully deposited the receipts of 10% Securities and EMD into the Refundable Deposit Account and had released more payments than the actual receipt of Refundable release from DPA to the parties. The lapses had occurred due to lack of due diligence on part of the dealing accountant. *AIN: 14306; Para: 2; Accountabilities: Direct: Purna Bdr. Chettri, Accounts Assistant, EID No. 9504034; Supervisory: Sonam Wangdi, GAO, EID No.200803057*

II. SERTHI

During the year, the RAA had issued one audit report of the Gewog Administration, Serthi. There were three observations amounting to Nu.0.024 million of which two observations amounting to Nu.0.024 million were resolved prior to the compilation of the draft AAR 2017.

The unresolved significant irregularity reflected in the AAR 2017 is as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Violation of Laws & Rules	-	4
	Total	-	

1. Violations of laws and rules

The case of violation of laws and rules is as indicated below:

1.1. RELEASE OF FINAL BILL BEFORE COMPLETION OF FARM ROAD CONSTRUCTION

The Gewog Administration, Serthi had released the final bill payment amounting to Nu.2.795 million before completion of farm road construction from Phogcheri to Serthi village. However, about 10 meters of the total road length had not been executed at the time of audit in October 2016. The Gewog Administration had also not levied liquidated damages as per contract agreement. The lapses had occurred apparently due to inadequate supervision and monitoring by the Site Engineer and Gewog Administration. *AIN: 14314; Para: 2; Accountabilities: Direct: Tshering Dorji, Junior Engineer, EID No. 20140103491; Supervisory: Gempo, GAO, EID No. 200705058*

1.3.3.13. GEWOGS ADMINISTRATION UNDER TRASHIGANG DZONGKHAG

I. RADHI

During the year, the RAA had issued one audit report of the Gewog Administration, Radhi. There was one observation, which was not resolved prior to the compilation of the draft AAR 2017.

The unresolved significant irregularity reflected in the AAR 2017 is as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Shortfalls, lapses and deficiencies	-	5
	Total	-	

1. Shortfalls, lapses and deficiencies

The case of Shortfalls, lapses and deficiencies is as indicated below:

1.1. DEFECTIVE WORKS IN THE CONSTRUCTION OF KUNGYER'S RESIDENCE IN BONGMEN LHAKHANG

The Gewog Administration, Radhi had not directed the contractor to rectify defective works noted in the construction of Caretaker's Residence in Bongmen Lhakhang. The completed construction works had several defects such as cracks above window and in plinth protection, and peeling-off of plastering works. The lapses occurred apparently due to inadequate supervision and improper verification of cement mixture ratios during execution of works at site by the Site Engineer. *AIN: 14485; Para: 1; Accountabilities: Direct: P.B. Rai, Engineer, EID No. 8908077; Supervisory: Kulung, Gup, CID No. 11510003192*

II. SAMKHAR

During the year, the RAA had issued one audit report of the Gewog Administration, Samkhar. There was one observation which was not resolved prior to the compilation of the draft AAR 2017.

The unresolved significant irregularity reflected in the AAR 2017 is as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Violation of Laws & Rules	-	4
	Total	-	

1. Violations of laws and rules

The case of violation of laws and rules is as indicated below:

1.1. NON-RECTIFICATION OF COLLAPSED RETAINING WALL

A retaining wall constructed by Community Contractor at a cost of Nu.0.500 million along the Yenangbrangsa farm road under Samkhar Gewog was washed away due to continuous rainfall. The Gewog Administration had agreed to reconstruct the wall in the audit exit meeting in January 2017. *AIN: 14528; Para: 1; Accountabilities: Direct: Samten Galey, JE, EID No. 201400042; Supervisory Accountability: Karma, Gup, CID No. 11512001583*

III. PHONGMED

During the year, the RAA had issued one audit report of the Gewog Administration, Phongmed. There were two observations amounting to Nu.0.032 million which were not resolved prior to the compilation of the draft AAR 2017.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the Gewog Administration, one observation amounting to Nu.0.032 million was resolved. The unresolved significant irregularity reflected in the AAR 2017 is as summarised below:

Sl. No.	Observation Category	Nu.in million	Category Code
1	Violation of Laws & Rules	-	4
	Total	-	

1. Violations of laws and rules

The case of violation of laws and rules is as indicated below:

1.1. LAPSES IN THE CONSTRUCTION OF KITCHEN AT PHIMSONG LHAKHANG

In the construction of Kitchen at Phimsong Lhakhang under the Gewog Administration, Phongmey, the plastering works on the wall were found incomplete and window shutters were not provided. The lapses had apparently occurred due to improper planning and supervision of the works. In addition, accounts for sum of Nu.0.050 million, contributed by the community for the Lhakhang construction were not available for audit verification. *AIN: 14529; Para: 2; Accountabilities: Direct: Pelden Dorji, Gup, CID No. 11509000811; Supervisory: Pelden Dorji, Gup, CID No. 11509000811*

1.3.4. AUTONOMOUS AGENCIES

1.3.4.1. THIMPHU THROMDE

During the year, the RAA had issued three audit reports of the Thimphu Thromde. There were 27 observations amounting to Nu.27.503 million of which five observations amounting to Nu.1.524 million were resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion in the draft AAR 2017. The total unresolved significant irregularities reflected in the draft AAR 2017 amounted to Nu.25.979 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the agency, one observation amounting to Nu.2.896 was resolved. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.23.083 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Mismanagement	1.101	3
2	Violations of laws and rules	5.760	4
3	Shortfalls, lapses and deficiencies	16.222	5
	Total	23.083	

1. Mismanagement - Nu.1.101 million

There were cases of mismanagement involving Nu.1.101 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
1.1.	Reduction of parking slots with resultant revenue loss	1.101
1.2.	Other mismanagement of properties	-
	Total	1.101

The cases of mismanagement are as indicated below:

1.1. REDUCTION OF PARKING SLOTS WITH RESULTANT REVENUE LOSS OF NU.1.101 MILLION

There was reduction in parking slots resulting in revenue loss of Nu.1.101 million. The revision was made due to reduction in parking spaces along Centenary Farmer's Market and above Memorial Chorten when the parking lots were handed over to the contractor. The deducted spaces were either converted to taxi parking or used by private building owners for stacking construction materials without any charges thereon. *AIN: 14467; Para: 5.1; Accountabilities: Direct: Ugyen Lhamo, Asstt. Engineer, EID No. 9901114; Supervisory: Mahesh Pradhan, Specialist, EID No. 8901047*

1.2. OTHER MISMANAGEMENT OF PROPERTIES

Thimphu Thromde had laid Hume pipes costing Nu.0.300 million at three different locations in Pamtsho to drain out water into the Wangchu River. The pipes at one location were destroyed due to construction of private building. Lack of proper monitoring by Thimphu Thromde coupled with civic imprudence of the private party had resulted in destruction of the Government property. *AIN: 14467; Para: 11; Accountabilities: Direct: Teknath Karaia, Dy. Executive Engineer, EID No. 201001178; Supervisory: Tshering Peljore, Forest Officer, EID No. 9211045*

2. Violation of Laws & Rules - Nu.5.760 million

There were cases of violation of laws & rules involving Nu.5.760 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
2.1	Siphoning-off of Nu.5.492 million	5.492
2.2	Payment made for items not specified in the quotation	0.268
2.3	Irregularities in construction of low income housing Scheme	-
2.4	Decision of Thromde Tshogde meeting not in line with the Thromde Rules, 2011	-
2.5	Non-production of supporting documents	-
2.6	Irregularities in awarding of work and non-production of documents	-
	Total	5.760

The cases of violation of laws & rules are as indicated below:

2.1. SIPHONING-OFF OF US\$0.086 MILLION - NU.5.492 MILLION

Thimphu Thromde had an incident where a hacker siphoned-off Nu.5.492 million (US\$0.086 million) by causing Thimphu Thromde to transfer the amount into an account which was not actually the account of the supplier for procurement of three incinerators. The transfer of 50% advance intended to the supplier - M/s Benjamin Heating System Co. Ltd. in Thailand - was siphoned-off to another bank account in Hong Kong. It was evident from the bank account details in the e-mails sent to the dealing official that three out of four bank accounts did not relate to the supplier in Thailand as the bank accounts and address mentioned were in Hong Kong. The officials concerned had failed to exercise due diligence while verifying the documents and approving the transfer. However, no action was found taken on the lapse. *AIN: 14467; Para: 1.1; Accountabilities: Direct: Yeshi Wangdi, Dy. Executive Engineer, EID No. 200207053; Supervisory: Yeshi Wangdi, Dy. Executive Engineer, EID No. 200207053*

2.2. PAYMENT MADE FOR ITEMS NOT SPECIFIED IN THE QUOTATION - NU.0.268 MILLION

Thimphu Thromde made payment of Nu.0.268 million for special stainless tray for electric cremators that was not specified in the quotation. RAA deemed that the tray should have been part of the three unit electric incinerators procured. Further, the stainless tray was designed for old electric incinerator and was not compatible to the new machines. Thus, the acceptance of stainless tray for the new machines and the payments made for the same were not justified. *AIN: 14467; Para: 1.2; Accountabilities: Direct: Phurba Tshering, Asstt. Engineer II, EID No. 200207055; Supervisory: Yeshi Wangdi, Dy. Executive Engineer, EID No. 200207053*

2.3. IRREGULARITIES IN CONSTRUCTION OF LOW INCOME HOUSING SCHEME

Thimphu Thromde had constructed two houses for low-income group with approval from Thromde Tshogde. Since the Local Government Act 2009 does not empower Thromde Tshogde to approve such scheme, the approval and construction was deemed inappropriate. Besides, the construction due to be completed on 22/10/15 was still not completed as of date of audit (19/09/16). Further, the work was directly awarded on labour contract which was in deviation to PRR 2009. *AIN: 14467; Para: 7; Accountabilities: Direct: Kinley Dorji, Thrompon, CID No. 11410000297; Supervisory: Kinley Dorji, Thrompon, CID No. 11410000297*

2.4. DECISION OF THROMDE TSHOGDE MEETING NOT IN LINE WITH THE THROMDE RULES

The Thromde Tshogde had approved various agendas which were not in line with the Thromde Rules, 2011 and Development Rules and Regulations, 2002. In most of the cases, the Thromde Tshogde had waived-off penalties, imposed nominal fees and regularized illegal construction, etc. beyond the delegated authority. *AIN: 14467; Para:*

8; Accountabilities: Direct: Kinley Dorji, Thrompon, CID No. 11410000297; Supervisory: Kinley Dorji, Thrompon, CID No. 11410000297

2.5. NON-PRODUCTION OF SUPPORTING DOCUMENTS

Thimphu Thromde did not produce documents for payment of Nu.4.901 million made to the Managing Director, NHDCL on account of compensation for demolition of six Government quarters for multi-level car parking construction. In absence of the documents relating to demolition, the correctness of the payment could not be ascertained.

In addition, the stock register for water meters was not made available due to which the correctness of the water meters sold and amounts collected/deposited could not be ascertained. *AIN: 14467; Para: 18; Accountabilities: Direct: Govind Sharma, Sr. Architect, EID No. 201001102; Supervisory: Govind Sharma, Sr. Architect, EID No. 201001102*

2.6. IRREGULARITIES IN AWARDING OF WORK AND NON-PRODUCTION OF DOCUMENTS

Thimphu Thomde had irregularities in awarding the construction of storm water drain at Yangchenphug High School and maintenance of city drains. Bid Evaluation Committee had initially disqualified all the bids as none of the firms submitted the details of equipment and human resource. However, the committee later decided to award the work to M/s Yardak Construction based on his lowest financial bid and ignoring the technical capacity.

Further, deposit of EMD of Nu.0.180 million which was forfeited due to failure to execute the work by the contractor into RGR Account could not be verified due to non-production of related documents. *AIN: 14467; Para: 19; Accountabilities: Direct: Sonam Wangchuk, Asstt. Land Registrar I, EID No. 200605039; Supervisory: Sonam Wangchuk, Asstt. Land Registrar I, EID No. 200605039*

3. Shortfalls, lapses & deficiencies – Nu.16.222 million

There were cases of shortfalls, lapses & deficiencies involving Nu.16.222 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
3.1	Inadmissible payment of advance to M/s Greener Way	15.641
3.2	Excess payment of Nu.0.351 million and irregularities thereof	0.351
3.3	Excess payment of Nu.0.230 million and defective work thereof	0.230
3.4	Non-recording of works in Measurement Book	-
3.5	Non-rectification of potholes in the urban roads	-
	Total	16.222

The cases of shortfalls, lapses & deficiencies are as indicated below:

3.1. INADMISSIBLE PAYMENT OF ADVANCE TO M/S GREENER WAY - NU.15.641 MILLION

Thimphu Thromde had made inadmissible advance payments aggregating to Nu.15.641 million to Greener Way for procurement of waste collecting vehicles. No approval from the Thromde Council was obtained for the advance. Moreover, such payments were neither covered under the contract document nor unconditional bank guarantee as required by the PRR 2009 was obtained. Lending financial and other supports in deviation to prevailing norms and contract agreement tantamount to extending undue favour to the contractor. *AIN: 14467; Para: 3; Accountabilities: Direct: Kinley Dorji, Thrompon, CID No. 11410000297; Supervisory: Kinley Dorji, Thrompon, CID No. 11410000297*

3.2. EXCESS PAYMENT OF NU.0.351 MILLION AND IRREGULARITIES THEREOF

Thimphu Thromde had made excess payments aggregating Nu.0.351 million to M/s Dungkar Construction for riverbank protection works. The excess payment had occurred due to entertainment of excess measurement at site, payment for work not regulated as per BOQ and for works not executed. Further, the constructed chain link mesh along Olarongchu river bank and workshop areas were found damaged. *AIN: 14467; Para: 9; Accountabilities: Direct: Teknath Karaia, Dy. Executive Engineer, EID No. 201001178; Supervisory: Tshering Peljore, Forest Officer, EID No. 9211045*

3.3. EXCESS PAYMENT - NU.0.230 MILLION

- a) Thimphu Thromde had made an excess payment of Nu.0.110 million to M/s Thuenlam Construction for intermediate wall and slope stabilization works at Youth Development premises. The excess payment had occurred due to payment for quantities in excess of quantities actually executed at site. *AIN: 14467; Para: 10; Accountabilities: Direct: Teknath Karaia, Dy. Executive Engineer, EID No. 201001178; Supervisory: Tshering Peljore, Forest Officer, EID No. 9211045*
- b) Thimphu Thromde had made excess payments aggregating to Nu.0.120 million to M/s NITT Construction on account of construction of Storm Water Drain at Yangchenphu Higher Secondary School & City Drain, Taba. The excess payments had occurred due to acceptance of excess measurements and arithmetical error in the measurement book as against the actual quantities of work executed at site. *AIN: 14467; Para: 12; Accountabilities: Direct: Kumar Subba, Asstt. Engineer IV, EID No. 201101254; Supervisory: Kumar Subba, Asstt. Engineer-IV, EID No. 201101254*

3.4. NON-RECORDING OF WORKS IN MEASUREMENT BOOK

Three road maintenance works aggregating to Nu.50.298 million executed by Thimphu Thromde had not been recorded in measurement book. While the materials procured were entered in the MBs, the measurement of works executed were not recorded. *AIN:*

14467; Para: 17; Accountabilities: Direct: Kumar Subba, Asstt. Engineer-IV, EID No. 201101254; Supervisory: Sangay Wangchuk, Principal Engineer, EID No. 8908078

3.5. NON-RECTIFICATION OF POTHoles IN THE URBAN ROADS

Thimphu Thromde had spent Nu.33.276 million, Nu.44.766 million and Nu.60.696 million for the financial years 2012-13, 2013-14 and 2014-15 respectively for construction and maintenance of urban road networks. Despite spending substantial amounts, many locations at Olakha, Babesa and Taba had numerous potholes and cracks on roads causing inconvenience to commuters/traffic. Defects in the roads were due to lack of timely maintenance and poor workmanship. *AIN: 14467; Para: 20; Accountabilities: Direct: Tshering Dorji, Asstt. Engineer, EID No. 200207050; Supervisory: Sangay Wangdi, Principal Engineer, EID No. 8908078*

1.3.4.2. DRATSHANG LHENTSHOG

During the year, the RAA had issued six audit reports of the Dratshang Lhentshog. There were six observations amounting to Nu.18.847 million of which two observations amounting to Nu.0.062 million were resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion in the draft AAR 2017. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.18.785 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1.	Fraud, Corruption and Embezzlement	0.096	1 & 2
2.	Violation of laws and rules	2.340	4
3.	Shortfalls, lapses and deficiencies	16.349	5
Total		18.785	

1. Fraud, Corruption and Embezzlement - Nu.0.096 million

The case with elements of Fraud, Corruption and Embezzlement is as indicated below:

1.1. PAYMENT MADE FOR WORK NOT EXECUTED - NU.0.096 MILLION

The Dratshang Lhentshog had made payments of Nu.0.096 million to contractor for some items of electrification works not executed at site due to improper verification of the contractors' bill by the Consultant Engineer and Project Engineer in the construction of *Losel Yanchenling Anim Zhirim Lobdra Tewa* at Yagpogang, Monggar. *AIN: 14751; Para: 1.4; Accountabilities: Direct: Rinzin Phurba, Project Engineer, EID No. 9507029; Supervisory: Ugyen Tshering, Project Manager, EID No. 200901028*

2. Violation of laws and rules - Nu.2.340 million

There were cases of violation of laws and rules involving Nu.2.340 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
2.1.	Non-levy of 10% Liquidated damages for delay in completion of work	-
2.2.	Avoidable expenditure on consultancy fee	2.340
	Total	2.340

The cases of violation of laws and rules are as indicated below:

2.1. NON-LEVY OF 10% LIQUIDATED DAMAGES FOR DELAY IN COMPLETION OF WORK

The Dratshang Lhentshög had not levied 10% liquidated damages for delay in completion of work in the construction of *Losel Yanchenling Anim Zhirim Lobdra Tewa* at Yagpogang, Monggar as per General Conditions of Contract (GCC). *AIN: 14751; Para: 1.1; Accountabilities: Direct: Rinzin Phurba, Project Engineer, EID No. 9507029; Supervisory: Ugyen Tshering, Project Manager, EID No. 200901028*

2.2. AVOIDABLE EXPENDITURE ON CONSULTANCY FEE - NU.2.340 MILLION

The Dratshang Lhentshög had incurred an avoidable expenditure of Nu.2.340 million on account of consultancy service fee of Nu.0.060 million per month paid to M/s Basic Consultancy hired as the Supervision Consultant for the construction of *Losel Yanchenling Anim Zhirim Lobdra Tewa* at Yagpogang, Monggar. The Consultant was paid for 39 months even after the expiry of contract duration on 19th February, 2014 and the work progress was delayed by more than three year at the time of Audit in April 2017.

The delay in completion of works by the contractor was aggravated by the failure of the Supervision Consultant in its responsibility and thus the payment of consultancy service fee for supervision was not justifiable. *AIN: 14751; Para: 1.2; Accountabilities: Direct: Rinzin Phurba, Project Engineer, EID No. 9507029; Supervisory: Ugyen Tshering, Project Manager, EID No. 200901028*

3. Shortfalls, lapses and deficiencies - Nu. 16.349 million

There were cases of Shortfalls, lapses and deficiencies involving Nu.16.349million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
3.1.	Excess Payment to Contractor	0.052
3.2.	Outstanding PW Advances	16.297
	Total	16.349

The cases of Shortfalls, lapses and deficiencies involving Nu.16.349 million are as indicated below:

3.1. EXCESS PAYMENT TO CONTRACTOR - NU.0.052 MILLION

The Dratshang Lhentshög had made excess payments amounting to Nu.0.052 million to contractor due to payment at rates higher than quoted rates for some items of works in the construction of *Losel Yangchenling Anim Zhirim Lobdra Tewa* at Yagpogang, Monggar. The lapses had occurred due to oversight by the Consultant Engineer and Project Engineer during the verification of bills, indicating weakness in internal control. *AIN: 14751; Para: 1.3; Accountabilities: Direct: Rinzin Phurba, Project Engineer, EID No. 9507029; Supervisory: Ugyen Tshering, Project Manager, EID No. 200901028*

3.2. OUTSTANDING PW ADVANCES - NU.16.297 MILLION

The Dratshang Lhentshög had overdue Public Works Advances amounting to Nu.16.297 million lying unadjusted against contractor in the construction of *Losel Yangchenling Anim Zhirim Lobdra Tewa* at Yagpogang, Monggar. The contractor had completed about 95% of the work at the time of audit in April 2017, but Mobilization Advance of Nu.2.985 million and Secured Advance of Nu.13.312 million were still lying unadjusted from the contractor.

All advances should have been recovered when 80% of contract works were completed as per General Conditions of Contract. *AIN: 14751; Para: 1.5; Accountabilities: Direct: Rinzin Phurba, Project Engineer, EID No. 9507029; Supervisory: Kinley Dorji, Chief AFD, EID No. 7601031*

1.3.4.3. GELEPHU THROMDE

During the year, the RAA had issued two audit reports of the Gelephu Thromde. There were seven observations amounting to Nu.15.750 million of which observations amounting to Nu. 1.631 million was either resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion in the draft AAR 2017. The total unresolved significant irregularities reflected in the draft AAR 2017 amounted to Nu.14.119 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the agency, observations amounting to Nu.0.057 million was resolved. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.14.062 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Fraud, corruption and embezzlement	0.269	1 & 2
2	Violations of laws and rules	6.027	4
3	Shortfalls, lapses and deficiencies	7.766	5
Total		14.062	

1. Fraud, corruption and embezzlement - Nu.0.269 million

There were cases of fraud, corruption and embezzlement involving Nu.0.269 as indicated below:

1.1. SHORT-DEPOSIT OF REVENUE COLLECTION - NU.0.269 MILLION

Gelephu Thromde had short-deposit of revenue collection amounting to Nu.0.269 million. The lapse had occurred mainly due to deficiency in periodic reconciliation of the collections and deposits and improper revenue and accounting system. *AIN: 14615; Para: 5; Accountabilities: Direct: Mani Sherpa, Accounts Assistant, EID No. 9509029; Supervisory: Jamyang Gyeltshen, Accounts Officer EID No. 201201151*

2. Violations of laws and rules - Nu.6.027 million

There were cases of violations of laws and rules involving Nu.6.027 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
2.1	Acceptance of defective GSB layer works	5.960
2.2	Acceptance of defective masonry works	0.067
Total		6.027

The cases of violations of laws and rules are as indicated below:

2.1. ACCEPTANCE OF DEFECTIVE GSB LAYER WORKS - NU.5.960 MILLION

Gelephu Thromde had accepted defective civil works in the construction of road network and other services in Industrial Service Center. The GSB layer amounting to Nu.5.960 million provided in the road work indicated use of materials directly from the extraction site without proper gradation as required by Bhutan Building and Road Works 2013. Besides, the Thromde had released full payment for the GSB work prior to completion of works, which was indicative of extension of undue favour to the contractor. *AIN: 14615; Para: 1.2; Accountabilities: Direct: Tenzin Pema, Asst. Engineer II, EID No. 200507206; Supervisory: Karma Dupchuk, Chief Engineer, EID No. 2101057*

2.2. ACCEPTANCE OF DEFECTIVE MASONRY WORKS - NU.0.067 MILLION

Gelephu Thromde had accepted defective masonry works amounting to Nu.0.067 million in the construction of road network and other services in Industrial Service Center. Structural cracks were visible in cross drainage RRM wall indicating poor workmanship in masonry works at a road named 'R-5 downstream towards the left'. The lapses had occurred due to improper execution of works indicating lack of proper supervision and monitoring. *AIN: 14615; Para: 1.3; Accountabilities: Direct: Tenzin Pema, Asst. Engineer II, EID No. 200507206; Supervisory: Karma Dupchuk, Chief Engineer, EID No. 2101057*

3. Shortfalls, lapses and deficiencies - Nu.7.766 million

There were cases of shortfalls, lapses and deficiencies involving Nu.7.766 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
3.1	Illegitimate payment for GSB layer under footpath, drain & road divider	1.464
3.2	Overpayment in construction of road including drains and other infrastructures	0.326
3.3	Unsettled advance	5.976
	Total	7.766

The cases of shortfalls, lapses and deficiencies are as indicated below:

