

Audit Report : Performance Audit Report on Business Opportunity and Information Centre (BOIC)
Schedule of Audit : Feb 2016 to July 2016
Date of Issue : 06th January 2017
Period covered by Audit : Inception till 31st May 2016
Name of Agency (s) : Business Opportunity and Information Centre/ REDCL

	Recommendations	Action taken (as per the detailed action plan/report submitted	Status/progress of corrective actions taken by the auditee agency	Reasons for non-completion of action
4.1	<p>Realistic projection of interest income and fund flow of the revolving funds should be carried out</p> <p>The projection of interest income and fund flow of the Nu. 1,900 million earmarked for the revolving fund were not made on realistic basis and were overstated. It was carried out with the assumption that the whole fund would start earning interest from day one which resulted in overestimation of potential interest income to be earned over the implementation period. In order to develop a more realistic re-deployment plan as well as to plan the utilization of the potential interest income, the succeeding agency (REDCL and BDBL) should re-work the fund flow and potential interest income on a more realistic basis for effective decision making and use of available funds in a sustainable manner.</p>	<p>The BOIC reported that interest income and fund flow of the revolving funds are Projected and implemented by REDCL.</p> <p>It has been noted that the REDCL has projected interest Earned and Fund Flow Back for RF II (year 2017) based on the projected disbursed principle Nu. 70,000,000.00 with NPA of 30%.</p> <p>Interests are projected based on the disbursed amount considering the average gestation period for each projects disbursed.</p>	<p><u>Partially Implemented</u></p> <p>The REDCL reported that it has calculated the projected interest income as per the actual disbursements to be made to the proponents.</p> <p>Additionally it has reported that the interest projections are made based on the gestation period for each project activity.</p> <p>The recommendation is kept as partially implemented as the case wise details of individual proponent could not be reviewed and verified.</p>	N/A

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<p>4.2</p>	<p>Provisions of the Fund Manual should be strictly enforced</p> <p>Some of the critical provisions of the Fund Manual had not been implemented. This included lack of periodic reporting mechanism. Reports on project status to ensure proper monitoring and timely intervention when required are important to the success of projects as well as to ensure proper utilization of funds.</p>	<p>The REDCL had reported that Fund Manual was revised and enforcement started from January 2017.</p> <p>The RECDL has started to produce monthly reporting of the progress of the business activities. The monitoring is also carried out phase wise (Phase I and II).</p>	<p><u>Partially Implemented</u></p> <p>Periodic reporting done and monitoring done on phase wise (Phase I and II). The recommendation has been maintained as partially implemented as the actual implementation of the provisions of the fund manual is yet to be verified.</p>	<p>N/A</p>
<p>4.3</p>	<p>Policy on write off of non-performing assets should be developed</p> <p>A write off policy was not in place. Timely development of a write-off policy will ensure that genuine cases of non-performing projects are properly identified and appropriately dealt with.</p>	<p>Draft completed and verified by RAA.</p>	<p><u>Partially Implemented</u></p> <p>The REDCL has drafted the Write-off policy Manual 2017 which is yet to be finalized. Hence, the recommendation is maintained as partially implemented.</p>	<p>The Final Draft to be completed by Nov. 2017</p>
<p>4.4</p>	<p>Remunerations of the employees may need review</p> <p>Comparatively, the remunerations of the employees were observed to be higher than most counterparts in similar agencies under the Royal Government of Bhutan. The Board should consider reviewing the remuneration structure of the employees and revise it on a rational basis.</p>	<p>The employees of REDCL are paid as per the pay scale of SoEs of MoF.</p>	<p><u>Implemented</u></p> <p>Implemented with the establishment of REDCL as State Owned Enterprise.</p>	<p>N/A</p>