3.1. ILLEGITIMATE PAYMENT FOR GSB LAYER UNDER FOOTPATH, DRAIN & ROAD DIVIDER - NU.1.464 MILLION

The Gelephu Thromde had made an illegitimate payment of Nu.3.075 million in the construction of road network and other services in Industrial Service Center. Since the drawings did not provide laying granular sub-base course (GSB) under footpath, drain and the road divider, the payment for the work without prior approval of Thromde for changes, was not in conformity to the approved drawings. Out of the total amount, recovery of Nu.1.611 million was made leaving balance of Nu.1.464 million unresolved. *AIN: 14615; Para: 1.1; Accountabilities: Direct: Tenzin Pema, Asst. Engineer II, EID No. 200507206; Supervisory: Karma Dupchuk, Chief Engineer, EID No. 2101057*

3.2. OVERPAYMENT IN CONSTRUCTION OF ROAD INCLUDING DRAINS AND OTHER INFRASTRUCTURES - NU.0.326 MILLION

The Gelephu Thromde had made an overpayment of Nu.0.326 million on account of construction of road under LAP-I & II. The overpayment had occurred due to difference in the width of the road claimed and paid for and its actual width observed by RAA during the physical verification. *AIN: 14615; Para: 2; Accountabilities: Direct: Indra Prasad Phuyel, Asst. Engineer I, EID No. 9607023; Supervisory: Karma Dupchuk, Chief Engineer, EID No. 2101057*

3.3. UNSETTLED ADVANCE - NU.5.976 MILLION

The Gelephu Thromde had unsettled advances of Nu.5.976 million paid to Bhutan Power Corporation, Gelephu for realignment of electrical infrastructure in LAP-II. The Thromde had failed to settle the advance despite the fact that the work had been completed in every aspect. *AIN: 14615; Para: 4; Accountabilities: Direct: Krishna Prasad Khatiwara, JE, EID No. 200507238; Supervisory: Chimi Lhaden, Engineer, EID No. 20140103274*

1.3.4.4. PHUENTSHOLING THROMDE

During the year, the RAA had issued four audit reports of the Phuentsholing Thromde. There were 13 observations amounting to Nu.11.069 million of which eight observations amounting to Nu.0.722 million were resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion in the draft AAR 2017. The total

unresolved significant irregularities reflected in the draft AAR 2017 amounted to Nu.10.347 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the agency, observations amounting to Nu.0.820 million was resolved. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.9.527 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Mismanagement	3.051	3
2	Violations of laws and rules	6.379	4
3	Shortfalls, lapses and deficiencies	0.097	5
Total		9.527	

1. Mismanagement - Nu.3.051 million

There was a case of mismanagement involving Nu.3.051 as indicated below:

1.1. OUTSTANDING LAND TAXES - NU.3.051 MILLION

Phuentsholing Thromde had outstanding urban land taxes amounting to Nu.3.051 million lying unsettled for the extended areas under Phuentsholing and Sampheling Gewog. *AIN: 14426; Para: 1.4; Accountabilities: Direct: Deki, Adm. Asstt., EID No. 2009008; Supervisory: Sherub Tenzin, SSE, EID No. 200901218*

2. Violation of Laws & Rules - Nu.6.379 million

There were cases of violation of laws & rules involving Nu.6.379 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
2.1	Damaged road at National Pension & Provident Fund (NPPF) colony	-
2.2	Non-rectification of damaged permanent structure	6.379
Total		6.379

The case of violation of laws & rules is as indicated below:

2.1. DAMAGED ROAD AT NATIONAL PENSION & PROVIDENT FUND (NPPF) COLONY

There were damages on major portion of the road along NPPF Housing Colony, Phuentsholing causing inconveniences to commuters. The assessed value of such damages worked out to Nu.0.777 million. The Phuentsholing Thromde is yet to furnish evidence of repair and maintenance of the damaged road. *AIN: 14427; Para: 2.1; Accountabilities: Direct: Sonam Lhaden, Engineer, EID No. 9607013; Supervisory: D.C. Dhimal, Principal Engineer, EID No. 9502006*

2.2. NON-RECTIFICATION OF DAMAGED PERMANENT STRUCTURE - NU.6.379 MILLION

Phuentsholing Thromde had some damaged permanent structures in construction of 'slope stabilization and mitigation works' at Rinchending under National Adaptation Programme of Action (NAPA-II) project which required timely restoration. The assessed value of the damaged structures derived from the abstract of Cost Sheet (damaged detail) aggregated to Nu.6.379 million. The contract documents of the works required the indemnification of damages by the contractor with the provision to insure the works to cover the nature induced liabilities. Phuentsholing Thromde is yet to furnish evidence of rectification of the damaged structures. *AIN: 15001; Para: 1.1.1; Accountabilities: Direct: Lhendup Dorji, Assistant Engineer, CID No. 10204001700; Supervisory: Tshering Phuentsho, Project Manager, EID No. 9202024*

3. Shortfalls, lapses & deficiencies - Nu.0.097 million

There were cases of shortfalls, lapses & deficiencies involving Nu.0.097 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
3.1	Differences in Bank Statement & CD Account Cash Book	-
3.2	Inadmissible payment of salary	0.063
3.3	Excess deposit of PF contribution and non-rectification of account	0.034
	Total	0.097

The cases of shortfalls, lapses & deficiencies are as indicated below:

3.1. DIFFERENCES IN BANK STATEMENT AND CD ACCOUNT CASH BOOK

Current Deposit Account of Phuentsholing Thromde had excess deposit of Nu.4.372 million during the fiscal year 2015-16. The revenue collection/deposit as per the cash book was Nu.63.408 million whereas the total deposit as per bank statement was Nu.67.780 million with the excess deposit of Nu.4.372 million. Such huge difference was apparently due to failure of the dealing officials to reconcile the collections and deposits of the revenue; and also due to failure of the Supervising Officer to exercise necessary checks to ensure periodic reconciliation of the balance. *AIN: 14426; Para: 1.3; Accountabilities: Direct: Kuenzang Nidup, Accounts Assistant, EID No. 9502006; Supervisory: R. B. Ghalley, Accounts Officer, EID No. 8801083*

3.2. INADMISSIBLE PAYMENT OF SALARY - NU.0.063 MILLION

Phuentsholing Thromde had made inadmissible payment of Nu.0.063 million on account of salary to a teacher for two months during which the teacher was on Extraordinary Leave. *AIN: 14427; Para: 1.3; Accountabilities: Direct: Pem Zam, Teacher, EID No. 9707235; Supervisory: Lham Tshering, DTEO, EID No. 8906029, Kinzang Lhamo, HRO, EID No. 201001027, Dorji Wangchuk, DTEO, EID No. 9707264*

3.1. EXCESS DEPOSIT OF PF CONTRIBUTION AND NON-RECTIFICATION OF ACCOUNT - NU.0.034 MILLION

Financial Statement of Phuentsholing Thromde showed an excess deposit of provident fund contribution amounting to Nu.0.034 million. The excess deposit had occurred apparently due to negligence of the accounts personnel and failure on the part of the Supervising Officer to exercise necessary checks to ensure the actual PF amount to be remitted. *AIN: 14427; Para: 1.4; Accountabilities: Direct: Sangay Wangdi, Accounts Assistant, EID No. 201007183; Supervisory: R B Ghalley, Accounts Officer, EID No. 8801083*

1.3.4.5. NATIONAL LAND COMMISSION SECRETARIAT

During the year, the RAA had issued one audit report of the National Land Commission Secretariat (NLCS). There were 11 observations amounting to Nu.3.170 million of which six observations were resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion in the draft AAR. The significant irregularities reported in the draft AAR 2017 amounted to Nu.3.170 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the agency, observations amounting to Nu.0.330 million was resolved. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.2.840 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Violation of Laws & Rules	2.583	4
2	Shortfalls, lapses and deficiencies	0.257	5
	Total	2.840	

1. Violation of Laws & Rules - Nu.2.583 million

There were cases of violations of laws and rules involving Nu.2.583 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
1.1	Wrong selection of procurement process	-
1.2	Improper evaluation of technical bids by the committee and acceptance of equipment not as per specification	0.813
1.3	Procurement of additional heavy duty machine without quotation	1.770
	Total	2.583

The cases of violations of laws and rules are as indicated below:

1.1. WRONG SELECTION OF PROCUREMENT PROCESS

The NLCS had adopted a two-stage procurement process mentioned in Clause 4.3.1.1(c) of PRR 2009, for the procurement of heavy-duty compact machine. The two-stage procurement process is used when the procuring agency is unable to set precise

specifications in advance and requires input from experienced bidders in order to finalize and set specifications for best and most appropriate outcome.

However, it was found that the management had obtained all the required specifications at the time of inviting the tender and hence, the process adopted was deemed incorrect/unnecessary, as the situation did not arise. *AIN: 14742; Para: 1.1; Accountabilities: Direct: Biswanath Pradhan, CSE, EID No. 9011078; Supervisory: Biswanath Pradhan, CSE, EID No. 9011078*

1.2. IMPROPER EVALUATION OF TECHNICAL BIDS BY THE COMMITTEE AND ACCEPTANCE OF EQUIPMENT NOT AS PER SPECIFICATION - NU.0.813 MILLION

The Technical Evaluation Committee of NLCS had improperly evaluated the technical bids and accepted equipment that was not as per specification, resulting in an avoidable financial implication of Nu.0.813 million in the procurement of heavy duty compact machine. The winning bid amount was Nu.1.770 million and the rejected bid amount was Nu.0.957 million.

During the technical evaluation, the committee rejected M/s Office Automation's bid for MPW 3601 as it was erroneously specified as "MPW 3061". However, the brochure submitted by the supplier clearly suggested that the bid was for MPW 3601; and hence warranted clarifications from the bidder instead of rejecting the bid. After the evaluation, M/s Nana Enterprise, the winning bidder supplied model MPW 2401 (the model based on which M/s Office Automation was rated low) instead of the specified MPW 3601.

Improper evaluation of bids and acceptance of item other than specified were suggestive of the dealing officials extending undue favor to the supplier and existence of possible collusive practices. *AIN: 14742; Para: 1.2; Accountabilities: Direct: Sonam Dendup, DCSE, EID No. 8805058; Ugyen Dorji, SSE, EID No. 201001114; KB Tamang, Specialist, EID No. 8709025; Tshering Penjor, DCSE, EID No. 200701007; Biswanath Pradhan, CSE, EID No. 9011078; Supervisory: Biswanath Pradhan, CSE, EID No. 9011078*

1.3. PROCUREMENT OF ADDITIONAL HEAVY DUTY MACHINE WITHOUT QUOTATION - NU.1.770 MILLION

The NLCS had procured an additional printer from M/s Nana Enterprise at Nu.1.770 million without quotation. The NLCS had not carried out needs assessment for the additional printer, the earlier tender document showed requirement for only one printer. Further, the supplier had provided a completely different machine of model MP CW 2200 instead of the required MPW 3601.

The procurement anomaly were indicative of possible collusion between the supplier and the dealing official. *AIN: 14742; Para: 1.3; Accountabilities: Direct: Biswanath Pradhan, CSE, EID No. 9011078; Supervisory: Biswanath Pradhan, CSE, EID No. 9011078*

2. Shortfalls, lapses and deficiencies - Nu.0.257 million

There were cases of shortfalls, lapses and deficiencies involving Nu.0.257 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
2.1	Non-return of laptops/computers by the employee on long-term leave	0.135
2.2	Outstanding from sale of Feno Pegs	0.122
	Total	0.257

The cases of shortfalls, lapses and deficiencies are as indicated below:

2.1. NON-RETURN OF LAPTOPS/COMPUTERS BY EMPLOYEES ON LONG-TERM LEAVE - NU.0.135 MILLION

Three officials of NLCS had gone on extraordinary leave without surrendering laptops/computers valuing Nu.0.135 million issued for official use, which was in violation of the Property Management Manual. *AIN: 14742; Para: 6; Accountabilities: Direct: Sonam Choden, ICT Technician Associate I, EID No. 201007027; Yeshe Dorji, Director, EID No. 200301093; Supervisory: Tandin Wangyal, Dy.CPO, EID No. 7803025*

2.2. OUTSTANDING FROM SALE OF FENO PEGS - NU.0.122 MILLION

The NLCS had not collected sale proceeds of Feno Pegs amounting to Nu.0.122 million from the Thromde Office, Samdrup Jongkhar which were issued in 2015-2016. *AIN: 14742; Para: 7; Accountabilities: Direct: K S Tamang, Surveyor, EID No. 8504037; Supervisory: Pema Thinley, Store Incharge, EID No. 201002014*

1.3.4.6. TOURISM COUNCIL OF BHUTAN

During the year, the RAA had issued one audit report of the Tourism Council of Bhutan (TCB). There were four observations amounting to Nu.2.695 million of which none was resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion in the draft AAR 2017.

The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.2.695 million as summarized below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Shortfalls, lapses and deficiencies	2.695	5
	Total	2.695	

1. Shortfalls, lapses and deficiencies - Nu.2.695 million

There were cases of shortfalls, lapses and deficiencies involving Nu.2.695 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
1.1	Payment of group discount beyond the provision	2.438
1.2	Difference in collection	0.257
1.3	Unreconciled difference of US\$ 1.727 million	-
1.4	Difference in Revenue deposited by TCBL and National Revenue Report 2015-16	-
Total		2.695

The cases of shortfalls, lapses and deficiencies are as indicated below:

1.1. PAYMENT OF GROUP DISCOUNT BEYOND THE PROVISION - NU.2.438 MILLION

The TCB had offered discounts that are not as per prevailing norm which resulted in forgoing revenue of Nu.2.438 million. The prevailing norm¹ allows a 100% discount to one member in a group exceeding 16 persons and does not specify offering more discount to larger groups with 32 or 48 persons. However, the Council had offered discount to two members in groups exceeding 32 persons, thereby contradicting the provision. *AIN: 14759; Para: 2; Accountabilities: Direct: Tashi Tenzin, ICT Officer, EID No. 200901149; Supervisory: Tashi Tenzin, Head, Service Division, EID No. 200401215*

1.2. DIFFERENCE IN COLLECTION - NU.0.257 MILLION

The TCB had made excess deposit of Nu.0.257 million to RRCO for the financial Year 2015-16 on account of Visa Fee, Royalty and TDS as observed during reconciliation of the revenue collected as per the *Tashel* system with the deposits made to RRCO as per Bank Statement. *AIN: 14759; Para: 3; Accountabilities: Direct: Jamyang Peldon, Accountant, EID No. 200707019; Krishna Devi Bhujel, Accountant, EID No. 200907156; Supervisory: Tashi Tenzin, Head Service Division, EID No. 200401215*

1.3. UNRECONCILED DIFFERENCE OF USD1.727 MILLION

The TCB had unreconciled difference of USD1.727 million in revenue from Royalty, Visa Fee, and Surcharges worked out on the basis of visa issued and actual revenue collected. The differences had occurred mainly due to lack of provision to deduct various discounts offered, change in travel dates and lack of periodical reconciliation of actual revenues collected with the system. *AIN: 14759; Para: 1; Accountabilities: Direct: Tashi Tenzin, ICT Officer, EID No. 200901149; Supervisory: Tashi Tenzin, Head, Service Division, EID No. 200401215*

¹A discount of 50% on daily rate shall be given to one person in a group of 11 to 15 persons. A 100% discount shall be given to one member in a group exceeding 16 persons. - Section 5(d) Rules and Regulations for tour operation in Bhutan 1999.

1.4. DIFFERENCE IN REVENUE DEPOSITED BY TCBL AND NATIONAL REVENUE REPORT 2015-16

There was a difference of Nu.230.030 million between the revenue deposited by TCB and that shown in National Revenue Report 2015-16. A total of Nu.1,391.270 million was deposited into Revenue & Customs for the financial year 2015-16 whereas the National Revenue Report 2015-16 showed revenue receipt of Nu.1,621.300 million with the difference of Nu.230.030 million. *AIN: 14759; Para: 4; Accountabilities: Direct: Jamyang Peldon, Accountant, EID No. 200707019; Krishna Devi Bhujel, Accountant, EID No. 200907156; Supervisory: Tashi Tenzin, Head Service Division, EID No. 200401215*

1.3.4.7. ROYAL UNIVERSITY OF BHUTAN

During the year, the RAA had issued 13 audit reports of the Royal University of Bhutan and its colleges. There were 20 observations amounting to Nu.2.547 million of which 12 observations amounting to Nu.1.274 million were resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion in the draft AAR 2017. The significant irregularities reported in the draft AAR 2017 amounted to Nu.1.273 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the agency, observations amounting to Nu.0.385 million was resolved. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.0.887 million as summarised below:

Sl. No.	Observation Category	Nu. in million
1.	Mismanagement	0.532
2.	Violation of laws and rules	0.105
3.	Shortfalls, lapses and deficiencies	0.250
	Total	0.887

1. Mismanagement - Nu.0.532 million

There were cases of mismanagement involving Nu.0.532 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
1.1.	Short-deductions of House Rent from GCBS staff	0.532
	Total	0.532

The cases of mismanagement and rules are as indicated below:

1.1. SHORT-DEDUCTIONS OF HOUSE RENT FROM GCBS STAFF - NU.0.532 MILLION

The Gaeddu College of Business Studies (GCBS), Gedu had short-deduction/non-deduction of house rent amounting to Nu.0.532 million from various college faculty. *AIN: 14793; Para: 5; Accountabilities: Direct: Bal Bahadur Rasaily, Administrative Officer, EID*

No. RUB1108020; Phurpa Dorji, Estate Manager, CID No. 11604002070; Supervisory: Dr. Sonam Choiden, President, EID No. 9511010

2. Violation of Laws and Rules - Nu.0.105 million

There was a case of violation of laws and rules involving Nu.0.105 million as indicated below:

2.1. NON-AVAILABILITY OF GFPMO WITH PAYMENT VOUCHERS RESULTANT RECOVERY OF SERVICE CHARGES, ROYALTY AND OTHER COST - NU.0.105 MILLION

GCBS, Gedu had made payment of Nu.0.105 million for firewood by allowing claims of 16m³ per truck as against the actual carrying capacity of 8m³. General Forest Permit Movement Orders (GFPMO) issued by the Forestry Division, which would have authenticated the actual quantity supplied, were not attached with payment vouchers. In its absence, RAA could not validate the actual quantities supplied and the legitimacy of the payments beyond 8m³. *AIN: 14793; Para: 7; Accountabilities: Direct: Ugyen Tenzin, Store Incharge, CID No. 11524000483; Supervisory: Dr. Sonam Choiden, President, EID No. 1707024*

3. Shortfalls, lapses and deficiencies - Nu.0.250 million

There were cases of shortfalls, lapses and deficiencies involving Nu.0.250 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
3.1	Excess payment in brick wall for the construction of MPH	0.060
3.2	Excess payments to contractors	0.046
3.3	Unsettled Advance	0.144
	Total	0.250

The were cases of shortfalls, lapses and deficiencies are as indicated below:

3.1. EXCESS PAYMENT IN BRICK WALL FOR THE CONSTRUCTION OF MULTI-PURPOSE HALL - NU.0.060 MILLION

The College of Natural Resources, Lobeysa had made an excess payment of Nu.0.060 million for the construction of Multipurpose Hall and Site Development Works awarded to M/s Nawang Builders Private Limited, Thimphu. The excess payment was on account of the difference in quantity paid and actual quantity of Brick Works and Cement Plaster executed. The lapse had occurred apparently due to inadequate supervision and monitoring coupled with lack of due diligence in disbursing various claims. *AIN: 14969; Para: 1; Accountabilities: Direct: Yadav Dhungana, Site Engineer, EID No. RUB1502002; Supervisory: Dr. Phub Dorji, President, EID No. 9312018*

3.2. EXCESS PAYMENTS TO CONTRACTORS - NU.0.046 MILLION

GCBS, Gedu had made excess payments amounting to Nu.0.046 million to two contractors engaged for repair and maintenance works in the college. Excess payments of Nu.0.015 million was made to M/s SNC Construction for repair and maintenance of G-type and H-type hostels and Nu.0.031 million to M/s Phu-Yongla Construction for the construction/repair of RRM footpath around the hostels. The excess payment had occurred apparently due to negligence of the verifying official and failure on the part of the Supervising Officer to exercise necessary checks to ensure the admissibility of contractor's claim. *AIN: 14793; Para: 8 & 9; Accountabilities: Direct: Nar Bahadur Tamang, Site Supervising Officer, CID No. 11806000217; Supervisory: Dr. Sonam Choiden, President, EID No. 1707024*

3.3. UNSETTLED ADVANCE - NU.0.144 MILLION

The College for Language and Cultural Studies, Taktse had outstanding advances of Nu.0.144 million as on 30/06/2016 against various officials. The lapse had occurred due to non-regulation of advances as per the FRR 2001. *AIN: 14755; Para: 3; Accountabilities: Direct: Tashi Wangmo Accountant, EID No. RUB1506037; Supervisory: Lungtaen Gyatso, President, EID No. 9903073*

1.3.4.8. AGENCY FOR PROMOTION OF INDIGENOUS CRAFTS

During the year, the RAA had issued one audit report of the Agency for Promotion of Indigenous Crafts. There were three observations amounting to Nu.0.571 million of which no observation was resolved prior to the compilation of the draft AAR 2017. The significant irregularities reported in the draft AAR 2017 amounted to Nu.0.571 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the agency, one observation amounting to Nu.0.232 million was resolved. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.0.339 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Shortfalls, lapses and deficiencies	0.339	5
	Total	0.339	

1. Shortfalls, lapses & deficiencies - Nu.0.339 million

There were cases of shortfalls, lapses & deficiencies involving Nu.0.339 million as summarised below:

Sl. No.	Observation in Brief	Nu.in million
1.1	No lease agreement for parking fee compensation	-
1.2	Overdue parking fee compensation	0.339
	Total	0.339

The cases of shortfalls, lapses & deficiencies are as indicated below:

1.1. NON-EXECUTION OF LEASE AGREEMENT

The APIC had acquired land on lease in Thimphu town from Thimphu Thromde for establishing the Craft Bazaar, but no Lease agreement was drawn with the Thimphu Thromde stipulating necessary terms and conditions including rental charges to be paid to Thimphu Thromde. Since the area was initially identified as parking space, the APIC had been paying a 'Parking Fee Compensation' at the rate of Nu.20.00 per sq.ft. till June 2014, which was later reduced to Nu.4.00 per sq.ft. upon APIC's request. *AIN: 15019; Para: 2.1; Accountabilities: Direct: Cheki Dorji, Cluster Development Officer, CID No. 10710001670; Supervisory: Karma Choden, Manager, CID No. 11704001682*

1.2. OVERDUE PARKING FEE COMPENSATION - NU.0.339 MILLION

The APIC had overdue amount of Nu.0.339 million payable to Thimphu Thromde on account of Parking Fee Compensation for lease of land used for Craft Bazaar. The APIC had not paid compensations for three Financial Years of 2014-15, 2015-16 and 2016-17 to Thimphu Thromde. *AIN: 15019; Para: 2.2; Accountabilities: Direct: Cheki Dorji, Cluster Development Officer, CID No. 10710001670; Supervisory: Karma Choden, Manager, CID No. 11704001682*

1.3.4.9. SAMDRUP JONGKHAR THROMDE

During the year, the RAA had issued two audit reports of the Samdrup Jongkhar Thromde. There were 12 observations amounting to Nu.5.129 million of which 10 observations amounting to Nu.4.888 million were resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion in the draft AAR 2017.

The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.0.241 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Mismanagement	0.241	3
2	Violations of laws and rules	-	4
3	Shortfalls, lapses and deficiencies	-	5
Total		0.241	

1. Mismanagement - Nu. 0.241 million

There was a case of mismanagement as indicated below:

1.1. LEASE RENT AND TAXES DUES - NU.0.241 MILLION

Samdrup Jongkhar Thromde had outstanding lease rent and taxes amounting to Nu.0.241 million. Some dues were outstanding for over two years at the time of audit in December 2016. *AIN: 14641; Para: 11; Accountabilities: Direct: Karma Wangchuk,*

Accounts Assistant, EID No. 200607324; Supervisory: Tenzin Phuntsho, Accounts Officer, EID No. 20130101125

2. Violation of Laws & Rules

There was a case of violation of laws & rules as indicated below:

2.1. COLLECTION OF WATER BILL BASED ON THE READING OF THE DEFECTIVE WATER METER

Samdrup Jongkhar Thromde had collected water charges based on readings of defective water meters. The water bills for 28 defective water meters were calculated by taking into account the average of past three months meter readings. The Thromde has not enforced replacement of defective water meters. *AIN: 14641; Para: 8; Accountabilities: Direct: Kali Maya Tamang, Sr. Technician, EID No. 20040869, Yonten Gyeltshen, Technician, EID No. 201107043, Bimal Subba, Technician, CID No. 11801000731; Supervisory: Mani Kumar Rizal, Engineer, EID No. 2107158*

3. Shortfalls, lapses & deficiencies

There was a case of shortfalls, lapses & deficiencies involving as indicated below:

3.1. NON-RECTIFICATION OF DEFECTIVE WORKS FOR THE CONSTRUCTION OF NEW ROAD FROM NHDCL COLONY TO HOSPITAL JUNCTION

Samdrup Jongkhar Thromde had not rectified defects on the newly constructed road from NHDCL Housing Colony to Hospital junction, built by M/s KD Samdrup Construction. Most part of the newly blacktopped road was found damaged and riddled with potholes within the defect liability period indicating poor workmanship of the contractor. *AIN: 14641; Para: 7; Accountabilities: Direct: Dechen Norbu, Engineer, EID No. 20140103288; Supervisory: Pema Choki, Head ID, EID No. 9307033*

1.3.4.10. JUDICIARY OF BHUTAN

During the year, the RAA had issued 18 audit reports of the Judiciary of Bhutan. There were 16 observations amounting to Nu.0.647 million of which 12 observations were either resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion in the Draft AAR. The significant irregularities reported in the draft AAR 2017 amounted to Nu.0.438 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the agency, two observations amounting to Nu.0.217 million was resolved. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.0.221 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Shortfalls, lapses and deficiencies	0.221	5
	Total	0.221	

1. Shortfalls, lapses and deficiencies – Nu.0.221 million

1.1. NON-SETTLEMENT OF MOBILIZATION ADVANCE - NU.0.221 MILLION

The Royal Court of Justice, Trashigang had unsettled mobilization advance amounting to Nu.0.221 million as of date of audit. As per records, the construction of Drangpons' Residence was completed on 30/10/2011. However, mobilization advance of Nu.0.221 million was not recovered from the contractor as on 15/10/2017. The non-settlement of advances was in violation to Section 7.5.4.2 of the Finance and Accounting Manual which requires settlement of the advance latest by the time 80% of the works are completed. *AIN: 14934; Para: 1; Accountabilities: Direct: Mani Lhamo, Accountant, EID No. 20130802311; Supervisory: Ugyen Jamtsho, Drangpon, EID No. 9610032*

1.3.4.11. ROYAL EDUCATION COUNCIL

During the year, the RAA had issued two audit reports of the Royal Education Council. There was one observation amounting to Nu.0.073 million of which no observation was resolved prior to the compilation of the draft AAR 2017.

The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.0.073 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Shortfalls, lapses and deficiencies	0.073	5
Total		0.073	

1. Shortfalls, lapses and deficiencies - Nu.0.073 million

There was a case of shortfalls, lapses and deficiencies involving Nu.0.073 million as summarised below:

1.1. NON-REFUND OF SECURITY DEPOSIT - NU.0.073 MILLION

The Royal Education Council had not recovered the security deposit of Nu.0.073 million from the house owner upon vacation of office premise in Thimphu since July 2016. *AIN: 14566; Para: 1; Accountabilities: Direct - Nim Tshering, Asst. Accounts Officer, EID No. 20160106469, Wangchuk, Curriculum Officer, EID No. 9407172; Supervisory: Kesang Choden Dorji, Director, EID No. 9003005*

1.3.5. CORPORATIONS

1.3.5.1. DRUK GREEN POWER CORPORATION

During the year, the RAA had issued five audit reports of the Druk Green Power Corporation. There were 17 observations amounting to Nu.125.957 million of which two observations amounting to Nu.0.189 million were resolved prior to the compilation

of the draft AAR 2017 or did not qualify for inclusion in the draft AAR 2017. The total unresolved significant irregularities reflected in the Draft AAR 2017 amounted to Nu.125.768 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the corporate office, 13 observations amounting to Nu.18.465 million were resolved. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.107.303 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Mismanagement	107.303	3
Total		107.303	

1. Mismanagement - Nu.107.303 million

There were cases of mismanagement involving Nu.107.303 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
1.1	Delay in award of Civil and Hydro-Mechanical work with possible LD liability	97.020
1.2	Avoidable cost of Nu.16.031 million and additional financial implication of Nu.10.283 million	10.283
Total		107.303

The cases of mismanagement are as indicated below:

1.1. DELAY IN AWARD OF CIVIL AND HYDRO-MECHANICAL WORK WITH POSSIBLE LD LIABILITY - NU.97.020 MILLION

The Tangsibji Hydro Energy Limited (THyEL) had delay upto 294 days in awarding the contract works under Main Package (MP1) - Civil and Hydro-Mechanical Works which is likely to delay the project completion. This will inevitably have financial implications particularly the revenue loss and cost escalations. Besides, the company may need to bear liquidated damages of Nu.97.020 million for failure to supply power to PTC India Limited as per the power purchase agreement signed with the company. *AIN: 14967; Para: 2.1; Accountabilities: Direct: Karma Chhophel, Managing Director, CID No. 11512002204; Sujan Rai, Dy. Managing Director, CID No. 11103001338; Supervisory: Phuntsho Wangdi, Chairman, CID No. 11505004908; Chhewang Rinzin, Director, CID No. 11512004457; Karma Y Raydi, Director, CID No. 11604000615; Ugyen Namgyal, Director, CID No. 10703000567; Lhaden Lotay, Director, CID No. 10808000307*

1.2. AVOIDABLE COST OF NU.16.031 MILLION AND ADDITIONAL FINANCIAL IMPLICATION OF NU.10.283 MILLION

THyEL had awarded construction of 2.10 km access road through direct contract to CDCL at a negotiated amount of Nu.34.792 million against the initially offered amount

of Nu.56.964 million. Comparison of cost of similar work indicated that the amount quoted by the private contractors were much lower as tabulated below:

Name of the work and contractor	Total KM	Award amount (Nu.)	Cost per KM in million Nu.
Construction of Access road to dam Complex - M/s CDCL	2.1	34.792	16.568
Construction of Access road to Adit-1 - M/s Gayjur Construction	2.27	18.761	8.265
Difference		16.031	8.303

As apparent from the table above, the contract amount agreed for the work award to CDCL was exorbitantly higher representing more than 100% of the amount quoted by the other contractor which is not competitive and economical.

Further, after handing over of the completed road by CDCL, additional works for concreting of the same road involving Nu.10.283 million had begun at the time of audit in June 2017. Such lapses had occurred due to lack of proper planning and coordination of the works. *AIN: 14967; Para: 2.6; Accountabilities: Direct: Chhewang Rinzin, Managing Director, DGPC, CID No. 11512004457; Supervisory: Yeshi Wangdi, Chairman, CID No. 10710000560; Tshewang Rinzin, Director, CID No. 11410005342; Sonam Wangdi, Director, CID No. 10607000762; Ugyen Namgyal, Director, CID No. 10703000567; Kinzang Tobgay, Director, CID No. 10806000890, Dorji Pavo Phuntshok, Director, CID No. 11512002204*

1.3.5.2. PENDEN CEMENT AUTHORITY LIMITED

During the year, the RAA had issued one audit report of the Penden Cement Authority Limited. There were 22 observations amounting to Nu.14.233 million of which no observation was resolved prior to the compilation of the draft AAR 2017. The total unresolved significant irregularities reflected in the Draft AAR 2017 amounted to Nu.14.233 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the corporate office, seven observations amounting to Nu.1.273 million did not qualify for inclusion in the AAR 2017. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.12.960 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Fraud, corruption and embezzlement	6.623	1 & 2
2	Mismanagement	1.585	3
3	Violations of laws and rules	2.084	4
4	Shortfalls, lapses and deficiencies	2.668	5
Total		12.960	

1. Fraud, corruption and embezzlement - Nu.6.623 million

There was a case of fraud, corruption and embezzlement involving Nu.6.623 million as indicated below:

1.1. PURCHASES AT UNECONOMICAL/EXCESSIVE RATES WITH RESULTANT LOSS - NU.6.623 MILLION

The Penden Cement Authority Limited (PCAL) had made procurements of raw materials and office supplies at uneconomical/excessive rates with financial implication of Nu.6.623 million due to the systemic flaws in procurement aggravated by laxity of the Purchase Committee and Purchase Department in discharging their responsibilities judiciously and diligently. The rates of items procured during the period in audit were exorbitantly higher than the rates paid during the past years and the current prevailing market rates. The recklessness and financial imprudence on the part of the Purchase Committee, Purchase Department and the user departments had resulted in infructuous expenditure to the tune of Nu.2.108 million. The ad-hoc review committee constituted by the Management had also raised similar observation with the total financial implication of Nu.4.514 million. The prevalence of such practices seemed to have manifested primarily due to absence of a robust and comprehensive procurement manual and non-existence of a vibrant Purchase Committee to monitor the procurement activities of the company. There were indications of bid rigging and other collusive practices in the procurement of the materials. *AIN: 14811; Para: 4; Accountabilities: Direct: Karma Chogyel, Purchase Officer, EID No. 9915541; Chador Tshering, Purchase Assistant, EID No. 9928280; Neelam Lama, Purchase Assistant, EID No. 9928281; Supervisory: Pema Wangchen, Sr. GM (Sales), EID No. 9928283; K.B. Chhetri, Dy, GM (Process Division), EID No. 0161; H.B. Tamang, Head, Civil Division, EID No. 00080; Sherab Tenzin, GM (Plant), EID No. 0067; H.B. Pradhan, Finance Manager, EID No. 01861*

2. Mismanagement - Nu.1.585 million

There were cases of mismanagement involving Nu.1.585 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
2.1	Purchase of materials, spare parts and stationery at higher rate resulted in excess payment	1.128
2.2	Abnormal variation in price of spare parts and other items	0.457
	Total	1.585

The cases of mismanagement are as indicated below:

2.1. PURCHASE OF MATERIALS, SPARE PARTS AND STATIONERY AT HIGHER RATE RESULTED IN EXCESS PAYMENT - NU.1.128 MILLION

The PCAL had procured materials, spare parts and stationery at two or more different rates resulting in excess payment aggregating to Nu.1.128 million. The consumable stores were procured from various suppliers based on urgent purchase proposals at higher rates than earlier rates resulting in excess payments. The lapse had occurred due

to weak internal control and poor monitoring system in procurement. *AIN: 14811; Para: 16; Accountabilities: Direct: Karma Chogyel, Purchase Officer, EID No. 9915541; Chador Tshering, Purchase Assistant, EID No. 9928280; Neelam Lama, Purchase Assistant, EID No. 9928281; Supervisory: Pema Wangchen, Sr. GM (Sales), EID No. 9928283; K.B. Chhetri, Dy, GM (Process Division), EID No. 0161; H.B. Tamang, Head, Civil Division, EID No. 00080; Sherab Tenzin, GM (Plant), EID No. 0067; H.B. Pradhan, Finance Manager, EID No. 01861*

2.2. ABNORMAL VARIATION IN PRICE OF SPARE PARTS AND OTHER ITEMS - NU.0.457 MILLION

There was abnormal variation in price of spare parts and other items resulting in excess payment amounting to Nu.0.457 million. Some items that were procured earlier at lesser rates were procured later at exorbitantly higher rates from the same vendor in the same year. The lapse had occurred due to weak internal control and poor monitoring system in procurement. *AIN: 14811; Para: 13; Accountabilities: Direct: Kaylzang Tshering, CEO, EID No. 9928288; Supervisory: Kaylzang Tshering, CEO, EID No. 9928288*

3. Violations of laws and rules - Nu.2.083 million

There were cases of violations of laws and rules involving Nu.2.083 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
3.1	Irregularities in tendering resulted in excessive purchase and blockage of fund	1.224
3.2	Non-levy liquidated damages for delay in delivery of raw materials and consumables	0.859
3.3	Acceptance of bids even after the submission deadline	-
3.4	Acceptance of open and unsealed envelope quotations and other irregularities	-
3.5	Non-fulfillment of material supply obligations	-
3.6	Irregularities in procurement and management of inventories	-
Total		2.083

The cases of violations of laws and rules are as indicated below:

3.1. IRREGULARITIES IN TENDERING RESULTED IN EXCESSIVE PURCHASE AND BLOCKAGE OF FUND - NU.1.224 MILLION

The PCAL had irregularities in tendering of Shell Lining Plate for CLM N02 resulting in excess procurement and blockage of fund amounting to Nu.1.224 million. The bid invited through limited enquiry from five vendors of which only M/s Aqua Alloys Pvt. Limited had submitted their bid, that too after the submission deadline. Moreover, the bid did not bear legal seal, signature of the vendor concerned and receipt stamp of PCAL which rendered the legality and genuineness of the bid questionable. Comparison of rates with the earlier purchases made from M/s Assam Alloys Limited indicated that the rates charged by M/s Aqua Alloys Pvt. Ltd. were 39.35% higher. Further, procurement

of the item (200 nos.) was said to have been made on urgent basis in June 2016 whereas the consumption as of 15/03/2017 was only one number which indicated that the procurement was made to favour the vendor. The purchase in huge quantity without assessment of actual requirement was deemed imprudent resulting in blockage of fund amounting to Nu.1.224 million. *AIN: 14811; Para: 11; Accountabilities: Direct: Jaghat Tiwari, Mechanical Engineer, EID No. 9928287; Supervisory: K.B. Chhetri, Dy. GM, EID No. 9928284*

3.2. NON-LEVY OF LIQUIDATED DAMAGES FOR DELAY IN DELIVERY OF RAW MATERIALS AND CONSUMABLES - 0.859 MILLION

The PCAL had instances of non-levy of liquidated damages aggregating to Nu.0.859 million for delays in delivery of raw materials and consumables by various suppliers/vendors as summarized below:

- a) PCAL had not levied liquidated damages amounting to Nu.0.783 for the delay in delivery of materials by various vendors/suppliers. The lapses had occurred apparently due to non-enforcement of penalty clause for the delay. *AIN: 14811; Para: 14 & 15; Accountabilities: Direct: Kumar Burdewa, Account Assistant, EID No. 9915539, Supervisory: Ganga Maya Chhetri, UDC-I, EID No. 9923955*
- b) PCAL had not levied liquidated damages of Nu.0.042 million for the delay in delivery of materials delivered after the lapse of 230 days from the date of purchase order. The lapse had occurred apparently due to negligence of the management to monitor the timeframe for the delivery of goods and not initiating any follow-up with the supplier/vendor. *AIN: 14811; Para: 10; Accountabilities: Direct: Krishna Bdr. Khanal, Accounts Assistant, EID No. 9923954; Supervisory: H.B. Pradhan, Finance Manager, EID No. 9928286*
- c) There was delay in supply of Shell Lining Plate by 41 days for which liquidated damages of Nu.0.035 million was not imposed. The lapse had occurred due to non-enforcement of stipulated terms and conditions of the procurement and payment to vendor in full before receiving the materials. *AIN: 14811; Para: 11.1; Accountabilities: Direct: Krishna Bdr. Khanal, Accounts Assistant, EID No. 9923954; Supervisory: H.B. Pradhan, Finance Manager, EID No. 9928286*

3.3. ACCEPTANCE OF BIDS EVEN AFTER THE SUBMISSION DEADLINE

The PCAL on three occasions had accepted bids after the deadlines in contrary to the PRR 2009, Section 5.3.5.11 which stipulates that '*any bid received after the deadline or in incorrect form shall be rejected*'. Such instances indicated collusive and manipulative practices in procurement. *AIN: 14811; Para: 1; Accountabilities: Direct: Chador Tshering, Purchase Assistant, EID No. 9928280; Neelam Lama, Purchase Assistant, EID No. 9928281; Supervisory: Karma Chogyel, Purchase Officer, EID No. 9915541*

3.4. ACCEPTANCE OF OPEN AND UNSEALED ENVELOPE QUOTATIONS AND OTHER IRREGULARITIES

Contrary to the stipulations on confidentiality of bids under Sections 5.1.7 and 5.3.3 of the PRR 2009², PCAL had accepted bids in opened form without the requisite sealed envelope. There was no practice of maintaining minutes of the tender openings. In its absence, the fairness of the tender openings, the genuineness of the members stated to be involved in tender opening, and the exact dates of tender openings could not be ascertained. Also, the assertion as to whether the tender evaluations were actually being carried out or not could not be established. Further, there were instances where the Purchase Department had accepted quotations without bearing the receipt stamp of the company. The procurement process thus lacked fairness, transparency and integrity thereby defeating the very purpose of floating tender. *AIN: 14811; Para: 3; Accountabilities: Direct: Chador Tshering, Purchase Assistant, EID No. 9928280; Neelam Lama, Purchase Assistant, EID No. 9928281; Supervisory: Karma Chogyel, Purchase Officer, EID No. 9915541*

3.5. NON-FULFILLMENT OF MATERIAL SUPPLY OBLIGATIONS

Suppliers of PCAL had not fulfilled the contract obligations related to supply of materials to the company. Purchase orders with significant monetary values of Nu.58.581 million, Nu.87.001 million, Nu.45.308 million, Nu.81.461 million and Nu.28.497 million had remained undelivered from 2012 to 2016 respectively, despite most orders been placed on urgent basis. Moreover, the relevant divisions and the Purchase Department had not initiated any follow-up action on the pending orders. Such business operations indicated existence of laxity and ineffective procurement practices which was compounded by non-incorporation of performance security clause in the contract agreement leaving scope to vendors to violate the contractual obligations. *AIN: 14811; Para: 5; Accountabilities: Direct: Karma Chogyel, Purchase Officer, EID No. 9915541; Chador Tshering, Purchase Assistant, EID No. 9928280; Neelam Lama, Purchase Assistant, EID No. 9928281; Supervisory: Pema Wangchen, Sr. GM (Sales), EID No. 9928283; K.B. Chhetri, Dy, GM (Process Division) EID No. 0161; H.B. Tamang, Head, Civil Division, EID No. 00080; Sherab Tenzin, GM (Plant), EID No. 0067; H.B. Pradhan, Finance Manager, EID No. 01861*

3.6. IRREGULARITIES IN PROCUREMENT AND MANAGEMENT OF INVENTORIES

PCAL had irregularities related to procurement and management of inventories of spare parts and other consumable items as summarized below:

² The bids shall be delivered by hand or by registered post in sealed envelopes to the appropriate addressee and shall be marked "Confidential". - PRR 2009, Section 5.1.7.2.a; and Bid documents shall be treated with confidentiality at all times and kept under secured conditions until the opening of the bids by the Bid Opening Committee; After the bid opening, the opened bid documents or the contents of the documents shall not be released to any unauthorized person/party; and Bid evaluation proceedings after the opening of bids shall be kept confidential until the award of contract is announced. - PRR 2009, Section 5.3.3.1 to 5.3.3.3.

- a. PCAL had non-moving and slow moving items in stores. Spare parts and store items worth Nu.82.848 million had remained idle in store for the entire year. There were slow moving spare parts and store items worth Nu.34.137 million with the movement of as low as 1%;
- b. PCAL had not issued consumable stores worth Nu.37.186 million procured during the past seven years. Some stocks procured during the period 01/01/2010 to 24/01/2017 were not issued till the date of Audit (20/03/2017). The procurement of materials in excess of actual requirement reflects the mismanagement of stores and lack of financial prudence; and
- c. Spare parts and other consumable stores worth Nu.4.248 million were procured during the year despite having adequate stock balance worth Nu.4.522 million. No issue of stock was made during the year and the entire stock balance of Nu.8.769 million remained idle with resultant blockage of fund to that extent.

AIN: 14811; Para: 17.1, 17.3 & 17.2; Accountabilities: Direct: Karma Chogyel, Purchase Officer, EID No. 9915541; Chador Tshering, Purchase Assistant, EID No. 9928280; Neelam Lama, Purchase Assistant, EID No. 9928281; Supervisory: Pema Wangchen, Sr. GM (Sales), EID No. 9928283; K.B. Chhetri, Dy, GM (Process Division), EID No. 0161; H.B. Tamang, Head, Civil Division, EID No. 00080; Sherab Tenzin, GM (Plant), EID No. 0067; H.B. Pradhan, Finance Manager, EID No. 01861

4. Shortfalls, lapses and deficiencies - Nu.2.668 million

There was case of shortfalls, lapses and deficiencies involving Nu.2.668 million as indicated below:

4.1 OVERDUE SUPPLIERS ADVANCE - NU 2.668 MILLION

The PCAL had overdue advances of Nu.2.668 million paid to four suppliers. The advances were paid during 2014 to 2016 and lead-time for supply of materials were between two to seven months. The advances had been lying unsettled for considerably long duration thereby resulting in blockage of funds. *AIN: 14811; Para: 7; Accountabilities: Direct: Krishna Bdr. Khanal, EID No. 9923954, Supervisory: Kumar Burdawa, EID No. 9915539*

1.3.5.3. BHUTAN POWER CORPORATION LIMITED

During the year, the RAA had issued 10 audit reports of the Bhutan Power Corporation Limited and its regional offices. There were 11 observations amounting to Nu.8.714 million of which seven observations amounting to Nu.0.842 million were either resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion in the draft AAR 2017. The irregularities reported in the draft AAR 2017 amounted to Nu.7.872 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the corporate office and its regional offices, one observation was resolved. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.7.872 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Violations of laws and rules	1.800	4
2	Shortfalls, lapses and deficiencies	6.072	5
Total		7.872	

1. Violation of Laws & Rules – Nu.1.800 million

There were cases of violation of laws & rules involving Nu.1.800 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
1	Non-completion of works and liable liquidated damages	1.800
Total		1.800

The cases of violation of laws & rules are as indicated below:

1.1. NON-COMPLETION OF WORKS AND LIABLE LIQUIDATED DAMAGES - NU.1.800 MILLION

The Electricity Services Division (ESD), Punakha had not levied liquidated damages amounting to Nu.1.800 million for the delay in completion of the construction of Office and Residential building at Gasa. The contract was awarded to M/s Thuenlam Construction at a contract price of Nu.17.997 million with a contract duration of 20 months. The work was not completed despite time overrun of five months at the time of audit in November 2016. *AIN: 14277; Para: 1; Accountabilities: Direct: Krishna Humagai, S E (Civil), CID No. 11208000562; Supervisory: Samtey Penjor, Chief Technical Officer, CID No. 10811000427*

2. Shortfalls, lapses & deficiencies – Nu.6.072 million

There were cases of shortfalls, lapses & deficiencies involving Nu.6.072 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
2.1	Non-fulfillment of contractual obligations for civil works construction resulted into time overrun and levy of Liquidated Damages	2.279
2.2	Outstanding Balance of Advances	3.793
Total		6.072

The cases of shortfalls, lapses & deficiencies are as indicated below:

2.1. NON-FULFILLMENT OF CONTRACTUAL OBLIGATIONS FOR CIVIL WORKS CONSTRUCTION RESULTED INTO TIME OVERRUN AND LEVY OF LIQUIDATED DAMAGES - NU.2.279 MILLION

The BPCL Regional Corporate Office, Gelephu had three civil works with extensive time overrun due to non-fulfillment of contractual obligations. The contractors were liable for liquidated damages of Nu.2.279 million for the delay as under:

Sl. No	Name of work	Name of Contractor	Contract Amount (Nu. in million)	LD 10% of the initial contract price (Nu. in million)
1	Construction of G+1 Staff quarters at ESSD, Sarpang	M/S Drugyel Yeshey Construction, Tsirang	13.518	1.352
2	Construction of ESD Office building (G+2) at Gelephu	M/s JND Construction, Trongsa	8.199	0.820
3	Construction of Boundary fencing with GI Chainlink mesh and toilet for 33/11 KV control building at Sarpang	M/s TD Construction, Thimphu	1.073	0.107
Total				2.279

AIN: 14675; Para: 1; Accountabilities: Direct: Sangay Tenzin, Divisional Manager, CID No. 11603004170; Supervisory: Khandu Dorjee, Regional Director, CID No. 10203001117

2.2. OUTSTANDING BALANCE OF ADVANCES - NU.3.793 MILLION

The BPCL Regional Corporate Office, Gelephu had advances of Nu.3.973 million still lying unadjusted. The advances pertained to M/S Drugyel Yeshey Construction, Tsirang (Nu.2.841 million), M/s JND Construction, Trongsa (Nu.0.688 million) and M/s TD Construction, Thimphu (Nu.0.264 million) executing the civil works at Sarpang. Due to slow progress of the work, the initial advances paid to the contractors were not recovered within the contract period. *AIN: 14675; Para: 2; Accountabilities: Direct: Sangay Tenzin, Divisional Manager, CID No. 11603004170; Supervisory: Khandu Dorjee, Regional Director, CID No. 10203001117*

1.3.5.4. ARMY WELFARE PROJECT LIMITED

During the year, the RAA had issued three audit reports of the Army Welfare Project Limited (AWPL). There were five observations amounting to Nu.7.850 million of which observation amounting to Nu.0.100 million was resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion in the draft AAR 2017.

The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.7.750 million as summarized below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Violations of laws and rules	7.214	4
2	Shortfalls, lapses and deficiencies	0.536	5
Total		7.750	

1. Violations of laws and rules - Nu.7.214 million

There were cases of violations of laws and rules involving Nu.7.214 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
1.1	Direct Award of work beyond threshold amount	7.079
1.2	Non-levy of liquidated damages for delay in supplies	0.135
Total		7.214

The cases of violations of laws and rules are as indicated below:

1.1. DIRECT AWARD OF WORK BEYOND THRESHOLD AMOUNT - NU.7.079 MILLION

The AWPL had awarded the construction of 1st Phase - 3 Block Whisky Maturation Warehouse at Phobjikha at a contract amount of Nu.7.079 million to M/s New Age Construction Company Pvt. Ltd. without inviting open tender. Direct award of work has defeated the purpose of achieving economy in the procurement and promoting healthy competition amongst contractors. Further, the documents of the works like Measurement Book and Material at Site Register were not produced for audit purposes due to which the quantities of works carried at site could not be verified during the audit. *AIN: 14671; Para: 1; Accountabilities: Direct: Sangay Phuntsho, CID No. 1070900818; Supervisory: Rinzin Yoezar, CID No. 10102001209*

1.2. NON-LEVY OF LIQUIDATED DAMAGES FOR DELAY IN SUPPLIES - NU.0.135 MILLION

The AWPL had not levied liquidated damages aggregating to Nu.0.135 million to M/s Gopal Enterprise, Jaigaon for the delay in delivery of construction materials by 11 to 85 days. The lapse was in deviation to the Conditions of Contract which stipulated that “*in case of late delivery, a penalty of 0.1% per day of the value shall be deducted from the bill/per consignment*”. *AIN: 14671; Para: 3; Accountabilities: Direct: Ugyen Lhamo, CID No. 10101003958; Supervisory: Tshering Penjor, CID No. 11512002770*

2. Shortfalls, lapses and deficiencies – Nu.0.536 million

There were cases of shortfalls, lapses and deficiencies involving Nu.0.536 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
2.1	Short-deduction of TDS	0.048
2.2	Stock balance of '1907 Whisky' packaging materials even after discontinuation of production	0.488
	Total	0.536

The cases of shortfalls, lapses and deficiencies are as indicated below:

2.1. SHORT-DEDUCTION OF TDS - NU.0.048 MILLION

Against the required TDS deduction of Nu.0.080 million, the AWPL had made TDS deduction of Nu.0.032 million only from the hiring charges of Nu.1.597 million, thereby resulting in short-deduction of TDS amounting to Nu.0.48 million. The lapse had occurred due to deduction of the TDS at an erroneous rate of 2% instead of 5% as per the TDS Guidelines³. *AIN: 14671; Para: 4; Accountabilities: Direct: Tshering Penjor, CID No. 11512002770; Supervisory: Sangay Phuntsho, CID No. 1070900818*

2.2. STOCK BALANCE OF '1907 WHISKY' PACKAGING MATERIALS EVEN AFTER DISCONTINUATION OF PRODUCTION - NU.0.488 MILLION

The scrutiny of AWPL's closing stock of packaging materials as on 31.12.2015 revealed stock balance of empty bottles, mono carton and cap seals pertaining to '1907 Whisky' which is currently not in production. The financial implication of the balance stock of packaging materials of '1907 Whisky' amounted to Nu.0.488 million. *AIN: 14671; Para: 5; Accountabilities: Direct: Tshering Penjor, CID No. 11512002770; Supervisory: Sangay Phuntsho, CID No. 1070900818*

1.3.5.5. CONSTRUCTION DEVELOPMENT CORPORATION LIMITED

During the year, the RAA had issued one audit report of the Construction Development Corporation Limited. There were six observations amounting to Nu.7.472 million of which one observation amounting to Nu.0.013 million was resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion in the draft AAR 2017. The total unresolved significant irregularities reflected in the draft AAR 2017 amounted to Nu.7.459 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the corporate office, one observation was resolved. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.7.459 million as summarised below:

³Clause 5.2.5 of Tax Deduction at Source Guidelines: (a) income from other sources means income earned from the hire of privately owned plant & machineries, vehicles excluding trucks and taxis income from intellectual property rights. (b) TDS on income from other sources must be deducted at the rate of 5% of the gross income.

Sl. No.	Observation Category	Nu. in million	Category Code
1	Shortfalls, lapses and deficiencies	7.459	5
	Total	7.459	

1. Shortfall, lapses and deficiencies – Nu.0.7.459 million

There were cases of shortfalls, lapses and deficiencies involving Nu.7.459 million as indicated below:

1.1. EXCESS RECEIPTS IN CONSTRUCTION OF BRIDGES - NU.7.459 MILLION

The Construction Development Corporation Limited (CDCL) had received excess amount aggregating to Nu.7.459 million in construction of bridges in Hejo and Dechencholing as summarized hereunder:

- a) The CDCL had received a total amount of Nu.49.216 million including Nu.7.153 million for additional work against the admissible amount of Nu.45.392 million with resultant excess receipt of Nu.3.824 million from Thimphu Thromde for the construction of Hejo Bridge. The excess receipt had occurred apparently due to submission of incorrect claim by CDCL and improper verification of the running bills by Thimphu Thromde. *AIN: 14891; Para: 4; Accountabilities: Direct: Tandin Dorji, General Manager (CD), CID No. 10503000277; Supervisory: Reezang Wangdi, Director (DES), CID No. 11504000315*
- b) The CDCL had received a total amount of Nu.39.433 million including Nu.6.972 million for additional work against the admissible amount of Nu.36.482 million with resultant excess receipt of Nu.2.951 million from Thimphu Thromde for the construction of Dechencholing Bridge. The excess receipt had occurred apparently due to submission of incorrect claim by CDCL and improper verification of the running bills by Thimphu Thromde. *AIN: 14891; Para: 3.1; Accountabilities: Direct: Tandin Dorji, General Manager (CD), CID No. 10503000277; Supervisory: Reezang Wangdi, Director (DES), CID No. 11504000315*
- c) The CDCL had received excess amount of Nu.0.402 million from Thimphu Thromde for construction of RRM wall within 10m radius of Dechencholing Bridge. In addition to the initial payment received under the lumpsum contract for the RRM wall, CDCL had received another payment for the same work by claiming it as an additional work. Since the cost of RRM wall was already included in the bridge lump sum amount, its inclusion as separate additional work had resulted in double claim. *AIN: 14891; Para: 3.2; Accountabilities: Direct: Tandin Dorji, General Manager (CD), CID No. 10503000277; Supervisory: Reezang Wangdi, Director (DES), CID No. 11504000315*
- d) The CDCL had received excess amount of Nu.0.282 million from Thimphu Thromde for road marking, signpost and painting work. The initial quantity of

the work measuring 2950 m² was later reduced to 965.87 m² during its actual execution. However, CDCL had received entire initial contract amount of Nu.0.450 million instead of the proportionately reduced amount of Nu.0.168 million, thus resulting in the excess receipt. *AIN: 14891; Para: 3.3; Accountabilities: Direct: Tandin Dorji, General Manager (CD), CID No. 10503000277; Supervisory: Reezang Wangdi, Director (DES), CID No. 11504000315*

1.3.5.6. DUNGSAM CEMENT CORPORATION LIMITED

During the year, the RAA had issued one audit report of the Dungsam Cement Corporation Limited. There were eight observations amounting to Nu.206.709 million of which three observations amounting to Nu.64.963 million were resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion in the draft AAR 2017. The total unresolved significant irregularities reflected in the draft AAR 2017 amounted to Nu.141.746 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the corporate office, observations amounting to Nu.138.318 million were resolved. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.3.428 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Violations of laws and rules	2.922	4
2	Shortfalls, lapses and deficiencies	0.506	5
Total		3.428	

1. Violations of laws and rules – Nu.2.922 million

There were cases of violations of laws and rules involving Nu.2.922 million as summarized below:

Sl. No.	Observation in Brief	Nu. in million
1.1	Non-levy of penalty for the supply of coal	2.336
1.2	Inconsistency in levy of penalty for the supply of iron ore	0.541
1.3	Non-inclusion of penalty clause for inherent moisture content beyond permissible limit for the supply of coal and lapses thereof	0.045
Total		2.922

The cases of violations of laws and rules are as indicated below:

1.1. NON-LEVY OF PENALTY FOR THE SUPPLY OF COAL - NU.2.336 MILLION

The Dungsam Cement Corporation Limited (DCCL) had not deducted penalty of Nu.2.336 million for excess ash contents in the coal supplied M/s SD Eastern Bhutan Coal Company. The coal supplied had exceeded the admissible ash content of 20% in June 2016 by 0.94% and in August 2016 by 0.66% for which penalty of 3% was not

levied as per contract agreement. The lapse had occurred apparently due to improper study of the penalty clause and its applicability during the bill payment. *AIN: 14736; Para: 1; Accountabilities: Direct: Dorji Zangmo, Head Finance, EID No. 9917576; Tshetup Wangdi, Head Mines, EID No. 9928381; Sherab Gyeltshen, Head Production, EID No.; 9928382, Tshering Dorji, Head Marketing, EID No. 9926306; Tshen Norbu, GMC, EID No. 9928392, Samdrup, GMP, EID No. 9905528; Tshering Wangmo, Head PMMD, EID No. 9920344; Tashi Penjor, Head HRAD, EID No. 9920350; Jigme Wangchuk, Head Mechanical, EID No. 9920348; Weseyel Lhundup, Head S&MD, EID No. 9907166; Yeshe Tenzin, Head Mechanical, CID No. 9926305; Supervisory: Karma Gayleg, Dy.CEO, EID No. 9920642*

1.2. INCONSISTENCY IN LEVY OF PENALTY FOR THE SUPPLY OF IRON ORE - NU.0.541 MILLION

The DCCL had not applied Clause B(2)⁴ of the commercial terms and condition consistently in levy of penalty for excess moisture content in supply of iron ore. In March 2016, payment to M/s Bhutan Hardware Agency was made after deducting penalty of Nu.0.037 million. However, for months of April, May and June 2016, payments were made to the supplier without deducting penalty of Nu.0.578 million. The net penalty recoverable from the supplier after deducting recovered penalty stood at Nu.0.541 million. *AIN: 14736; Para: 2; Accountabilities: Direct: Dorji Zangmo, Head Finance, EID No. 9917576; Tshetup Wangdi, Head Mines, EID No. 9928381; Sherab Gyeltshen, Head Production, EID No. 9928382; Tshering Dorji, Head Marketing, EID No. 9926306; Tshen Norbu, GMC, EID No. 9928392; Samdrup, GMP, EID No. 9905528; Tshering Wangmo, Head PMMD, EID No. 9920344; Tashi Penjor, Head HRAD, EID No. 9920350; Jigme Wangchuk, Head Mechanical, EID No. 9920348; Weseyel Lhundup, Head S&MD, EID No. 9907166; Supervisory: Karma Gayleg, Dy.CEO, EID No. 9920642*

1.3. NON-INCLUSION OF PENALTY CLAUSE FOR INHERENT MOISTURE CONTENT BEYOND PERMISSIBLE LIMIT FOR THE SUPPLY OF COAL AND LAPSES THEREOF - NU.0.045 MILLION

The DCCL had not included penalty clause in the contract agreement with the State Mining Corporation Limited (SMCL), Samtse for the supply of coal with inherent moisture content beyond permissible limit. On two occasions, DCCL had accepted coal from SMCL with inherent moisture content exceeding the permissible limit of 2.25%. Penalty of Nu.0.045 million liable was not levied as the penalty clause was not included in the contract agreement. *AIN: 14736; Para: 3; Accountabilities: Direct: Dorji Zangmo, Head Finance, EID No. 9917576; Tshetup Wangdi, Head Mines, EID No. 9928381; Sherab Gyeltshen, Head Production, EID No. 9928382; Tshering Dorji, Head Marketing, EID No. 9926306; Tshen Norbu, GMC, EID No. 9928392; Samdrup, GMP, EID No. 9905528; Tshering Wangmo, Head PMMD, EID No. 9920344; Tashi Penjor, Head HRAD, EID No. 9920350;*

⁴ "If the weighted average moisture exceeds 5%, penalty shall be imposed at 3% on the landed price on the quantity supplied during the month for every 1% increase". - Commercial Terms and Conditions - Penalty and deduction, Clause B(2).

Jigme Wangchuk, Head Mechanical, EID No. 9920348; Weseyel Lhundup, Head S&MD, EID No. 9907166; Supervisory: Karma Gayleg, Dy. CEO, EID No. 9920642

2. Shortfalls, lapses and deficiencies – Nu.0.506 million

There was a case of shortfalls, lapses and deficiencies as indicated below:

2.1. SHORTAGE OF CEMENT DURING HANDING-TAKING - NU.0.506 MILLION

The DCCL had shortage of Portland Pozzolana Cement worth Nu.0.506 million during handing-taking between the two handling agents at Gelephu Depot. Quantity of cement as per books was 99.35 metric ton (MT) whereas only 45.10 MT was physically available, with resultant shortage of 84.25 MT. *AIN: 14736; Para: 8; Accountabilities: Direct: Weseyel Lhundup, Head S&MD, EID No. 9907166; Supervisory: Alok Singh, VP EID No. 9922309*

1.3.5.7. KUENSEL CORPORATION LIMITED

During the year, the RAA had issued one audit report of the Kuensel Corporation Limited. There were nine observations amounting to Nu.1.214 million out of which no observation was resolved prior to the compilation of the draft AAR 2017.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the corporate office, four observations did not qualify for inclusion in the AAR 2017. The unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.1.214 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Violations of laws and rules	-	4
2	Shortfalls, lapses and deficiencies	1.214	5
	Total	1.214	

1. Violations of laws and rules

There was a case of violation of laws and rules involving as indicated below:

1.1. PROCUREMENT WITHOUT TENDER/QUOTATION

There were instances where Kuensel Corporation Limited (KCL) had made procurements without inviting competitive bidding. KCL had procured 14 apple laptops (three Mac books Pro 13.5” and 11 Mac books Pro 13.5”) in 2015 and 2016 respectively from M/s McSys Computer Services amounting to Nu.0.999 million directly based on past years bid evaluation. Similarly, Samsung Camera SCO-5083 was procured directly from M/s Ugyen Trading House. Such direct procurements were not in line with the Procurement Manual 2015. *AIN: 14997; Para: 1; Accountabilities: Direct: Phuntsho Norbu, In-charge Procurement, CID No. 11106003028; Supervisory: Thinley Namgyel, GM, HRM & Operations, CID No. 11513002225*

2. Shortfalls, lapses and deficiencies – Nu.1.214 million

There were cases of shortfalls, lapses and deficiencies involving Nu.1.214 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
2.1	Unreconciled difference in revenue from advertisements	0.130
2.2	Non-realization of e-kuensel subscription fees	1.084
2.3	Non-incorporation of penalty clause for delay in settlement of credit sales	-
2.4	Irregularities in collection and deposit	-
	Total	1.214

The cases of shortfalls, lapses and deficiencies are as indicated below:

2.1. UNRECONCILED DIFFERENCE IN REVENUE FROM ADVERTISEMENTS - NU.0.130 MILLION

There was an unreconciled difference of Nu.0.130 million in KCL's revenue generated from advertisements. The total revenue recorded by advertisement department worked out to Nu.77.440 million whereas the revenue as per the Finance Division (including internal sales from Ad Dept.) was Nu.77.570 million with difference of Nu.0.130 million. *AIN: 14997; Para: 5; Accountabilities: Direct: Pema Tenzin, Revenue Officer, CID No. 10811000500; Supervisory: Ugyen Lhendup, Manager, Finance, CID No. 10205006681*

2.2. NON-REALIZATION OF E-KUENSEL SUBSCRIPTION FEES - NU.1.084 MILLION

The KCL had generated a total revenue of Nu.1.886 million from e-Kuensel out of which Nu.1.084 million was not realized till date of audit. Further, the control system for student subscription for e-Kuensel - requiring students to produce only the student identification card - was deemed inadequate. Due to the loophole in the control system, there were instances of non-student clients availing 50% student discount through student subscriptions. *AIN: 14997; Para: 6; Accountabilities: Direct: Ugyen Norbu, Manager, Circulation Department, CID No. 10716000733; Supervisory: Thinley Namgyel, GM, HRM & Operations, CID No. 11513002225*

2.3. NON-INCORPORATION OF PENALTY CLAUSE FOR DELAY IN SETTLEMENT OF CREDIT SALES

The KCL did not have adequate credit terms to levy penalty in case of delay in payment of bills by their sundry debtors. While the invoices contained specific caution stipulating that the bills have to be cleared within 15 days, there was no penalty clause for the bills that are paid after 15 days. For instance, payment for invoice (no. 15/7042) raised on 15/10/2015, was received without any penalty, only after over three months of its due date. The delayed collection of revenue of Nu.45.201 million (17.40%) out of the total sundry debtors of Nu.259.705 million could be attributed to the laxity in credit policy and inadequate follow-up mechanism. *AIN: 14997; Para: 9; Accountabilities: Direct:*

Pema Tenzin, Revenue Officer, CID No. 10811000500; Supervisory: Ugyen Lhendup, Manager, Finance, CID No. 10205006681

2.4. IRREGULARITIES IN COLLECTION AND DEPOSIT OF REVENUE

The KCL had differences in revenue recorded by various departments and the revenue as per the accounts department. The revenue realized by various departments were either in short or in excess of the revenue as per the accounts department as shown in the table below:

S/n	Sources of revenue	Amount in million Nu.		
		As per Departments	As per Accounts Department	Differences
1	Kuensel circulation (Chukha highway)	1.689	1.677	0.012
2	Kuensel circulation (Other Dzongkhags)	1.463	1.381	0.083
3	Kuensel circulation (Eastern region)	0.780	1.280	(0.500)
4	PDF (Thimphu)	1.886	0.802	1.084
5	Photo	1.138	3.129	(1.991)

The detailed working on reconciliation of the difference is awaited. *AIN: 14997; Para: 7; Accountabilities: Direct: Pema Tenzin, Revenue Officer, CID No. 10811000500; Supervisory: Ugyen Lhendup, Manager, Finance, CID No. 10205006681*

1.3.5.8. NATURAL RESOURCES DEVELOPMENT CORPORATION LIMITED

During the year, the RAA had issued one audit report of the Natural Resources Development Corporation Limited. There were five observations amounting to Nu.0.325 million of which four observations amounting to Nu.0.265 million were resolved prior to the compilation of the draft AAR 2017 or did not qualify for inclusion in the draft AAR 2017.

The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.0.060 million:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Shortfalls, lapses and deficiencies	0.060	5
Total		0.060	

1. Shortfalls, lapses and deficiencies – Nu.0.060 million

There was a case of shortfalls, lapses and deficiencies involving Nu.0.060 million as indicated below:

1.1. UNECONOMICAL LAND LEASE RENT PAYMENT AMOUNTING TO NU.0.060 MILLION

The Natural Resources Development Corporation Limited had made uneconomical payments amounting to Nu.0.060 million on account of land lease rent. The rent pertained to 6.83 acres of land taken on lease with a plan to establish a stone crushing plant which did not materialize even after three years reflecting weak investment strategy and rendered the expenditure unfruitful. *AIN: 14613; Para: 5; Accountabilities: Direct: Wangchuk, Dy. Regional Manager, EID No. 0370587; Supervisory: Ashit Chhetri, Dy. General Manager (PD), EID No. 1681101*

1.3.5.9. DRUK HOLDING AND INVESTMENTS

During the year, the RAA had issued one audit report of the Druk Holding and Investments. There was one observation amounting to Nu.0.050 million which was not resolved prior to the compilation of the draft AAR 2017.

The unresolved significant irregularity reflected in the AAR 2017 amounted to Nu.0.050 million as summarized below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Shortfalls, lapses and deficiencies	0.050	5
Total		0.050	

1. Shortfalls, lapses and deficiencies – Nu.0.050 million

There was a case of shortfalls, lapses and deficiencies involving Nu.0.050 million as indicated below:

1.1. INADMISSIBLE PAYMENT OF OFFICIATING ALLOWANCE TO TWO EMPLOYEES - NU.0.050 MILLION

The Druk Holding and Investments had made inadmissible officiating allowance payment of Nu.0.050 million to two employees for officiating beyond six months permissible by the DHI Service Rules. *AIN: 14353; Para: 1; Accountabilities: Direct: Kinga Lotey, Sr. Manager, Head-HRA, CID No. 10804000021; Supervisory: Dr. Damber S. Kharka, Director-CPD, CID No. 11811000085*

1.3.5.10. DUNGSAM POLYMERS LIMITED

During the year, the RAA had issued one audit report of the Dungsam Polymers Limited. There were four observations amounting to Nu.29.275 million of which one observation amounting to Nu.26.097 million was resolved prior to the compilation of the draft AAR 2017. The total unresolved significant irregularities reflected in the Draft AAR 2017 amounted to Nu.3.178 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the company, observations amounting to Nu.3.178 million were resolved. The unresolved significant irregularity reflected in the AAR 2017 is as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Shortfalls, lapses and deficiencies	-	5
	Total	-	

1. Shortfalls, lapses and deficiencies

There was a case of shortfalls, lapses and deficiencies as indicated below:

1.1. NON-ACHIEVEMENT OF MONTHLY PRODUCTION TARGETS BY THE CONTRACTOR

The Dungsam Polymers Limited's contractor had not achieved monthly production targets by average of 17.71%. The annual target of the works of cutting, valve making, stitching, top and bottom hemming and printing of PP bags was 19.441 million units whereas the actual production was 15.931 million units only, thus not achieving the production target by 3.510 million units. Liquidated damages of 0.5% as stipulated by the mode of working was not levied for the amount of unfulfilled production. The lapse had occurred apparently due to lack of timely monitoring and reviewing of planned targets and its achievements. *AIN: 14707; Para: 1; Accountabilities: Direct: Rinchen Sonam, JE, CID No. 12005002772; Supervisory: D B Gurung, TSD Head, CID No. 11305003222*

1.3.6. NON-GOVERNMENTAL ORGANISATION

1.3.6.1. BHUTAN FILM ASSOCIATION

During the year, the RAA had issued one audit report of the Bhutan Film Association. There were three observations amounting to Nu.18.035 million of which none was resolved prior to the compilation of the draft AAR 2017.

The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.18.035 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Mismanagement	17.912	3
2	Shortfalls, lapses and deficiencies	0.122	5
	Total	18.035	

1. Mismanagement - Nu.17.912 million

There were cases of mismanagement involving Nu.17.912 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
1.1	Non-realization of cost of film screening equipment from Bhutan Film Distributor	4.752
1.2	Fixed assets remaining idle	13.160
	Total	17.912

The cases of mismanagement are as indicated below:

1.1. NON-REALIZATION OF COST OF FILM SCREENING EQUIPMENT FROM BHUTAN FILM DISTRIBUTOR - NU.4.752 MILLION

The Bhutan Film Association (BFA) had procured 60 sets of film screening equipment worth Nu.6.899 million funded by KOICA, Government of the Republic of Korea. All the film screening equipment were handed-over to Bhutan Film Distributor (BFD), Thimphu on 28/07/2015 with an agreement similar to hire-purchase system. The two conditions of the agreement, among others, were that - i) BFD must pay monthly installment of Nu.3,300.00 per set for 60 sets for three years after two months from the date of release of the first film; and ii) after completion of final installment, the ownership to the equipment shall be formally handed over to the BFD.

However, even after two years BFA had not received any installment for the hire-purchase agreement nor was there any record indicating the association's effort to realize the installment from the latter. Subsequently, based on the Board's decision to rescind the contract, 40 sets of the equipment were taken back, and the remaining 20 sets were left with BFD under a new contract agreement. The hire charges due amounting to Nu.4.752 million was not realized from BFD till date of audit. *AIN: 14849; Para: 1; Accountabilities: Direct: Tandin Wangchuk, General Manager, Bhutan Film Distributor, CID No. 1160600048; Supervisory: Yeshi Dorji, Executive Director, CID No. 10712002031*

1.2. FIXED ASSETS WORTH NU.13.160 MILLION REMAINING IDLE

The BFA had large quantities of fixed assets worth Nu.13.160 million lying idle. Immediate management action either for its effective utilization and proper storage or for its disposal was deemed necessary. *AIN: 14849; Para: 2; Accountabilities: Direct: Yeshi Dorji, Executive Director, CID No. 10712002031; Tuka Gurung, Finance/Admin. Officer, CID No. 1201001452; Yeshey Dorji, IT Officer, CID No. 10204000137; Supervisory: Tobgyel, President, CID No. 11410002207; Kesang Jigmi, CID No. 11101001183; Tshering Phuntsho, CID No. 10202000660; Pema Tshering, CID No. 11705001918; Yeshey Tshering, CID No. 10801100069; Kinley Dorji, CID No. 10811000784; Tshechu Dorji Wong, CID No. 11410003623; Tshering Dorji, CID No. 11410008578*

2. Shortfalls, lapses & deficiencies - Nu.0.122 million

There was a case of shortfalls, lapses and deficiencies involving Nu.0.122 million as indicated below:

2.1. SHORTAGE/MISSING OF ASSETS WORTH NU.0.122 MILLION

The BFA had shortage/missing assets such as LCD monitor, light stand, plastic chairs, etc. worth Nu.0.122 million noted during the joint physical verification of assets and equipment. The management was required to trace whereabouts of the assets or recover the cost from the person responsible according to Chapter V of the Property Management Manual 2016. *AIN: 14849; Para: 1; Accountabilities: Direct: Yeshey Dorji, IT Officer, CID No. 102044000137; Supervisory: Yeshey Dorji, IT Officer, CID No. 102044000137*

1.3.6.2. BHUTAN TRUST FUND FOR ENVIRONMENTAL CONSERVATION

During the year, the RAA had issued three audit reports of the Bhutan Trust Fund for Environmental Conservation. There were three observations amounting to Nu.2.085 million of which none was resolved prior to the compilation of the draft AAR 2017.

The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.2.085 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Shortfalls, lapses and deficiencies	2.085	5
	Total	2.085	

1. Shortfalls, lapses and deficiencies - Nu.2.085 million

There were cases of mismanagement involving Nu.2.085 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
1.1	Non-realization of unspent grant balance	1.330
1.2	Insufficient supporting documents for payments made to an unverified agent for car stickers	0.460
1.3	Non-availability of evidence to support the refund of ineligible expenses	0.295
	Total	2.085

The cases of mismanagement are as indicated below:

1.1. NON-REALIZATION OF UNSPENT GRANT BALANCE - NU.1.330 MILLION

The Bhutan Trust Fund for Environmental Conservation (BT FEC) under a grant agreement for “*Conservation of Native Tree Species*” with the Royal Projects Coordination Office and Department of Forests and Park Services, Ministry of Agriculture and Forests stipulates that “*the Grantee shall facilitate the IA to refund reconciled unspent fund balances to the Grantor within 25th day from the project conclusion.*” The project was completed on 30th June 2016 and the refund of unspent grant balance of Nu.1.330 million from the project implementing units was due on 25th July 2016 as per project agreement. However, the amount was still not refunded. *AIN:*

14957; Para: 1; Accountabilities: Direct: Dasho Karma Tenzin, Coordinator, Royal Projects Coordination Office, CID No. 10802000260; Supervisory: Dasho Karma Tenzin, Coordinator, Royal Projects Coordination Office, CID No. 10802000260

1.2. INSUFFICIENT SUPPORTING DOCUMENTS FOR PAYMENTS MADE TO AN UNVERIFIED AGENT FOR CAR STICKERS – NU.0.460 MILLION

The BTFEC funded project “*Advocating Behavioral Change - Managing Our Own Waste - Mongar and Trashigang Thromde*” implemented by Clean Bhutan had made payment of Nu.0.700 million to M/s Adglo Neon Sign in Mumbai, India which included Nu.0.460 million for car stickers to Ms. Sonam Yangden without sufficient supporting documents. The Grantee claimed that she was a supplier for Adglo Neon Sign in Bhutan, however confirmation from the supplier to authenticate the payment was not made available for verification. Further, a receipt from Adglo Neon Sign that acknowledged the payment was dated 16th April 2016 whereas the payment to Ms. Sonam Yangden was made only on 25th July 2016. Clarification on receiving acknowledgement dated prior to its payment was not provided. *AIN: 14957; Para: 2; Accountabilities: Direct: Sonam Delkar, Accountant, Clean Bhutan, CID No. 10703001293; Supervisory: Nedup Tshering, Executive Director, Clean Bhutan, CID No. 11405001094*

1.3. NON-AVAILABILITY OF EVIDENCE TO SUPPORT THE REFUND OF INELIGIBLE EXPENSES - NU.0.295 MILLION

The Internal Auditors hired by Clean Bhutan for its BTFEC funded project “*Advocating Behavioral Change - Managing Our Own Waste - Mongar and Trashigang Thromde*” had flagged two expenses aggregating to Nu.0.295 million as ineligible. The grantee claimed that these amounts were refunded back to the project. However, evidence to substantiate the refund was not furnished due to which the authenticity of refund reportedly made to BTFEC could not be vouched. *AIN: 14957; Para: 3; Accountabilities: Direct: Sonam Delkar, Accountant, Clean Bhutan, CID No. 10703001293; Supervisory: Nedup Tshering, Executive Director, Clean Bhutan, CID No. 11405001094*

1.3.6.3. CONSTRUCTION ASSOCIATION OF BHUTAN

During the year, the RAA had issued one audit report of the Construction Association of Bhutan. There were six observations amounting to Nu.0.713 million of which none was resolved prior to the compilation of the draft AAR 2017. The total unresolved significant irregularities reflected in the Draft AAR 2017 amounted to Nu.0.713 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the agency, two observations amounting to Nu.0.299 million did not qualify for inclusion in the AAR 2017. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.0.413 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Fraud, Corruption and Embezzlement	0.196	1 & 2
2	Shortfalls, lapses and deficiencies	0.217	5
	Total	0.413	

1. Fraud, Corruption and Embezzlement - Nu.0.196 million

There was a case with elements of fraud, corruption and embezzlement as indicated below:

1.1. PHYSICAL VERIFICATION OF CASH IN HAND AND SHORTAGES THEREOF - NU.0.196 MILLION

The Construction Association of Bhutan (CAB) had adjusted closing cash balance of Nu.0.196 million which was physically not available during physical verification. Non-availability of cash in hand on physical verification indicated misuse of cash by the dealing official. *AIN: 14791; Para: 5; Accountabilities: Direct: Papu Maya Yonzon, CID No.: 11808003236; Supervisory: Sonam Rinzin, CID No. 1141100237*

2. Shortfalls, lapses and deficiencies - Nu.0.217 million

There were cases of shortfalls, lapses and deficiencies involving Nu.0.217 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
2.1	Alteration/Missing of Cashbook pages	-
2.2	Outstanding Advances	0.217
	Total	0.217

The cases of shortfalls, lapses and deficiencies are as indicated below:

2.1. ALTERATION/MISSING OF CASHBOOK PAGES

The CAB had two instances that violated the fundamental bookkeeping norms. In the first instance, nine pages of a cash book were altered by replacing them with different pages. In the second instance, three pages of the cash book were detached and missing. Alteration/removal of cashbook pages is a serious accounting lapse and could be construed as tampering the accounting records to conceal fraud. *AIN: 14791; Para: 2.1 & 2.2; Accountabilities: Direct: Karma Wangmo, Finance Officer, CID No. 10605002780; Supervisory: Wangdi Gyeltshen, CID No. 11107000715*

2.2. OUTSTANDING ADVANCES - NU.0.217 MILLION

The CAB had unsettled advances of Nu.0.217 million. The non-settlement of advances was in violation to Section 10.6 of CAB Service Rules, 2005 which requires advances to be adjusted within one year. *AIN: 14791; Para: 1; Accountabilities: Direct: Sonam Rinzin, CID No. 11411002377; Ugyen Dorji, CID No. 10305002877; Supervisory: Wangdi Gyeltshen, CID No. 11107000715*

CHAPTER 4

1.4 AUDIT REPORT ON JOINT AUDITS OF HYDROPOWER PROJECTS

The RAA had undertaken three Joint Audits of Hydro Power Projects of Punatsangchhu-I Hydroelectric Project Authority, Punatsangchhu-II Hydroelectric Project Authority and Mangdechhu Hydroelectric Project Authority during 2017. The audits were conducted as per the Standard Operating Procedures signed between the RAA and the Comptroller and Auditor General of India and the Projects Agreement signed between the Royal Government of Bhutan and the Government of India.

The AAR 2017 includes only the unresolved significant audit observations of Punatsangchhu-I Hydroelectric Project Authority, Punatsangchhu-II Hydroelectric Project Authority and Mangdechhu Hydroelectric Project Authority.

1.4.1. PUNATSANGCHHU-II HYDROELECTRIC PROJECT AUTHORITY

During the year, the RAA had issued one audit report of the Punatsangchhu-II Hydroelectric Project Authority. There were 24 observations amounting to Nu.4,519.379 million of which no observation was resolved prior to the compilation of the draft AAR 2017. The total unresolved significant irregularities reflected in the Draft AAR 2017 Nu.4,519.379 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the project, five observations amounting to Nu.1,517.778 million were resolved or did not qualify for inclusion in the AAR 2017. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.3,001.601 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Mismanagement	6.058	3
2	Violations of laws and rules	2,963.825	4
3	Shortfalls, lapses and deficiencies	31.718	5
	Total	3,001.601	

1. Mismanagement - Nu.6.058 million

There were cases of mismanagement involving Nu.6.058 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
1.1	Appointment of two Director Technical resulting into avoidable expenditure	6.058
	Total	6.058

The case of mismanagement is as indicated below:

1.1. APPOINTMENT OF TWO DIRECTOR TECHNICAL RESULTING IN AVOIDABLE EXPENDITURE OF NU.6.058 MILLION

The appointment of separate Directors - Technical (DTs) in PHPA-I and II was not in line with approved decision of the Empowered Joint Group during the First Authority Meeting of PHPA-II where the Authority decided '*...to have a common Management for Punatsangchhu-I and II Projects to bring about efficiency and synergy in the two projects and to fast-track implementation of Punatsangchhu-II Project...*'. The appointment of separate DTs for PHPA-I and II had resulted in injudicious expenditure amounting to Nu.6.058 million. *AIN: 14799; Para: A9; Accountabilities: Direct: R.N Khazanchi, MD, WPN: 1919070021000356; Dasho Phuntsho Norbu, Ex-JMD, CID No. 10710001921; Supervisory: R.N Khazanchi, MD, WPN: 1919070021000356; Dasho Phuntsho Norbu, Ex-JMD, CID No. 10710001921*

2. Violations of laws and rules - Nu.2,963.825 million

There were cases of violations of laws and rules involving Nu.2,963.825 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
2.1	Huge delay in the completion of Milestone-2 and the acceleration works	-
2.2	Non-conformity to the specification of PVC water stop for dam construction	-
2.3	Overpayment on account of extra 5% contractor's overhead and profit	983.275
2.4	Delays in the Construction of residential and non-residential buildings under Packages R-I to R-IV	-
2.5	Avoidable expenditure on account of excess manpower deployment	10.126
2.6	Extra expenditure due to unrealistic fixing of Bill of Quantity	1,493.500
2.7	Avoidable expenditure on escalation	154.000
2.8	Excess payment towards improper calculation of machine hour rate	11.324
2.9	Excess payment due to improper computation of indirect charges	311.600
2.10	Huge cost overrun apart from delay in completion of C3 package	-
Total		2,963.825

The cases of violations of laws and rules are as indicated below:

2.1. HUGE DELAY IN THE COMPLETION OF MILESTONE-2 AND THE ACCELERATION WORKS

PHPA-II had huge delay in contract package MC-1⁵ due to delay in completion of Milestone-2⁶ and its acceleration works. As there was deferment of 1248 days in the completion of Milestone-2, the completion of the project in the deferred deadline i.e., in December 2019 (deferred from June 2018) remains doubtful and would also have huge cost & time overrun and revenue loss. *AIN: 14799; Para: A1; Accountabilities: Direct: T.K Sen, Project Manager, WAPCOS, WPN: 00000000015187; K.L Thakur, EE, WPN: 191903013416447; Supervisory: T.K Sen, Project Manager, WAPCOS, 00000000015187; R. K. Dogra, Dy. CE, WPN: 2238808*

2.2. NON-CONFORMITY TO THE SPECIFICATION OF PVC WATER STOP FOR DAM CONSTRUCTION

As per the technical specification and drawings of dam works, ASTM qualified PVC water stops which conform to specification of IS 12200 was required to be used in the dam construction. Instead of using ASTM qualified PVC water stops, the PHPA-II had used BIS standard PVC water stop that did not meet the elongation and tear resistance parameter. The elongation parameter is very important for accommodating itself to movement in concrete and also helps withstand shear movements and hydrostatic pressure. The tear resistance parameter offers adequate inherent resistance to many waterborne chemicals and improves the durability of the water stop. Non-conformity of such properties to desired specification may lead to the failure of water seal causing seepage from the joints of foundation level concrete posing potential risk to the structure. *AIN: 14799; Para: A2; Accountabilities: Direct: R.K Dogra, Dy. CE (DAM), WPN: 2238808; Supervisory: Y.K Sharma, D(T), WPN: 1919032771009605*

2.3. OVERPAYMENT ON ACCOUNT OF EXTRA 5% CONTRACTOR'S OVERHEAD AND PROFIT - NU.983.275 MILLION

The PHPA-II while calculating the analyzed rate for the quantities exceeding 130% had taken into account the overhead cost and contractor's profit at 25% (provided in the contract agreement) instead of 20% as allowed by the CWC Guidelines thereby resulting into overpayment of Nu.186.775 million in MC-1 and Nu.796.50 million in MC-2 & 3 packages. *AIN: 14799; Para: A3 & B1; Accountabilities: Direct: R.N Khazanchi, MD, WPN: 1919070021000356, Dasho Phuntso Norbu, Ex-JMD, CID No. 11510004119, V.K Choubey, Ex-D(F), WPN: 1739588, Y.K Sharma, D(T), WPN: 1928149; Supervisory: R.N Khazanchi, MD, WPN: 1919070021000356, Dasho Phuntso Norbu, Ex. JMD, CID No. 11510004119, V.K Choubey, Ex-D(F), WPN: 1739588, Y.K Sharma, D(T), WPN: 1928149*

⁵ Construction of Diversion Tunnel, Dam, Intake and Desilting Arrangement including Hydro-mechanical works and Highway Tunnel

⁶ Excavation of Intakes complete, concreting of Dam up to EL.775m, excavation of desilting chambers 66%, h/way tunnel complete;

2.4. DELAYS IN THE CONSTRUCTION OF RESIDENTIAL AND NON-RESIDENTIAL BUILDINGS UNDER PACKAGES R-I TO R-IV

The construction of residential and non-residential buildings under R-I to R-IV packages were not completed on their stipulated deadlines. Provisional time extension ranging from six to nine months were provided so as to keep the contract alive without levying liquidated damages for the delay. Therefore, strict supervision and monitoring in the progress of construction was found necessary to avoid further delay. *AIN: 14799; Para: A6; Accountabilities: Direct: R.N Khazanchi, MD, WPN: 1919070021000356, Dasho Phuntso Norbu, Ex. JMD, CID No. 11510004119, V.K Choubey, Ex. D(F), WPN: 1739588, Y.K Sharma, D(T), WPN: 1928149; Supervisory: R.N Khazanchi, MD, WPN: 1919070021000356, Dasho Phuntso Norbu, Ex. JMD, CID No. 11510004119, V.K Choubey, Ex. D(F), WPN: 1739588, Y.K Sharma, D(T), WPN: 1928149*

2.5. AVOIDABLE EXPENDITURE ON ACCOUNT OF EXCESS MANPOWER DEPLOYMENT - NU.10.126 MILLION

PHPA-II had incurred avoidable expenditure of Nu.10.126 million on account of excess manpower deployed in various project offices. Personnel expenses as per approved manpower for financial year 2016-17 worked out to Nu.37.813 million whereas PHPA-II had made payment of Nu.47.939 million with overpayment of Nu.10.126 million. The overpayment had occurred due to delay in approving annual manpower deployment plan submitted by WAPCOS. *AIN: 14799; Para: B2; Accountabilities: Direct: R.N Khazanchi, MD, WPN: 1919070021000356, Dasho Phuntso Norbu, Ex. JMD, CID No. 11510004119, V.K Choubey, Ex. D(F), WPN: 1739588, Y.K Sharma, D(T), WPN: 1928149; Supervisory: R.N Khazanchi, MD, WPN: 1919070021000356, Dasho Phuntso Norbu, Ex. JMD, CID No. 11510004119, V.K Choubey, Ex. D(F), WPN: 1739588, Y.K Sharma, D(T), WPN: 1928149*

2.6. EXTRA EXPENDITURE DUE TO UNREALISTIC FIXING OF BILL OF QUANTITY - NU.1,493.500 MILLION

PHPA-II had incurred extra expenditure of Nu.1,493.500 million on account of payment for deviated items at analyzed rates due to unrealistic BOQ of various items of work. In MC-3 package there were 106 items with actual quantities of work much higher than the BOQ (varied between 1.68% and 8784.63%) and in MC-2 package there were 15 such items with differences ranging from 2.33% to 853.38%. The Project could have avoided the extra payment had the estimates been prepared realistically. *AIN: 14799; Para: B3; Accountabilities: Direct: T.K Sen, Project Manager, WAPCOS, WPN: 0000000015187; Supervisory: T.K Sen, Project Manager, WAPCOS, WPN: 0000000015187*

2.7. AVOIDABLE EXPENDITURE ON ESCALATION - NU.154.000 MILLION

- a. As per the amendment of Clause 6.3.2.1 of the PRR 2009, in addition to revision of duration for price adjustment, it was directed to consider 0.80 of value of work done in the formula of the price adjustment. However, PHPA-II allowed 0.85 of the value

of work done in the formula which resulted in avoidable expenditure of Nu.105.700 million in respect of escalation payment in two packages (MC-2 & 3).

- b. Similarly, PHPA-II had incurred avoidable expenditure of Nu.48.300 million on price escalation in EM-I due to non-exclusion of advance from the total cost during price adjustment. While the contract agreements of other three packages (EM-II to EM-IV) had provision restricting price adjustment on advance payment, such restriction was not laid out in EM-I contract. PHPA-II had paid Nu.483.280 million as price escalation which included avoidable expenditure of Nu.48.33 million on account of the cost escalation on 10% advance payment.

AIN: 14799; Para: B4 & B11; Accountabilities: Direct: T.K Sen, Project Manager, WAPCOS, WPN: 00000000015187; Supervisory: T.K Sen, Project Manager, WAPCOS, WPN: 00000000015187

2.8. EXCESS PAYMENT TOWARDS IMPROPER CALCULATION OF MACHINE HOUR RATE - NU.11.324 MILLION

PHPA-II made excess payments of Nu.11.324 million to M/s Jaiprakash Associates Ltd. due to erroneous calculation of machine hour rates. CWC guidelines specify that the interest on capital should not be included to calculate machine hour rate if the contractor is provided with an interest free machinery advance. However, notwithstanding the guidelines, interest free advances were included in the calculation of machine hour rate, resulting in excess payments of Nu.4.155 million and Nu.7.169 million under MC-3 and MC-2 packages respectively. *AIN: 14799; Para: B6; Accountabilities: Direct: G.K Aggarwal, EIC (HRT), WPN: 1983559; Thinley, Ex. CE (PH), CID No. 11503004510; Gorab Dorji, EIC (PH), CID No. 10205004391; Supervisory: Y.K Sharma, Dir. (Technical), WPN: 1919032771009605; V.S Mathur, Dy. CFO, WPN: 191906279569772*

2.9. EXCESS PAYMENT DUE TO IMPROPER COMPUTATION OF INDIRECT CHARGES - NU.311.600 MILLION

The PHPA-II had considered gross pay instead of basic pay to derive indirect charges in rate analysis which was against the CWC guidelines. Total payment of Nu.2,264.700 million was made towards extra and deviated items for MC-2 and MC-3 packages which included excess payment of Nu.299.900 million due to the calculation of indirect charges based on gross pay.

Moreover, the indirect charges included 8.33% of gross pay as Provident Fund (PF) component whereas the contractors were depositing only 5% of basic pay as Employer's PF contribution thereby resulting in excess payment of Nu.11.700 million to the contractors. *AIN: 14799; Para: B8; Accountabilities: Direct: N.S Chauhan, EE, WPN: 2034505; H.P Chaurasia, AEE, WPN: 191906011564962; Sonam Chopel, AEE, CID No. 10809000136; Mohd. Amanullah, AEE, WPN: 191915011359419; Supervisory: G.K*

Aggarwal, EIC, WPN: 1983559; Thinley, EIC, CID No. 11503004510; A. Bandopadhyay, CFO, WPN: 1975300

2.10. HUGE COST OVERRUN APART FROM DELAY IN COMPLETION OF C3 PACKAGE

The construction of Underground Power House under MC-3 package was delayed due to major rock mass failure in March 2016. The massive rock-fall also affected the Transformer Hall and Machine Hall caverns, and the work on Down Stream Surge Chamber has been stopped since then. Further, the above delay has hindered the commissioning of components under EM-I Package. The complete commissioning of all the components would be delayed by 16 months, as the execution of the work under the EM-I package can only be available from March 2018. This would lead to creation of overrun charges liability to tune of Nu.24 million to BHEL liable as per Clause 25 of General Conditions of Contract. *AIN: 14799; Para: B10; Accountabilities: Direct: Ugyen Penjor, AE, CID No. 10716001522; Ajoy T. P. AEE, WPN: 2277061; H. S. Thakur, EE, WPN: 1794041; T. K. Sen, Project Manager, WAPCOS, WPN: 00000000015187; Supervisory: Sanjiv Kumar, Chief Geologist, WPN: 2168171; Thinley, CE, CID No. 11503004510; T. K. Sen, Project Manager, WAPCOS, WPN: 00000000015187*

3. Shortfalls, lapses and deficiencies – Nu.31.718 million

There were cases of shortfalls, lapses and deficiencies involving Nu.31.718 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
3.1	Inadmissible financial benefits on promotion	1.818
3.2	Non-achievement of planned targets in the Afforestation work	0.000
3.3	Unfruitful expenditure	29.900
	Total	31.718

The cases of shortfalls, lapses and deficiencies are as indicated below:

3.1. INADMISSIBLE FINANCIAL BENEFITS ON PROMOTION - NU.1.818 MILLION

PHPA-II had made inadmissible payment amounting to Nu.1.818 million during promotion of six officials on deputation. The officials were granted financial benefits in contravention to the stipulation⁷ of Ministry of External Affairs, India. Further, the officials were paid daily allowance of US \$60.00/day for official tour in Bhutan as prescribed by MEA, India. In addition to this, the same officials while on tour to India were paid DSA at rates prescribed by RGoB instead of Indian DSA rates. Unclear DSA

⁷"If the officer becomes due for promotion in his parent Department, while still on deputation, he will not be entitled to the financial benefits of the same during the deputation. It will be for his parent Department to consider the question of protecting his seniority and of fixing his pay at the appropriate stage from the date of his re-joining his parent Department, on the expiry of his deputation". - Ministry of External Affairs, India letter no. E.IV/551/9/2001 dated 21/11/2001.

rules had resulted in rendering undue benefits to them when compared to RGoB and contract counterparts. *AIN: 14799; Para: A8.1; Accountabilities: Direct: K.L Thakur, EE (DAM), WPN: 191903013416447; Rajender Singh, EE (DAM), WPN: 191906011538732; N.S Chauhan, EE(HRT), WPN: 2034505; Naveen Sharma, EE (PH), WPN: 191906011989278; Parupkar Singh, ASE (E&M-I), WPN: 191906011607850; Y. K. Sharma, D(T), WPN: 1919032771009605; Supervisory: R.N Khazanchi, MD, WPN: 1919070021000356; Dasho Phuntsho Norbu, Ex. JMD, CID No. 10710001921; V.K Choubey, Ex D(F), WPN: 1739588; Y.K Sharma, D(T), WPN: 1919032771009605*

3.2. NON-ACHIEVEMENT OF PLANNED TARGETS IN THE AFFORESTATION WORK

Against the 600 hectares of forestland obliged to be afforested as per environment impact statement, PHPA-II had executed afforestation works in 138.17 hectares only till date of audit. The completion of afforestation of remaining areas in the extended period till 2019 may not be possible. *AIN: 14799; Para: A10; Accountabilities: Direct: Jigme Nidup, Dy. CEO, CID: 10710001805; Supervisory: Dasho Phuntsho Norbu, Ex JMD, CID No. 10710001921*

3.3. UNFRUITFUL EXPENDITURE OF NU.29.900 MILLION

With the view to mining operation at Taksha-V a road connecting Taksha-III to Taksha-Silli farm was constructed in June 2014 at a cost of Nu.29.900 million. However, since Taksha-V quarry site was not finalized till date of audit, the expenditure of Nu.29.900 million incurred for the road was unfruitful. *AIN: 14799; Para: B9; Accountabilities: Direct: M.V Kasulu, AEE, WPN: 2024312; Naveen Sharma, EE, WPN: 191906011989278; Supervisory: Thinley, EIC, CID No. 11503004510*

1.4.2. PUNATSANGCHHU-I HYDROELECTRIC PROJECT AUTHORITY

During the year, the RAA had issued one audit report of the Punatsangchhu-I Hydroelectric Project Authority. There were 24 observations amounting to Nu.3,380.946 million of which no observation was resolved prior to the compilation of the draft AAR 2017. The total unresolved significant irregularities reflected in the Draft AAR 2017 Nu.3,380.946 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the project, five observations amounting to Nu.2,561.705 million were resolved or did not qualify for inclusion in the AAR 2017. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.819.240 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Violations of laws and rules	801.713	4
2	Shortfalls, lapses and deficiencies	17.527	5
	Total	819.240	

1. Violations of laws and rules - Nu.801.713 million

There were cases of violations of laws and rules involving Nu.801.713 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
1.1	Unjustified time extension for the completion of milestones in MC-3 Package	-
1.2	Extra payment due to un-realistic BoQ	8.582
1.3	Issue in hand-taking of maintenance work of HRT during its operation period	-
1.4	Overpayment of Nu.73.73 million for MC-3 and Nu.29.98 million for MC-2 on account of extra 5% contractor's overhead and profit	590.690
1.5	Excess payment on escalation due to non-incorporation of Secured Advance in the value of work	179.121
1.6	Improper planning of work resulting in non-levy of LD	1.890
1.7	Unrealistic estimate leading to cost overrun towards haulage of excavated materials	-
1.8	Time overrun in execution MEM-I Package	-
1.9	Non-insertion of proper escalation clause in the NIT leading to avoidable expenditure	6.640
1.10	Avoidable expenditure	1.140
1.11	Blockade of funds due to excess procurement of furniture and inventory	13.650
Total		801.713

The cases of violations of laws and rules are as indicated below:

1.1. UNJUSTIFIED TIME EXTENSION FOR THE COMPLETION OF MILESTONES IN MC-3 PACKAGE

PHPA-I had granted unjustified time extension for MC-3 package⁸ comprising four milestones. There was an overall delay of 1065 days (2 years and 9 months approximately) in the completion of the MC-3 package due to deferment of Milestone-3 by 740 days caused by delays in Milestones-1 & 2 and deferment of Milestone-4 by 364 days.

The approval of deferment of 364 days included 227 days for handing-taking of work front with electromechanical works was not justifiable. This deferred period may still extend beyond the above completion date as the works in the Milestone-4 were still ongoing as on date of audit in May 2017. *AIN: 14798; Para: A1.1; Accountabilities: Direct: R.N Khazanchi, MD, WPN: 1919070021000356; Dasho Phuntso Norbu, Ex. JMD, CID No. 11510004119; V.K Choubey, Ex. D(F), WPN: 1739588; Y.K Sharma, D(T), WPN: 1928149; Supervisory: R.N Khazanchi, MD, WPN: 1919070021000356; Dasho Phuntso Norbu, Ex.*

⁸ The Construction work of Head Race Tunnel (from Surge Shaft end), Surge Shaft, Butterfly Valve Chamber, Pressure Shaft, Power House and Tail Race Tunnel including Hydro-mechanical works (Contract Package C-3)

JMD, CID No. 11510004119; V.K Choubey, Ex. D(F), WPN: 1739588; Y.K Sharma, D(T), WPN: 1928149

1.2. EXTRA PAYMENT OF NU.8.582 MILLION DUE TO UN-REALISTIC BOQ

PHPA-I had made extra payment of Nu.8.582 million on account of unrealistic BoQ for the design, fabrication, transport, supply and erection of bulkheads. As per the methodology approved by WAPCOS/CWC, the estimated quantity of bulkheads worked out to 57 MT for two sets of bulkheads. However, the BoQ had provision for 15.60 MT only, resulting in extra quantity of 41.40 MT including 30% deviation. The huge deviation of work clearly reflected that either the WAPCOS did not do proper studies on the actual requirement of the item of work, or the BoQ was prepared without taking into consideration the methodology to be used in the construction of Bulkheads. *AIN: 14798; Para: A1.2; Accountabilities: Direct: R.N Khazanchi, MD, WPN: 1919070021000356; Dasho Phuntso Norbu, Ex. JMD, CID No. 11510004119; V.K Choubey, Ex. D(F), WPN: 1739588; Y.K Sharma, D(T), WPN: 1928149; Supervisory: R.N Khazanchi, MD, WPN: 1919070021000356; Dasho Phuntso Norbu, Ex. JMD, CID No. 11510004119; V.K Choubey, Ex. D(F), WPN: 1739588; Y.K Sharma, D(T), WPN: 1928149*

1.3. ISSUE IN HANDING-TAKING OF MAINTENANCE WORK OF HRT

PHPA-I had a lapse with regard to handing-taking of maintenance of Head Race Tunnel. The construction of HRT and maintenance works was completed in all respects except for filling of HRT to monitor leakages, damages and other defects was not done due to the non-availability of water and also as the construction of dam is delayed considerably. The management waived-off the criteria of passing final test satisfactorily and issued the completion and maintenance certificates without actually conducting the test. Waiving-off the criteria and absolving the contractor's responsibility based on a simple agreement to carry the works only if the resources of the contractor are available at Package C-2 of PHPA-II was a risky and highly uncertain proposal as the PHPA-II would have already been completed and the contractor left. *AIN: 14798; Para: A2.1; Accountabilities: Direct: Sandeep Aggarwal, EIC, WPN: 1794039; Supervisory: R.N Khazanchi, MD, WPN: 1919070021000356; Dasho Phuntso Norbu, Ex. JMD, CID No. 11510004119; V.K Choubey, Ex. D(F), WPN: 1739588; Y.K Sharma, D(T), WPN: 1928149*

1.4. OVERPAYMENT ON ACCOUNT OF EXTRA 5% CONTRACTOR'S OVERHEAD AND PROFIT - NU.590.690 MILLION

- a) PHPA-I had made overpayments of Nu.73.730 million under MC-3 and Nu.29.980 million under MC-2 on account of extra 5% contractor's overhead and profit. PHPA-I while computing the analyzed rate for the quantities exceeding beyond 130%, has taken into account the overhead cost and contractor's profit at 25% as provided in the contract agreement instead of 20% as allowed by the CWC Guidelines thereby resulting in the overpayments. Similarly, the project had made overpayments aggregating to Nu.453.460 million under MC-1 package on account of extra 5% contractor's overhead and

profit. AIN: 14798; Para: A3, B3.A & B3.B; Accountabilities: Direct: R.N Khazanchi, MD, WPN: 1919070021000356; Dasho Phuntso Norbu, Ex. JMD, CID No. 11510004119; V.K Choubey, Ex. D(F), WPN: 1739588; Y.K Sharma, D(T), WPN: 1928149; Supervisory: R.N Khazanchi, MD, WPN: 1919070021000356; Dasho Phuntso Norbu, Ex. JMD, CID No. 11510004119; V.K Choubey, Ex. D(F), WPN: 1739588; Y.K Sharma, D(T), WPN: 1928149

- b) For the strengthening works of the right bank slope movement at the dam site, PHPA-I had allowed 25% profits and overheads to M/s Larsen and Toubro. Since the issue was raised in previous audit, PHPA-I was aware that allowing 25% profit was not in conformity with the CWC guidelines. PHPA-I has paid Nu.167.62 million towards profits and overheads (@ 25%) to M/s L&T out of which the payment of Nu.33.520 million could have been avoided had the overheads and profits been paid @ 20%. AIN: 14798; Para: B3.B; Accountabilities: Direct: J.S Bajwa, CE, WPN: 191907011552844; A.S Chaudhary, CE (Contract), WPN: 191907011600921; Supervisory: R.N Khazanchi, MD, WPN: 1919070021000356; Dasho Phuntso Norbu, Ex. JMD, CID No. 11510004119; V.K Choubey, Ex. D(F), WPN: 1739588; Y.K Sharma, D(T), WPN: 1928149

1.5. EXCESS PAYMENT ON ESCALATION DUE TO NON-INCORPORATION OF SECURED ADVANCE IN THE VALUE OF WORK – NU.179.121 MILLION

- a) As a standard practice to determine escalation payment, the amount of secured advance paid to the contractor was to be added to the value of work done and later during recovery of such advance, the recovery amount was deducted from the value of work. However, PHPA-I had not incorporated such provision in MC-2 and MC-3 package thereby inflating the value of work resulting in excess payment on escalation amounting to Nu.8.100 million in MC-2 and Nu.4.216 million in MC-3. Similarly, in MC-1 package the project had made excess payment of Nu.15.485 million due to non-incorporation of Secured Advance in the value of work.
- b) The contract agreement of MEM-I package stated that the ex-factory/FOB Contract Price of equipment and services stated in the Contract shall be the base price for calculation of price adjustment. However, PHPA-I had allowed price adjustment on advance payment of Nu.1,015.830 million that was paid before the price increase. Allowing price adjustment on the advance payment had resulted in extra payment of Nu.151.320 million up to March 2017.

AIN: 14798; Para: A4, B2 & B5; Accountabilities: Direct: R.N Khazanchi, MD, WPN: 1919070021000356; Dasho Phuntso Norbu, Ex. JMD, CID No. 11510004119; V.K Choubey, Ex. D(F), WPN: 1739588; Y.K Sharma, D(T), WPN: 1928149; Supervisory: R.N Khazanchi, MD, WPN: 1919070021000356; Dasho Phuntso Norbu, Ex. JMD, CID No. 11510004119; V.K Choubey, Ex. D(F), WPN: 1739588; Y.K Sharma, D(T), WPN: 1928149

1.6. IMPROPER PLANNING OF WORK RESULTING IN NON-LEVY OF LIQUIDATED DAMAGE - NU.1.890 MILLION

The resurfacing of approach road to PHPA -1 Bjimithangkha from the Dam junction awarded to M/s T-Kuenzom was a delayed by almost 4 months. No liquidated damages was levied for the delay, instead time extension was granted on many occasions. Rationale for time extension instead of levying liquidated damages was not justifiable since the management of PHPA should have properly planned and considered the factors such as monsoon season and traffic congestion before the award of the work. *AIN: 14798; Para: A5; Accountabilities: Direct: R.N Khazanchi, MD, WPN: 1919070021000356; Dasho Phuntso Norbu, Ex. JMD, CID No. 11510004119; V.K Choubey, Ex. D(F), WPN: 1739588; Y.K Sharma, D(T), WPN: 1928149; Supervisory: A.S Chaudhary, CE (Contract), WPN: 191907011600921; D.S Thakur, EIC/SE, WPN: 1825135*

1.7. UNREALISTIC ESTIMATE LEADING TO COST OVERRUN TOWARDS HAULAGE OF EXCAVATED MATERIALS

PHPA-I had made unrealistic estimate of excavation of loose or cut rocks and its haulage under MC-I package leading to enormous cost overrun. Due to changes in designs and specifications of various items, there was huge deviation in the quantity of excavation and consequent deviation in haulage of excavated materials. Since the deviation in the quantity of excavation and its haulage had abnormally increased by 2059% and 6069% respectively, the BOQ estimates for such items did not prove to be realistic and rendered meaningless. Nu.1,347.970 million has been paid to the contractor at higher market rates towards haulage of materials beyond the deviation limit of 130%. *AIN: 14798; Para: B4; Accountabilities: Direct: R.N Khazanchi, MD, WPN: 1919070021000356; Dasho Phuntso Norbu, Ex. JMD, CID No. 11510004119; V.K Choubey, Ex. D(F), WPN: 1739588; Y.K Sharma, D(T), WPN: 1928149; Supervisory: R.N Khazanchi, MD, WPN: 1919070021000356; Dasho Phuntso Norbu, Ex. JMD, CID No. 11510004119; V.K Choubey, Ex. D(F), WPN: 1739588; Y.K Sharma, D(T), WPN: 1928149*

1.8. TIME OVERRUN IN EXECUTION MEM-I PACKAGE

The work 'Generating units and associated auxiliaries including EOT cranes' under MEM-I package that commenced on 04/02/2010 was to be completed on 04/01/2014. Since the progress of the electro-mechanical work is dependent on main civil packages and that MC-I package has been rescheduled till December 2021, commissioning of the 'Generating units' would not be possible till then. Consequently, the project would have to pay overrun charges of Nu.757.500 million to M/s BHEL liable as per Clause 25 of the Contract. *AIN: 14798; Para: B6; Accountabilities: Direct: A.S Chaudhary, CE (Contract), WPN: 191907011600921; Y.K Dhir, CE, WPN: 19190711611107; Arun Goyal, CE, E&M, WPN: 191907013588110; Supervisory: Y.K Sharma, (DT), WPN: 1919032771009600*

1.9. NON-INSERTION OF PROPER ESCALATION CLAUSE IN THE NIT LEADING TO AVOIDABLE EXPENDITURE OF NU.6.640 MILLION

As per the amendment of Clause 6.3.2.1 of the PRR 2009, in addition to revision of duration for price adjustment, it was directed to consider 0.80 of value of work done in the formula of the price adjustment. However, PHPA-I allowed 0.85 of the value of work done in the formula thereby resulting in avoidable expenditure of Nu.6.640 million in respect of two packages (5 & 7) in payment of escalation. *AIN: 14798; Para: B7; Accountabilities: Direct: R.N Khazanchi, MD, WPN: 1919070021000356; Dasho Phuntso Norbu, Ex. JMD, CID No. 11510004119; V.K Choubey, Ex. D(F), WPN: 1739588; Y.K Sharma, D(T), WPN: 1928149; Supervisory: A.S Chaudhary, CE (Contract), WPN: 191907011600921*

1.10. AVOIDABLE EXPENDITURE OF NU.1.140 MILLION

PHPA-I had incurred avoidable expenditure of Nu.1.140 million on account of delays in construction of E-type Buildings at Bjimithangkha. Delays of 371 days pertaining to non-availability of construction power at site (159 days), non-finalization of floor tiles (136 days), and delay in handing over the site (76 days) out of 543 attributable to PHPA-1 could have been avoided had PHPA-1 fulfilled the contractual obligations in time. Due to the delays an avoidable expenditure of Nu.1.441 million was incurred on account of cost escalation. *AIN: 14798; Para: B8; Accountabilities: Direct: A.S Chaudhary, CE (Contract), WPN: 191907011600921; A.K Singh, EIC/SE, WPN: 1987165; D.S Thakur, EIC/SE, WPN: 1825135; Supervisory: R.N Khazanchi, MD, WPN:1919070021000356; Dasho Phuntso Norbu, Ex. JMD, CID No. 11510004119; V.K Choubey, Ex. D(F), WPN: 1739588; Y.K Sharma, D(T), WPN: 1928149*

1.11. BLOCKADE OF FUNDS OF 13.650 MILLION DUE TO EXCESS PROCUREMENT OF FURNITURE AND INVENTORY

PHPA-I procured items in very large numbers without assessing their annual consumption pattern as evident from the fact that these are lying unused in stock since last three years. The excess procurement has been made in almost all categories of articles viz stationeries, electrical items and miscellaneous items. Unissued stocks of those items amounting to Nu.4.800 million were lying in stores. Similarly, furniture worth Nu.8.850 million were lying idle for more than 1 year. Further, in absence of physical verification report, the actual physical existence of assets could not be ascertained during audit. Moreover, the warranty period of the furniture had expired even before they were put to use. *AIN: 14798; Para: B10; Accountabilities: Direct: A.S Chaudhary, CE (Contract), WPN: 191907011600921; A.K Singh, EIC/SE, WPN: 1987165; D.S Thakur, EIC/SE, WPN: 1825135; Supervisory: R.N Khazanchi, MD, WPN:1919070021000356; Dasho Phuntso Norbu, Ex. JMD, CID No. 11510004119; V.K Choubey, Ex. D(F), WPN: 1739588; Y.K Sharma, D(T), WPN: 1928149*

2. Shortfalls, lapses and deficiencies – Nu.17.527 million

There were cases of shortfalls, lapses and deficiencies involving Nu.17.527 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
2.1	Non-implementation of Environment Conservation Project activities	-
2.2	Inadmissible financial benefits on promotion	4.386
2.3	Unjustified payment of 50% special pay for processing medical bills/claims	0.531
2.4	Avoidable expenditure on account of Excess Manpower Deployment	12.610
	Total	17.527

The cases of shortfalls, lapses and deficiencies are as indicated below:

2.1. NON-IMPLEMENTATION OF ENVIRONMENT CONSERVATION PROJECT ACTIVITIES

PHPA-I had not implemented various activities related to environment conservation raised in the Joint Performance Audit.

- In case of conservation of White Bellied Heron [WBH], the implementing agency had till date conducted research on the bird only and purchased equipment worth Nu.0.633 million to conduct WBH census. Other two activities namely Artificial rearing of the bird and Artificial feeding and grounds/ponds along the Pho-chhu River had not been started as on date of audit (May 2017), except that a proposal to construct conservation center at Changchey was approved in 2016; and
- For the afforestation of affected areas, plantations in 565.29 acres costing Nu.22.480 million and 9.8 km roadside costing Nu.0.260 million was carried out in 2015-16 and 2016-17. Besides, the survival rate of 30-40% at some locations was not satisfactory and the overall plantation was not properly planned and implemented.

AIN: 14798; Para: A6; Accountabilities: Direct: Gongsar Karma Chopel, Chief Environment Officer, CID No. 11509001913; Supervisory: Dasho Phuntso Norbu, Ex-JMD, CID No. 10710001921

2.2. INADMISSIBLE FINANCIAL BENEFITS ON PROMOTION - NU.4.386 MILLION

PHPA-I had made inadmissible payment amounting to Nu.4.386 million on promotion of 10 officials on deputation. The officials were granted financial benefits in

contravention to the stipulation⁹ of Ministry of External Affairs, India. Moreover, five officials on deemed deputation were reappointed without advertising its vacancy and conducting interviews as per the standard prevailing practices of Human Resource Management rules and regulations.

Further, the officials were paid daily allowance of \$60.00/day for official tour in Bhutan as prescribed by MEA, India. In addition to this, the same officials while on tour to India were paid DSA at rates prescribed by RGoB instead of Indian DSA rates. Unclear DSA rules had resulted in rendering undue benefits to them when compared to RGoB and contract counterparts. *AIN: 14798; Para: A7.1; Accountabilities: Direct: Uttam Chand Thakur, EE, WPN: 191907011624264; Sunil Kumar Thakur, EE, WPN: 191907011624265; H.S Ramasheshaiah, SE, WPN: 191907011624262; Debdas Ganguly, CFO, WPN: 191907279570908; Vinay Kumar Manan, SE, WPN: 191907011680191; Sunil Kumar, EE, WPN: 191907011624263; J.S Bajwa, CE, WPN: 191907011552844; Y.K Dhir, CE, WPN: 19190711611107; Arun Goyal, CE, WPN: 191907013588110; Dr. S.N Sharma, RO, WPN: 191903284369308; Supervisory: R.N Khazanchi, MD, WPN: 1919070021000356; Dasho Phuntso Norbu, Ex. JMD, CID No. 11510004119; V.K Choubey, Ex. D(F), WPN: 1739588, Y.K Sharma, D(T), WPN: 1928149*

2.3. UNJUSTIFIED PAYMENT OF 50% SPECIAL PAY AMOUNTING TO NU.0.531 MILLION FOR PROCESSING MEDICAL BILLS/CLAIMS

In addition to various allowances, seven officials of PHPA-I were paid special pay - 50% of the basic pay - aggregating to Nu.0.531 million from inception till date on a rotational basis. The special pay was allowed based on a rationale that the medical bills which the officials verify need critical scrutiny. The payment of such additional allowances was made without the approval from the Authority despite pointing it out in earlier audits. *AIN: 14798; Para: A8; Accountabilities: Direct: Sada Sivan Pillai, SO, WPN: 1762330; P.N Bhagat, SO, WPN: 191907193560024; Namgay Tshering, Sr. Accountant, CID No. 11007001223; Apurba Saha, SO, WPN: 1919071611000378; Tenzin, Account Clerk, CID No. 12001002297; U.C Chauhan, SO, WPN: 191907193560020; S.N Dhar, SO, WPN: 191907200560052; Supervisory: V.K Choubey, Ex. D(F), WPN: 1739588*

2.4. AVOIDABLE EXPENDITURE OF NU.12.610 MILLION ON ACCOUNT OF EXCESS MANPOWER DEPLOYMENT

PHPA-I had made avoidable expenditure of Nu.12.610 million to WAPCOS on account of excess manpower deployment as shown below:

⁹"If the officer becomes due for promotion in his parent Department, while still on deputation, he will not be entitled to the financial benefits of the same during the deputation. It will be for his parent Department to consider the question of protecting his seniority and of fixing his pay at the appropriate stage from the date of his re-joining his parent Department, on the expiry of his deputation". - Ministry of External Affairs, India letter no. E.IV/551/9/2001 dated 21/11/2001.

Quarter ending 30 th June, 2016	Manpower Deployment (Man months)		Man months claim (Nu. in million)		Excess payment over and above approved plan	
	Approved	Claimed	Payable as per approved plan	Actually paid	Man month	Nu. in million
WAPCOS HO	26.00	77.50	2.619	9.526	51.50	6.907
Elect. Div.	20.25	52.50	2.302	5.904	32.25	3.602
Total (A)	46.25	130.00	4.921	1.543	83.75	10.508
Add 20% WAPCOS charges claimed (B)						2.102
Total excess payment for the quarter ending 30th June, 2016 (A+B)						12.610

AIN: 14798; Para: B9; Accountabilities: Direct: A.S Chaudhary, CE (Contract), WPN: 191907011600921; A.K Singh, EIC/SE, WPN: 1987165; D.S Thakur, EIC/SE, WPN: 1825135; Supervisory: A.S Chaudhary, CE (Contract), WPN: 191907011600921

1.4.3. MANGDECHHU HYDROELECTRIC PROJECT AUTHORITY

During the year, the RAA had issued one audit report of the Mangdechhu Hydroelectric Project Authority. There were 26 observations amounting to Nu.3,405.528 million of which no observation was resolved prior to the compilation of the draft AAR 2017. The total unresolved significant irregularities reflected in the Draft AAR 2017 Nu.3,405.528 million.

Based on the responses received after the issue of the draft AAR 2017 and actions taken by the project, 24 observations amounting to Nu.3,323.717 million were resolved or did not qualify for inclusion in the AAR 2017. The total unresolved significant irregularities reflected in the AAR 2017 amounted to Nu.81.811 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Violations of laws and rules	23.141	4
2	Shortfalls, lapses and deficiencies	58.670	5
Total		81.811	

1. Violations of laws and rules - Nu.23.141 million

There were cases of violations of laws and rules involving Nu.23.141 million as indicated below:

1.1. NON-RECOVERY OF NU.23.141 MILLION FROM C-2 PACKAGE & NON-DEDUCTION OF SPECIAL ADVANCE

Mangdechhu Hydroelectric Project Authority (MHPA) had not recovered excess payment of Nu.23.141 million made to M/s GIL due to non-exclusion of interest free advance from escalation payment which was raised in previous audit. The total recoverable amount was found adjusted by Nu.37.634 million leaving the balance of Nu.23.141 million due. *AIN: 14823; Para: A2.3; Accountabilities: Direct: R.D.P Kapri, CE,*

WPN: 171703011407098; Supervisory: Raj Kumar Chaudhary, D(T), WPN: 171703277521100

2. Shortfalls, lapses and deficiencies – Nu.58.670 million

There were cases of shortfalls, lapses and deficiencies involving Nu.58.670 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
2.1.	Payment of Service Tax to NHPC for consultancy services	58.670
	Total	58.670

The case of shortfalls, lapses and deficiencies are as indicated below:

2.1. PAYMENT OF SERVICE TAX TO NHPC FOR CONSULTANCY SERVICES – NU.58.670 MILLION

MHPA entered into an agreement with M/s NHPC Ltd. for consultancy services to the project for which service tax amounting to Nu.58.670 million was paid up to 31/12/2012. From 01/07/2012, no service tax was payable¹⁰ by MHPA on the services rendered by NHPC. Hence, the service tax of Nu.24.070 million paid to NHPC after June 2012 was recoverable. *AIN: 14823; Para: B9; Accountabilities: Direct: Raj Kumar Chaudhary, D(T), WPN: 171703277521100; Praveen Nandwana, D(F), WPN: 17170327756671; Supervisory: A.K Mishra, MD, WPN: 1717030021031673*

¹⁰In terms of Office Memorandum (OM) dated 26 August 2013 issued by Department of Revenue, Ministry of Finance, GoI.

CHAPTER 5

1.5. PERFORMANCE AUDIT REPORTS

During the year, the RAA tabled the following eight Performance Audit Reports in the Parliament:

1.5.1. PERFORMANCE AUDIT REPORT OF TOURISM SECTOR

The Performance Audit Report of Tourism Sector reviewed the adequacy of legal and policy framework in achieving the policy objectives of 'high value, low impact' and assessed the effectiveness of internal controls in preventing or checking the occurrences of undesirable practices. The focus areas included undercutting of tourism tariff, reviewing the adequacy of institutional framework, in particular the monitoring and coordination mechanism, and evaluating the achievement of targets and objectives of the Tourism Sector. The audit covered the period from 2011 to 2015. The report contains 14 audit findings with seven recommendations.

1.5.2. PERFORMANCE AUDIT REPORT ON FOOD CORPORATION OF BHUTAN LIMITED

The Performance Audit Report on Food Corporation of Bhutan Limited reviewed the legal, policy and institutional framework, procurement management system, national food security reserves, store management and human resources management of the Corporation and risk areas identified as vital in fulfilling the Corporation's intended objectives. The audit covered the period from 2011 to 2015. The report contains 13 audit findings with nine recommendations.

1.5.3. PERFORMANCE AUDIT REPORT ON EMPLOYMENT GENERATION AND PROMOTION INITIATIVES

The Performance Audit Report on Employment Generation and Promotion Initiatives was carried out to ascertain whether due regard was given in ensuring economy, efficiency and effectiveness in generation and promotion of employment in the country, in particular the effectiveness of employment generation and facilitation programs undertaken by the MoLHR. As such, the audit gave more emphasis on reviewing the systemic issues pertinent for effective administration of employment. The audit covered the period from 2010 to 2015. The report contains 17 audit findings with nine recommendations.

1.5.4. PERFORMANCE AUDIT REPORT ON SCHOOL FEEDING PROGRAMMES

The Performance Audit Report on School Feeding Programme was carried out with a focus on nutrition and to ascertain whether the Programme helped in improving nutrition and reducing nutrient deficiencies, and initiatives instituted by the relevant authority to improve nutritional status of school children. The report contains 15 audit findings with 13 recommendations.

1.5.5. PERFORMANCE AUDIT REPORT ON PROVISION OF PATIENT MEALS

The Performance Audit Report on Provision of Patient Meals was conducted with a focus on nutrition and management of patient food service system. The audit ascertained whether meals provided met the nutritional requirement of the patient for fast recovery; overall health improvement; and to evaluate the quantity, safety and hygiene of food for in-patients. The audit also aimed to assess whether hospitals provided conducive environment encouraging in-patients to eat and enjoy their meals. The report contains 14 audit findings with 10 recommendations.

1.5.6. PERFORMANCE AUDIT ON BUSINESS OPPORTUNITY AND INFORMATION CENTRE

The Performance Audit Report on Business Opportunity and Information Centre' was conducted with an objective to verify whether adequate policy and institutional framework existed in governing the Centre and whether the revolving funds were utilized efficiently and effectively for the intended purpose. Accordingly, the review focused among others, on ascertaining whether adequate and effective monitoring systems were in place and whether planned activities were achieved. The audit covered the period from inception of the Centre till its closure on 31st May 2016. The report contains 21 audit findings with 12 recommendations.

1.5.7. PERFORMANCE AUDIT REPORT ON OPD SERVICES IN JDWNRH

The Performance Audit Report on OPD Services in JDWNRH reviewed the efficiency in delivery of OPD services at JDWNRH. The audit's main objectives were to ascertain the turnaround time in delivery of OPD services; the adequacy and optimal utilization of human resource and equipment; and to assess the existence and effectiveness of supervision and monitoring mechanism in delivery of consultations and diagnosis services. The audit covered the period from 2014 to 2016. The report contains 13 audit findings with 11 recommendations.

1.5.8. PERFORMANCE AUDIT REPORT ON PROVISION OF DRINKING WATER IN THIMPHU MUNICIPALITY

The Performance Audit Report on Provision of Drinking Water in Thimphu Municipality reviewed the efficiency and effectiveness of Thimphu Municipality in providing safe, adequate, reliable and equitable drinking water to the beneficiaries. The audit's main objective was to ascertain whether drinking water sources were identified and able to meet demand of residents in Thimphu Municipality; whether the residents of Thimphu Municipality were provided with equitable and sufficient drinking water; and whether the drinking water provided is safe for human consumption. The audit covered the period from 2010 to 2016. The report contains 22 audit findings with 11 recommendations covering three areas viz. Water distribution network controls; Water Quality Management; and Governance and Management.

CHAPTER 6

1.6. OTHER MATTERS

1.6.1. MANAGEMENT APPRAISAL REPORTS

The RAA had resolved 1,855 audit findings prior to issue of audit reports, which were reported separately through 361 Management Appraisal Reports. The Management Appraisal Report is issued by the RAA for those audit findings which are recommendatory in nature and is aimed at instituting appropriate systems for further improving the accounts, operations and internal controls and where accountability cannot be fixed to any specific person or persons and is incorporated in the audit report separately. However, if similar issues continue to persist and corrective actions taken are not satisfactory, then the issues are re-instated in the subsequent audits and are reported in the audit report of the agency.

1.6.2. AUDIT ISSUES FORWARDED TO ACC

In line with Section 48(b) of the Audit Act of Bhutan 2006, the RAA forwarded five audit reports containing 11 cases which indicated existence of fraud and corruption to the Anti-Corruption Commission during the period.

1.6.3. AUDIT ISSUES REMAINING UNRESOLVED AFTER COURT VERDICTS

The RAA has 75 audit issues from past audit reports that have remained unresolved even after the issue of verdict by the Royal Courts of Justice.

1.6.4. AUDIT ISSUES RESOLVED THROUGH ARBITRATION

With the establishment of Alternative Dispute Resolution (ADR) mechanism the contractors have increasingly resorted to taking the audit issues to arbitration. As per the records maintained by the Construction Development Board, nine cases involving audit observations amounting to Nu.27.213 million were arbitrated from 2015-16 till 2017-18. While the ADR mechanism facilitates expeditious decisions on the audit issues, the outcome of the ADR mechanism are not always found satisfactory.

CHAPTER 7

1.7. RECOMMENDATIONS

In accordance with the Section 44 of the Audit Act of Bhutan 2006, a dedicated chapter on audit recommendations is maintained which are aimed at promoting accountability and improving economy, efficiency and effectiveness in the use of public resources. The recommendations are generic and drawn based on the overall findings and deficiencies noted in the operations of audited agencies as well as based on the experiences and observed issues that require to be addressed through appropriate interventions.

Apart from the recommendations in the individual audit reports, the performance audit reports also contain recommendations that are formulated on the basis of findings contained therein.

The recommendations contained in this chapter are further intended to draw kind attention of the government and authorities to address issues that are noted by the RAA.

1.7.1. NEED FOR HIGH STANDARDS OF BUSINESS ETHICS

The RGoB incurs huge losses of scarce government resources due to over payments, double payments, inadmissible claims and claims for items of work not executed/supplied, sub-standard works and supplies, etc. Over the past many years, the irregularities in the procurement and construction sector have constituted substantial deficiencies reported in the Annual Audit Reports. The persistence of problems in procurement and construction areas can be attributed mainly to lack of internal safeguards and internal controls within the agency and also due to unethical behavior on part of officials and businesses involved.

While the need to enforce internal controls, safeguards and taking stringent actions against those responsible to avoid recurrences of lapses are essential, the current practice holds only the public officials accountable for irregularities. Several cases having elements of fraud & corruption and shortfalls, lapses and deficiencies were reported involving businesses over the years but there is still no effective mechanism to hold them accountable for their actions. They are usually only made to refund the amounts involved.

The Ministry of Finance in collaboration with Construction Development Board and the Department of Trade under Ministry of Economic Affairs should develop appropriate

code of conduct and business ethics for private sector involved in public procurement to promote good business practices, ethical behavior and accountability.

1.7.2. NEED FOR STRONG ACCOUNTABILITY CULTURE

The top management and leaders of an agency or an organisation has the authority and the influence to define its own accountability culture in the agency or organisation. The leadership of an agency must take up moral responsibility and accountability for irregularities and define a strong accountability culture that should stand as an example for supporting levels to follow. The leadership must drive the agency to develop strong internal controls and mechanisms in order to function free of malpractices, misconducts and misuse.

The RAA through its audit reports have pointed out cases of irregularities that require both accountability and remedial measures and the current practice of holding officials accountable for their actions at a direct level and a supervisory level have largely worked adequately in recovering misused fund, rectifying sub-standard works and resolving many other audit issues. However, the officials shouldering these accountabilities in most agencies are not at the highest level as expected and are indicative of a weak accountability culture in the organisation. The Parliament also resolved to fix accountability on the head of agency for failure to resolve long standing audit issues and cases.

More than resolving audit issues, the agencies should strive to achieve the agency's goals and objectives by doing things correctly and properly from the very beginning. As such there is a need to revamp the current system and ensure that officials holding leadership positions should take charge to correct and improve the systems and lead by example.

The government should therefore institute appropriate mechanism to promote accountability at all levels. The development of a National Accountability Framework may be desirable.

1.7.3. NEED TO STRENGTHEN INTERNAL CONTROLS ON EXPENDITURE

Most irregularities, lapses and deficiencies contained in the audit reports emanate from weak enforcement of relevant rules pertaining to management of contracts, procurements, revenues and funds as well as inadequacies in operation of internal controls. The non-adherences and non-compliances to the requirement thus, have become serious issues of concerns. Such practices not only impede economy, efficiency and effectiveness of operations of agencies but also facilitate perpetration of undesirable practices that are detrimental to the interest of the government.

Wastages and avoidable costs in the form of excess/double payments, payments made for works not executed, inadmissible payments, etc. are the result of weak enforcement of rules and regulations and lack of strong supervision and monitoring mechanisms in the agencies that have direct impact on the delivery of services by the agencies. Unless organizations design and set up systems to prevent and detect such cases and take timely remedial actions, the cases and magnitude of irregularities, lapses and malpractices will continue to increase. There is an urgent need to attend to the issues of weak internal controls including supervisory and monitoring mechanism.

The RAA has noted numerous lapses in the payment of Travel Allowance and Daily Subsistence Allowance to officials for official tours. Inadmissible claims were made by officials and paid by agencies, which reflect either a collusive practice of unethical behavior or lack of effective internal controls. Officials were paid TA/DA and mileage at higher rates by way of enhancing their grades to higher grades, double claiming from different projects by way of overlapping the travel dates in some cases. Payments were also made for tours not performed.

Many cases have been noted within the project management units of one agency and lapses can be attributed to lack of information sharing between units and/or lack of proper scrutiny mechanism by the accounts personnel and dealing officials. Further, to aggravate the matter, the PEMS system has no provision for maintaining travel registers for PLC Accounts unlike the LC Accounts.

It would be highly beneficial to study the deficiencies in the system and initiate remedial measures to strictly enforce the National Internal Controls Framework, including strengthening internal audit functions, accounting controls and monitoring & supervision controls.

1.7.4. NEED TO EXERCISE DUE DILIGENCE IN PROCUREMENT

The government procurement system is designed to be cost effective and efficient but the competitive biddings fail to serve its purpose of procuring good quality products and services at a reasonable price due to deficiencies that exist despite improvements to the system. As evident from past audits, the shortcomings in the procurement system are being exploited, which is indicative of an apparent lack of due diligence such as market surveys and comparison of quoted rates with prevailing market rates, etc. by procuring agencies despite clear stipulation in the Procurement Rules & Regulations.

Due to lack of due diligence, many cases of works and supplies were procured at exorbitant prices. Therefore, it is the responsibility of the procuring agencies to exercise utmost prudence and due diligence in public procurement and adequately document the processes.

It would be highly effective if the government initiates providing information of commonly used products and prices through a web portal to facilitate comparisons. The web portal could also provide or display prices paid for the products and services by agencies.

The MoF as the nodal agency should issue appropriate directives reinforcing the requirement of exercising due diligence in all public procurements and also maintaining proper documentation evidencing the processes followed.

SECTION TWO

2.1. ABOUT RAA

The Royal Audit Authority (RAA) derives its mandates from the Article 25.1 of the Constitution of the Kingdom of Bhutan, which states that, *“There shall be a RAA to audit and report on the economy, efficiency and effectiveness in the use of public resources.”* The Article 25.4 of the Constitution further provides that *“The RAA shall, without fear, favour or prejudice, audit the accounts of all departments and offices of the Government, including all offices in the Legislature and the Judiciary, all public authorities and bodies administering public funds, the police and the defense forces as well as the revenues, public and other monies received and the advances and reserves of Bhutan”.*

The RAA was instituted as an autonomous body in 1985 and established as a constitutional body in December 2005. As of 2017, the Authority has four regional offices strategically located across the Kingdom. In line with the provisions of the Constitution of the Kingdom of Bhutan, the RAA conducts financial, compliance and performance audits.



2.1.1. STRATEGIC PLAN 2015-2020

The RAA's Strategic Plan 2015-2020 is prepared in fulfillment of the constitutional mandates of the Royal Audit Authority and this is the second successive Strategic Plan formulated on the appointment of second Auditor General in July 2015. It entails the following two identified strategic outcomes:

STRATEGIC OUTCOMES:

- A. *Greater audit impact leading to improved accountability, transparency and ethical behaviour in the public sector in Bhutan; and*
- B. *Improved public sector performance in National Key Result Areas and Sustainable Development Goals commitments in achieving the Gross National Happiness.*

To realize the achievement of these two outcomes the RAA has formulated three strategic goals:

- I. *RAA delivers high quality audits as per international standards, including ISSAIs-Delivering Quality;*
- II. *RAA leads by example in being accountable, transparent and ethical organization -Demonstrating excellence; and*
- III. *RAA enjoys strong partnerships and cooperation with key stakeholders- Fostering collaboration.*

To support the accomplishment of the RAA's strategic intents, the Operational Plan was also prepared with the identification of four programme goals as given below:

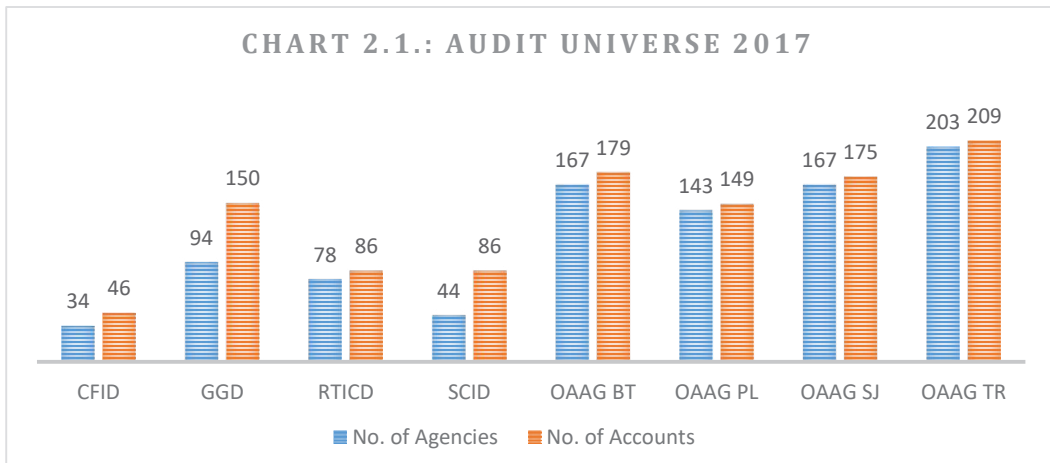
- i. Audit and Assurance Services;

- ii. Professional Staff Development;
- iii. Institutional & Organizational Systems Development; and
- iv. Collaboration with stakeholders.

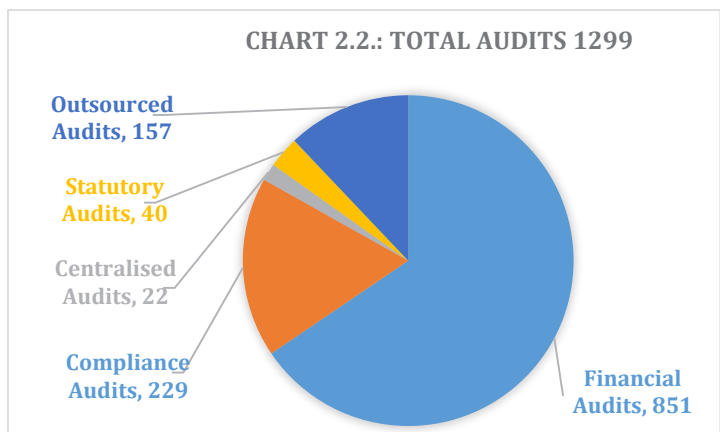
These programmes prioritized in both the strategic plan and operational plan were operationalized through three successive Annual Plans from 2015 to 2018. The progress of the Strategic Plan is monitored annually and mid-term review was carried out in January, 2018.

2.1.2. AUDIT UNIVERSE 2017

The RAA annually updates the list of agencies to be audited during the year from the information obtained from relevant authorities i.e. MoF, GNHC, Donors etc. which provides basis for preparation of Annual Audit Plan. The categorisations and priority for agencies concerned are also revisited on an annual basis. In 2017, the RAA Audit Universe had 930 agencies with corresponding 1,299 accounts to be audited under its jurisdiction. The summary of number of agencies with corresponding accounts requiring audits under each Divisions and Regions are as illustrated in the **Chart 2.1.**:



In addition to the agencies and audits under the jurisdiction of Divisions & Regions, there are 22 centralized audits, 40 statutory audits and 157 outsourced audits, which brings the overall total number of auditees in the RAA's audit universe to 1,299 audits as illustrated in the **Chart 2.2.**



2.1.3. ANNUAL AUDIT PLAN 2016-17

The Annual Audit Plan of the RAA is prepared at the start of every financial year. It contains the Annual Audit Schedules of all Divisions and Regional Offices and the indicative Audit Thrust Areas which are determined on the basis of experiences of the past auditing periods and current audit priorities.

At the start of FY 2016-2017, the RAA planned 613 audits which was revised at the mid-year plan review meeting to 649 to include 36 additional adhoc audits. At the end of the year, all 649 audits were completed and 649 audit reports were issued. The Annual Audit Plans including the Annual Audit Schedules of respective divisions and regional offices are the divisional/regional offices' Annual Performance Targets.

The Audit Thrust Areas identified for the period were as follows:

- i. Effectiveness in the delivery of works through community contracting;
- ii. Corporate governance in corporate sector;
- iii. Rate analysis and cost index;
 - a. Rate Analysis for item of works not in BOQs;
 - b. Cost Index considered in the preparation of Estimates;
 - c. Price adjustment.
- iv. Financial Year-end lapsed budgetary funds.

2.1.4. PERFORMANCE OF RAA

I. AUDITS CONDUCTED DURING THE YEAR

The RAA had conducted 493 audits during the year, which comprised of 456 Financial Audits, 30 Compliance Audits and seven Performance Audits as shown in **Table 2.1**. The number includes only those audits which were completed within 31st December 2017 and excludes those that were already started and under progress at the close of the year.

Types of Audits	No. Conducted
Financial Audits	456
Compliance Audits	30
Performance Audits	7
Total	493

Table 2.1.: Audits conducted in 2017

II. AUDIT REPORTS ISSUED DURING THE YEAR

The immediate output of the RAA upon completion of the particular audit is the Audit Report, which is issued, addressed to appropriate authorities to take timely actions on issues contained in the report. The RAA adheres to a prescribed period in issuing reports after completion of the field audit to ensure that those responsible, initiate timely actions.

During the period, the RAA had issued 683 audit reports as shown in the **Table 2.2**. These comprise of 640 Financial Audit Reports, 35 Compliance Audit Reports and eight Performance Audit Reports. In addition to the above, the RAA also issued two Review Reports and three Micro Assessments. The number of audit reports issued comprises of all reports issued within 31st December 2017 including those audits conducted in 2016 but reports issued in 2017.

Types of Audits	Reports Issued
Financial Audits	640
Compliance Audits	35
Performance Audits	8
Total	683

Table 2.2: Audits Reports issued in 2017

The financial and compliance audit reports pertain to the financial audit of Letter of Credit Accounts, Current Deposit Accounts, Revolving Fund Accounts, etc. of budgetary agencies and the accounts and operations of non-budgetary agencies such as Corporations and Financial Institutions, Civil Society Organizations, Political Parties, etc. It also includes certification audit reports of donor-assisted projects implemented by various agencies, both budgetary and non-budgetary.

III. STATUTORY AUDITS

During the year, the RAA also issued 40 statutory audit reports pertaining to the corporations and financial institutions. The Chartered Accountant Firms empaneled with the RAA carried out the statutory audit of these corporations and financial institutions. As per Section 255 of the Companies Act of Bhutan 2016, the Auditor General is the ex-officio auditor of the government and government controlled companies.

IV. OUTSOURCED AUDITS

During the year, the RAA outsourced 27 audits and issued audit reports for six Religious Organisations and 21 Civil Society Organisations. There are currently six local firms empaneled with the RAA to carry out outsourced audits of non-governmental organisations including CSOs and ROs.

V. FOLLOW-UP AUDITS

In order to ensure that the auditing processes produce appropriate results, and also to expedite the settlement of the outstanding audit issues, follow-up of audit reports are carried out at various stages and levels. In 2017, the RAA also issued 899 follow-up reports by respective follow up sections in the OAAGs and Follow-Up & Clearance Division of the RAA, HQs.

VI. ISSAI BASED PILOT AUDITS

The RAA adopted the International Standards of Supreme Audit Institutions (ISSAI) as the authoritative standard in 2016 with main objective of ensuring quality in auditing and reporting, enhancing credibility and achieving professionalism.

Apart from conducting trainings and workshop on ISSAIs, six pilot audits in the three audit disciplines of Financial, Performance and Compliance audits were carried out, and reports issued as highlighted below in **Table 2.3.:**

Audit Discipline		Agencies Piloted	
1.	Financial Audit	✓	National Land Commission Secretariat
		✓	Dzongkhag Administration, Wangduephodrang
2.	Performance Audit	✓	Drinking Water supply under Thimphu Thromde
		✓	OPD service delivery by JDWNRH
3.	Compliance Audit	✓	Land and Building Management under Thimphu Thromde
		✓	Medical Supplies and Procurement Division, DMS, MoH

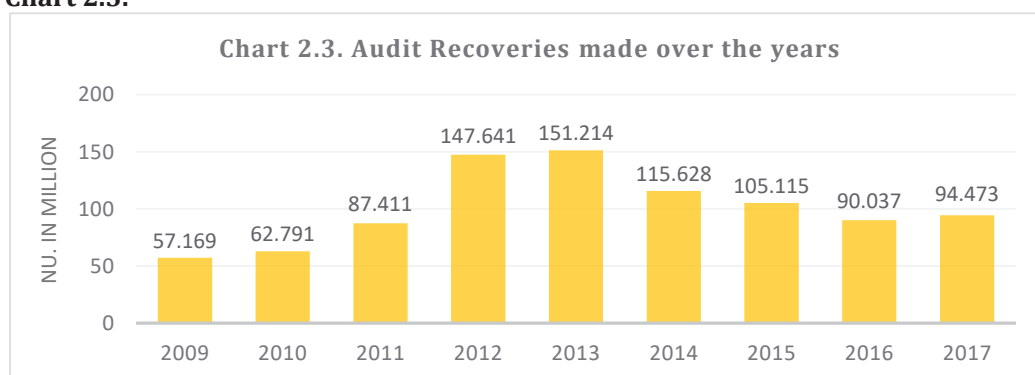
Table 2.3. ISSAI based pilot audits conducted in 2017

As required, all Audit Reports from the pilot audits underwent a stringent Quality Assurance review by teams independent of pilot audit teams, including external reviewers from the INTOSAI Development Initiative (IDI) to ascertain compliance to requirements of the standards and gaps in current practices.

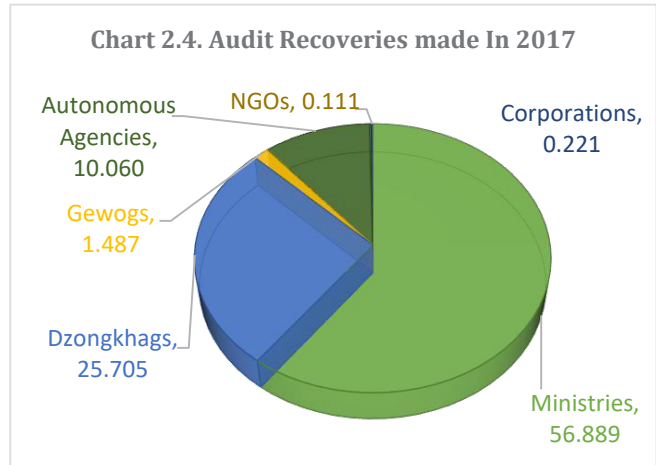
Refresher courses on ISSAIs implementation was organized for auditors to further build the required competence and skills of auditors to ensure sustainability. The revisions of audit manuals and guidelines for audit discipline of Financial, Performance and Compliance are in the final stages. A Quality Assurance Review Guidelines is also being developed.

VII. AUDIT RECOVERIES

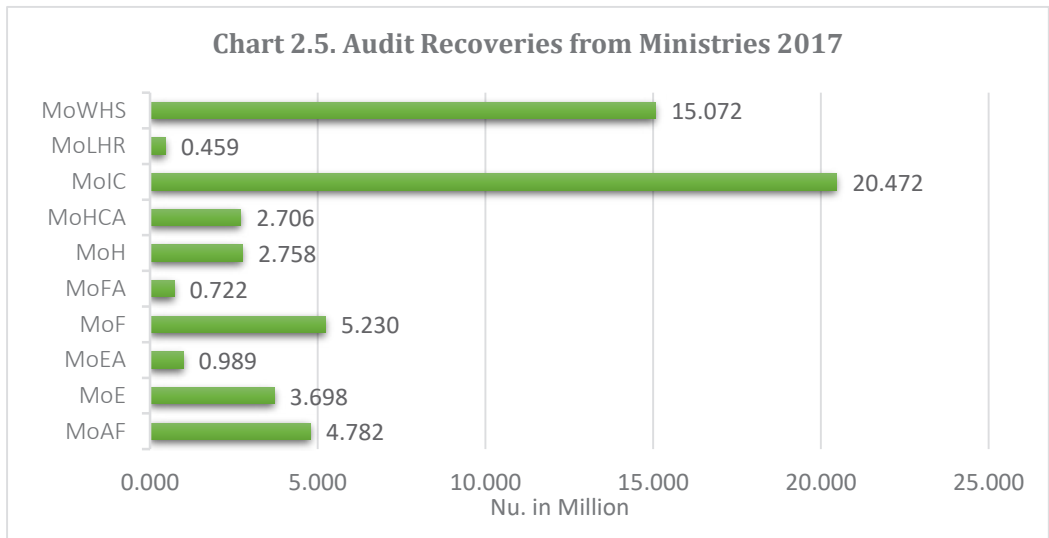
The RAA had recovered Nu.94.473 million in 2017. The recoveries during 2017 had slightly increased by 4.93% from 2016. While the government expenditure in various sectors keep increasing, the RAA also ensures that accounts are audited and recoveries made through rigorous follow-up mechanism. Besides, the Parliamentary directives to levy 24% penalty on overdue outstanding advances and recoverable amounts reflected in the audit reports had expedited settlement of various pending issues. The responsive actions taken by the audited agencies in settling the pending issues also expedited the settlements of audit issues. Audit Recoveries made over the years are as illustrated in **Chart 2.3.**



During the year, audit recoveries of Nu.56.889 million were made from Ministries accounting for almost 60.22% of the total recoveries. The recoveries from Dzongkhags was Nu.25.705 million & Gewogs was Nu.1.487 million representing about 27.21% and 1.57% respectively. Nu.10.060 million representing about 10.65% were recovered from the Autonomous Agencies and Nu.0.221 million and Nu.0.111 million from Corporations and NGOs as depicted in **Chart 2.4.**



The audit recoveries from corporations and financial institutions were negligible as the amounts of audit recoveries from corporations and financial institutions are credited into the Audit Recoveries Accounts maintained with respective corporations and financial institutions. As such, the total amount of audit recoveries accounted for in the Audit Recoveries Account maintained by the RAA does not include recoveries made from these agencies. For 2017, audit recoveries from corporations and financial institutions recovered and deposited into the respective accounts amounted to Nu.2.138 million.

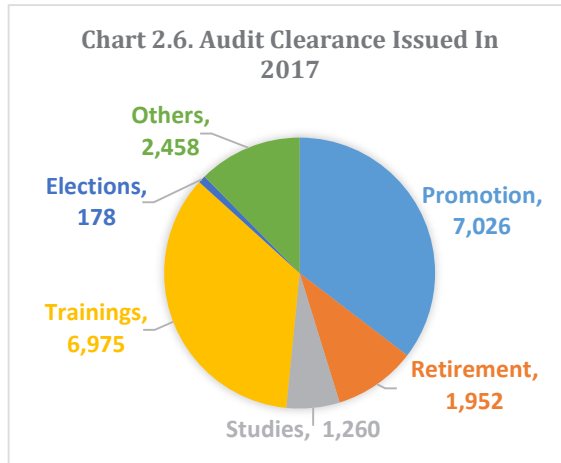


As illustrated in **Chart 2.5.**, the highest audit recoveries amongst 10 Ministries was made from Ministry of Information and Communications with Nu.20.472 million representing 35.99% of the total recoveries and the Ministry of Works and Human Settlements represented 26.49% with Nu.15.072 million. The Ministry of Finance and

Ministry of Agriculture and Forests with recoveries of Nu.5.230 million and Nu.4.782 million represented 9.19% and 8.41% respectively. These four Ministries accounted for over 80.08% of the recoveries amounting to Nu.45.556 million of the total audit recoveries made during the year.

VIII. AUDIT CLEARANCE CERTIFICATES

During the year, the RAA had issued 19,849 Audit Clearance Certificates for various purposes as shown in **Chart 2.6**. The Audit Act of Bhutan 2006 and Bhutan Civil Service Rules and Regulations 2016 stipulates requirements for issuing Audit Clearance Certificates to public officials. This process of issuing Audit Clearance Certificates to public servants serves as an important tool for RAA to strengthen accountability in the overall governance system and instil a sense of accountability and responsibility.



IX. EXTERNAL AND INTERNAL AUDIT OF RAA

In line with the Audit Act of Bhutan 2006, the accounts and operations of the RAA for the Fiscal Year ended 30th June 2016 was audited by S.N. Mukherji & Co., Kolkata. The Auditor’s report along with certified Receipts & Payments Statement of the RAA is given in *Exhibit I*. The appointment of auditors was based on the selection of auditors made by the Public Accounts Committee on behalf of the Parliament as required under the Audit Act.

The RAA also conducted one internal audit of the Office of the Assistant Auditor General, Phuentsholing.

2.1.5. PROFESSIONAL DEVELOPMENT CENTRE, TSIRANG

The RAA’s Professional Development Centre in Tisrang is nearing completion. The construction of training center was endorsed by the 87th Session of the National Assembly. The construction project was generously supported by the Government of India under Project Tied Assistance. The centre will impart audit related trainings and programmes catering to both national and international participants.

The contracts for Phase 1 was awarded in October 2014 in two packages and contracts for Phase 2 was awarded in November 2016 in three packages. Phase 1 was completed and taken over by the RAA in April 2018. In Phase 2 of the construction project, Package

1 was completed and taken over. Remaining Packages 2 & 3 are on track and nearing completion with physical progresses of 95% and 90% respectively. The progress of works are as given in **Table 2.4.** and are expected to be completed by October 2018.

Phase	Package	Physical Progress	Financial Progress
Phase 1	Package A - Academic Building	100%	100%
	Package B - Hostel Blocks	100%	100%
Phase 2	Package 1 - Site Development works	100%	100%
	Package 2 - Faculty Block and Director Quarters	95%	
	Package 3 - Dining Hall, Road and allied works	90%	
<i>Table 2.4. Progress of PDC Construction as on April 2018</i>			



2.1.6. INSTITUTIONAL LINKAGES

I. NATIONAL LEVEL

A. PARLIAMENT

The RAA tabled six Performance Audit Reports during the 9th Session and two during the 10th Session of the 2nd Parliament. The Public Accounts Committee presented its review reports for five Performance Audit Reports during the Joint Sitzings of the 9th Session and six Performance Audit Reports during the 10th Session. The reports were deliberated at length. Further, the PAC also presented the review reports of the AARs 2009 to 2015, including a set of recommendations. Further, The house also reviewed the implementation status of past resolutions.

B. MINISTRY OF FINANCE

Apart from regular interactions pertaining to budgetary requirements, the RAA through the Finance and Audit Committee established as per the provisions of the Public Finance Act 2007 work with the MoF to resolve long pending financial irregularities including unresolved audit observations. The RAA also shares copies of audit reports containing qualified audit opinions with the MoF besides audit reports of the Head Quarters of Armed Forces.

C. CONSTITUTIONAL OFFICES

The RAA attended two bi-annual coordination meetings of constitutional offices during the year to share experiences. Besides the coordination meetings the RAA has co-operation and professional engagements with the Anti-Corruption Commission (ACC).

In order to implement provisions of the Audit Act 2006, and foster cooperation, the RAA and the ACC have entered into a *“Protocol of Mutual Assistance and Information sharing”* since 2015. The Protocol stresses on the sharing of information and reports to combat corruption and promote ethical behavior in the public offices. The two offices meet twice a year at the Head of Agencies level and at Working Committee level.

D. BHUTAN TRUST FUND FOR ENVIRONMENTAL CONSERVATION

The Bhutan Trust Fund for Environmental Conservation (BTFEC) has provided support for upgrading the qualification of auditors through longterm training. Capacity development of the RAA remains as one of the core areas of the Strategic Plan 2015-2020 and the BTFEC is currently supporting two auditors for Masters in Natural Resource Management at the Asian Institute of Technology, Thailand. The course will strengthen capacity in conducting environmental audit by the RAA.

II. INTERNATIONAL LEVEL

A. INTOSAI

The International Organisation of Supreme Audit Institutions (INTOSAI) operates as an umbrella organisation for the external government audit community. At present INTOSAI has 194 Full Members, five Associate Members and one Affiliate Member. The RAA became member of the INTOSAI in 1987 and also member of four working Groups under INTOSAI i.e. *Working Group on IT Audit (WGITA)*, *Working Group on Environment Audit (WGEA)*, *Working Group on Big Data (WGBD)*, and *Working Group on Public Debt (WCPD)*. The Working Groups help SAIs learn best practices from peer SAIs in different aspects of auditing and provide the opportunity to stay abreast with latest developments and methodologies in the auditing field globally.

As a member of INTOSAI and its Working Groups, the RAA also has certified IDI facilitators, assessors, and e-learning specialists who provides support to various INTOSAI and ASOSAI professional and capacity development activities and trainings.

B. ASOSAI

The Asian Organization of Supreme Audit Institutions (ASOSAI) is one of seven Regional Groups under the INTOSAI and was established in 1979. It has 46 member SAIs including the RAA. As a member SAI, the RAA has been active and participated in various initiatives and programmes organized by ASOSAI which has benefitted not only in building the institutional capacity but also individual capacities of auditors in public sector auditing. The RAA has been benefiting from the trainings, trans-regional or cooperative audits, seminars organized by ASOSAI in diverse areas of auditing primarily focused on enhancing the performance of auditors and also improving the quality of auditing.

C. COMPTROLLER AND AUDITOR GENERAL OF INDIA

The RAA has collaborated with the Comptroller & Auditor General's Office in India as early as the 1970s. The two SAIs signed a MoU in 2001 to foster professional relations, share experiences and develop capacity. Since then, annually two officers from the RAA undergo the Indian Audit and Accounts Course at the National Academy of Audit & Accounts in Shimla, Himachal Pradesh with Officer Trainees of the Indian Audit and Accounts Department.

D. STATE AUDIT OFFICE OF THE KINGDOM OF THAILAND

The RAA signed a Memorandum of Understanding with the SAI Thailand in August 2016. The MoU establishes a transparent framework for cooperation and aims at mutual institutional strengthening and increasing the effectiveness of public sector audit of respective SAIs to contribute to value for money and good governance. The MoU expects to enhance relationship between the two SAIs in terms of mutual co-operation, knowledge & experience sharing and mutual benefits.

E. GOVERNMENT ACCOUNTABILITY OFFICE, U.S.A

The RAA upon invitation of the US GAO sends two officers for the International Auditor Fellowship Programme. The RAA has benefited from the US GAO in areas of Strategic Planning, Performance Auditing and Leadership etc. So far nine officers of the RAA have availed the fellowship programme.

F. AUSTRIAN DEVELOPMENT AGENCY

The Austrian Development Agency, Bhutan has been supporting the RAA in its capacity development initiatives since 2012. The ADA provided grants has supported in the development of 22 audit manuals, two policy documents, course materials, helped conduct three pilot audits on Risk-based Audit approach, auditing from Gender Perspective and funded for purchase of essential equipments for the RAA.

Capacity development initiatives in the pipeline that the ADA will support include trainings to enhance auditing knowledge and capacity in thematic and emerging audit topics and issues such as an audit of hydropower projects, Citizen Participatory Audit,

Auditing of Sustainable Development Goals (SDGs) amongst others. These initiatives are expected to contribute towards enhancing auditing, reporting and institutional capacity.

G. WORLD BANK

The World Bank has provided support to the RAA for capacity development in training of subject matter experts, development of professional development courses based on ISSAIs, training of auditors for ISSAI implementation, conducting ISSAI based pilot audits.

2.1.7. ANNUAL BUDGET OUTLAY

During the Financial Year 2016-2017, the RGoB approved a total budget of Nu.413.029 million, of which the current budget was Nu. 158.870 million and capital budget was Nu. 254.159 million against which the actual expenditure was Nu.256.024 million.

2.1.8. HUMAN RESOURCE

During the year, the RAA recruited 33 new employees including lateral transfers and those hired on contract. 12 employees left the RAA representing an attrition rate of 4.41%. As of December 2017, the RAA had 272 employees with diverse professional backgrounds.

The RAA provided in-house trainings to auditors on ISSAIs, PEMS, auditing from a gender perspective, Google Apps, construction audit and on in-house systems used by the RAA such as *Audit Resources Managemnet System (ARMS)* and *Audit Performance Evaluation and Management system (APEMS)*. The new recruits and front desk staff were also trained on Office Management and Personality Etiquettes. In addition, 51 officials availed 14 ex-country trainings besides four workshops, two seminars and seven meetings in 2017. 16 officials are on long-term studies including two for the Indian Audit & Accounts Service Course at the National Audit and Accounts Academy in Shimla, India.

2.1.9. RAA'S CHALLENGES AND ISSUES

I. AUDIT MANDATE

The RAA is mandated to audit and report on the economy, efficiency, and effectiveness in the use of public resources. However, there are certain areas where there is need to provide clarity and legitimise its mandates particularly with regard to audit of entities using natural resources of the Country such as mining and quarrying operations, enforcement actions on non-compliance/non-cooperation, fixation of accountability and levy of penalty amongst others.

II. HUMAN RESOURCES

The RAA currently has 272 employees of which, only 167 are field auditors, while 12 employees have separated from the RAA during the FY 2016-2017. With the ever-increasing number of agencies requiring mandatory audits by the RAA, the workload is growing at a pace that the RAA's available Human Resource is unable to match. To aggravate the matter, the RAA, on a regular basis, is losing experienced auditors due to lack of opportunities for upgrading and professionalising auditors' capacities and qualifications. Consequently, as against 930 agencies with 1299 accounts to be audited, the RAA in 2017 was able to conduct only 688 audits which translate to a coverage of less than 53%. The coverage is not adequate in terms of providing greater assurance and effective audit services.

An independent exercise on manpower rationalization conducted by national consultant revealed manpower shortages in divisions and regional offices. While the RAA has been trying to meet the need through additional recruitment including lateral transfers and hiring on contracts, the new recruits still lack required competency and take considerable time to acquire the required skills. The lack of qualified professional accountants and other specialist/experts impedes the effective delivery of RAA's services. Therefore, it is critical to invest in human resources to get competent auditors.

III. BUDGETARY PROCESS

The RAA's budget is subject to normal budgetary process, negotiations and budget cuts which is not consistent with the intent of the Constitution and also seen as impairing the independent and effective functioning of the Authority.

IV. INADEQUATE INFRASTRUCTURE

The RAA still lacks adequate infrastructure to function effectively without fear, favour or prejudice. Two regional offices of the RAA are housed in private residential buildings which are not conducive for good office working environment besides posing safety and security risks to audit documents and government properties.

While the government has allotted the RAA with land, the construction of regional offices is yet to materialize due to lack of funds. The lack of facilities will impede delivery of audit services to the citizenry at large.

AUDITOR'S REPORT ON THE AUDIT OF ACCOUNTS & OPERATIONS OF THE
ROYAL AUDIT AUTHORITY FOR THE FISCAL YEAR ENDED 30TH JUNE 2017

S. N. Mukherji & Co.
CHARTERED ACCOUNTANTS

**AUDITORS' REPORT ON THE RECEIPTS & PAYMENTS STATEMENT OF LC ACCOUNT NO. 108.01/01-LC
OF THE ROYAL AUDIT AUTHORITY OF BHUTAN FOR THE FINANCIAL YEAR ENDED 30TH JUNE, 2017**

1. We have audited the attached Receipts and Payments Statement of LC Account No. 108.01/01-LC of the **Royal Audit Authority of Bhutan (RAA)** for the Financial Year ended 30th June, 2017 and the annexed Expenditure Statement for the year ended on that date as required under Section 83 of the Audit Act of Bhutan, 2006.
2. The preparation of these financial statements is the responsibility of the Management. Our responsibility is to express an opinion on these financial statements based on our audit.
3. We have conducted our audit in accordance with the Auditing Standards generally accepted in Bhutan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit also includes assessing the accounting principles used and significant estimates made by the Management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
4. We report that:
 - a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit.
 - b) We have audited the accounts of RAA maintained at the Head Office, Thimphu and Regional Offices at Samdrupjongkhar and Bumthang and relied on the returns received from two Regional Offices which have been found to be adequate for the purpose of consolidation and preparation of the financial statements under our audit.
 - c) In our opinion, proper books of account as required under the Financial Rules & Regulations, 2001 have been maintained by the RAA so far as it appears from our examination of those books and records.
 - d) The Receipts and Payments Statement of LC Account No. 108.01/01-LC and the Expenditure Statement referred to in this report are in agreement with the books of account.
 - e) In our opinion and to the best of our information and according to the explanations given to us the said Receipts and Payments Statement and the Expenditure Statement give the information required by the Financial Rules & Regulations, 2001 in the manner so required and give a true and fair view;
 - i. In the case of the Receipts and Payments Statement of the Receipts and Payments of the said Authority for the year ended 30th June, 2017; and
 - ii) In the case of the Expenditure Statement, of the expenses of the said Authority for the year ended on that date.

Place: Thimphu

Date: 08.09.2017



For S.N. Mukherji & Co
Chartered Accountants
FRN No. 301079E

Sudip K. Mukherji
Partner
Membership No. 13321

EMERALD HOUSE, 1-B, OLD POST OFFICE STREET, KOLKATA - 700 001, INDIA
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ROYAL AUDIT AUTHORITY
Receipts and Payments Statement
For A.C. No. 108.0101-1C

No.	Group/Broad Head of Account	Receipts							Payments				Total (Nu.)											
		Head Quarter Annual Progressive (Nu.)	OAAG, Piling Annual Progressive (Nu.)	OAAG, S/Jongkhar Annual Progressive (Nu.)	OAAG, Bumthang Annual Progressive (Nu.)	OAAG, Tsirang Annual Progressive (Nu.)	Total (Nu.)	Head Quarter Annual Progressive (Nu.)	OAAG, Piling Annual Progressive (Nu.)	OAAG, S/Jongkhar Annual Progressive (Nu.)	OAAG, Bumthang Annual Progressive (Nu.)	OAAG, Tsirang Annual Progressive (Nu.)		Total (Nu.)										
1	Opening Balance :						0.00																	
	a. Cash	0.98			101,994.70		692.00																	
	b. Bank						0.00																	
2	Releases:						0.00																	
	a. Budgetary	129,446,000.00	14,257,000.00	14,496,000.00	15,304,000.00	17,872,000.00	191,375,000.00																	
	b. Non-revenue						36,445.00																	
	c. Refundable Deposits						0.00																	
	d. Un-cashed Cheques						0.00																	
3	Grants in-Kind:						0.00																	
	a. Donor A						0.00																	
	b. Donor B						0.00																	
4	Borrowings in-Kind:						0.00																	
	a. Lender A						0.00																	
	b. Lender B						0.00																	
5	Revenue Receipts	5,712,436.00	609,954.00	660,107.00	423,183.00	450,088.00	7,855,768.00																	
6	Other Recoveries/Remittances:						0.00																	
	a. GPF: Employ	4,207,904.00	513,102.00	555,483.00	553,309.00	631,542.00	6,461,340.00																	
	b. Govt. Insuran	642,000.00	88,600.00	93,900.00	92,700.00	111,600.00	1,028,800.00																	
	c. Other Insuran	1,316,520.00	140,709.66	208,424.00	135,094.00	386,688.00	2,187,435.66																	
	d. Loans from Fi	10,432,601.00	1,595,706.00	2,308,605.00	2,435,649.00	2,132,028.00	18,904,589.00																	
	e. Others	1,316,497.00	187,150.00	156,000.00	377,839.00	651,523.00	2,689,020.00																	
7	Personal Advances	19,314,735.64	1,771,500.00	2,476,869.00	1,875,839.00	3,148,750.00	28,587,693.64																	
8	Miscellaneous Receipts/Payments:						0.00																	
	a. Non-Revenue A/C Deposits						0.00																	
	b. Refundable Deposit A.C. Deposits						0.00																	
	c. Payments to I						282,144.00																	
	d. Others						376.00																	
							48,802.00																	
							36,445.00																	
							101,994.70																	
							1,200,000.00																	
							692.00																	
							384,831.68																	
							376.00																	



GLOSSARY OF TERMS

Following words in the AAR 2016 shall mean the commission or omission of the actions stated against it.

Malpractices and abuses	Unethical and improper practices and abuses of authority by the government functionaries for payments made for the works not executed, materials not received at sites, acceptance and payments for substandard works with ulterior intention.
Misappropriation	Willful malpractice by public functionaries either for direct or indirect personal gains.
Intentional double bookings/irregular/ unauthorized payment	Double/excess/irregular/unauthorized payments made intentionally for ulterior motives. Payments/booking of expenditures unauthorized duly or in excess of amount done intentionally.
Non/short accountal	Failures by the functionaries to account the government properties, funds, taxes and revenue.
Mismanagement of fund	Improper management of funds
Mismanagement of revenue and taxes	Improper management of revenue and taxes
Management of properties	Improper use and management of properties
Violation of accounting norms	Non-compliance of accounting requirements in relation to maintenance of accounting records, receipts, payments including sanctioning and authorization.
Violation of procurement norms	Works and supply contracts made in deviation to procurement manuals and contract terms and agreement
Violation of Acts, Directives and Policies	Non-compliance to directives, Acts and Policies framed/issued by the government functionaries.
Over inadmissible/irregular/double payment	Payment made in excess of what was actually inadmissible, payment not as per the rules and regulations and payment made twice for the same purposes.
Non/improper recording in books	Non-updating books of accounts and improper maintenance of accounts.
Non reconciliation/certification of balances	Non-reconciliation, confirmation and certification of balances.
Irregularities in advances	Money lying in the hands of suppliers, contractors, employees and third parties beyond the reasonable period due to irregular and excess payment as well as inadequate records keeping and follow up.
Irregularities in recoveries	Non/short recovery of amounts due to government.
Irregularities in property management	Deficiencies in management, uses, physical safeguards, custody and control of properties.
Non/short deductions	Non-deduction or short deduction of taxes, rebates and advances, etc. from the bills claimed.
Shortfalls and uneconomical operations	Deficiencies and lapses in the operations, resulting in inefficiencies, losses and non-attainment of intended goals.