<p>4.5</p>	<p>Disbursement of Funds should be expedited as planned to achieve the primary objective of the revolving funds</p> <p>Timely disbursements of funds are not only critical to the project proponents and success of the projects but also hugely important to meet overall objectives of the revolving funds. Delay in disbursements not only affects the implementation of the projects, given the gestation periods, but also have huge implications on the recovery and re-deployment plans of the total funds. Further, the operation of managing the funds is financed from the total funds to be adjusted from interest income in the future. Therefore, delay in disbursement will delay interest generation which may eventually affect the viability of the revolving funds. Disbursement of funds of approved projects should, therefore, be made on a timely basis.</p>	<p>The REDCL reported that constant follow-up is being done with BDBL since the disbursement is being done by BDBL.</p> <p>During verification of records made available by REDCL it was noted that there were no delays in disbursement of projects funds between the approval and disbursements.</p> <p>It was also noted that there were focal person appointed as fund counselors in each Dzongkhag to expedite the activities as planned, in order to achieve the primary objective of the revolving funds.</p>	<p><u>Implemented</u></p> <p>The recommendation has been categorized as implemented based on the verification of cases of expeditious disbursement of Funds to achieve the primary objective of the revolving funds. It was noted that the time gap between the approval and disbursement was substantially reduced.</p>	
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<p>4.6</p>	<p>Service Rules need to be reviewed</p> <p>The existing service rules was developed governing the service conditions of employees of BOIC which was a Government Autonomous body. The same is currently being used by the new entity (REDCL) incorporated as a SOE which has taken over the revolving funds. It is thus imperative to review and revise the Service Rules in line with the Service Rules of other SOEs.</p>	<p>The new service rule for REDCL was developed.</p>	<p><u>Implemented</u></p> <p>New service rule for REDCL was developed and endorsed by MoLHR.</p>	<p>New service rule reported as implemented from 1st April 2017.</p>
<p>4.7</p>	<p>Institutional and coordination arrangements should be strengthened</p> <p>Although the institutional arrangements were clearly defined in contracts and MoUs assigned with relevant institutes and agencies, these arrangements were not properly disseminated to all level of administration involved in the whole cycle of implementation and monitoring of the projects. This resulted in weak linkage, coordination and collaborations between stakeholders causing confusion over their roles and responsibilities. There is thus need for instituting an effective implementation and monitoring system as well as strengthening the coordination amongst various stakeholders for timely, systematic and effective implementation and monitoring of projects. The provisions of the MoUs and contracts signed with the institutions should be properly disseminated to all level of administration involved in the implementation and monitoring of the projects.</p>	<p>For the coordination required with the relevant agencies, MOUs have been signed and revised (June 2016) with relevant stake holders)</p> <p>All the roles and responsibilities defined and disseminated to all the ground staff.</p>	<p><u>Partially implemented</u></p> <p>For Institutional and coordination arrangements, MoUs have been signed.</p>	<p>Completed signing all MoUs in June 2017.</p>

<p>4.8</p>	<p>Procedures to obtain clearances should be better streamlined</p> <p>Although, in principle, institutional arrangements were made via MoUs and Contracts to expedite obtaining clearances, it was observed that the whole process was very cumbersome and had huge implications on timely implementation of the projects. Delays in obtaining clearances further delayed disbursement of funds. MoUs with NLCS and NEC require to be revisited and revised considering practicality of the provision taking into account all over-arching national laws as well the respective agencies“ acts. MOUs were mainly signed to fast track the clearances for the applicants and there is a huge scope for delivering the services efficiently and effectively.</p>	<p>For REDCL clients, the clearances are normally obtained by the clients themselves if required.</p> <p>Department of Cottage and Small scale industries (DCSI) to wave off requirement of license for Agricultural activities.</p> <p>Activities for rural activities up to the fund size of Nu. 500,000.00.</p>	<p><u>Partially implemented</u></p> <p>MOUs revised and other alternatives like waving off requirement of License for Agricultural activities were institutionalized in collaboration with DCSI.</p> <p>Actual verification at field could not be conducted.</p>	
<p>4.9</p>	<p>Sensitization programs to local administration is crucial</p> <p>Most local administration officials were unaware of their roles and responsibilities in terms of monitoring the projects in line with MoUs signed by their parent agencies. They were not even aware of which applicants were approved and which applicants were not. Local administration can play crucial role in monitoring and assisting projects in the field. Proper sensitization programs should target local administration to ensure effective supervision and periodic reporting. Better coordination between the local administration and management of the revolving funds should be instituted. Local administration should be updated regularly on the status of the projects funded under the revolving funds. Proper coordination mechanism should be instituted to</p>	<p>REDCL has reported that it has done sensitization to all 20 dzongkhags.</p> <p>Involvement of Fund Counselor (19 fund counselors)</p> <p>Sensitization for all the Gewogs except lunana.</p>	<p><u>Implemented</u></p> <p>The REDCL management reported of completed the sensitization program to local administration is completed.</p>	<p>The REDCL management reported of completed the sensitization program</p>

	ensure that proper communication happens between local administration and the management with regard to project status.			
4. 10	<p>Service delivery standards and job responsibilities should be defined</p> <p>Funds to a large number of approved projects were not disbursed (942 as on May 2016) due to issues related to documentation formalities like obtaining clearances, not having a standard timeline for service delivery, and unclear work distribution. The delays between the approval and disbursements stages were the weak part of the project cycle of projects. The succeeding agency must take measures to address this occurrence. It is more crucial to plan its human resource capacity in order to address the magnitude of service required by the clients. The very objectives of providing loans will be greatly affected or delayed if funds and services are not provided timely and more efficiently to projects that were approved for implementation. The gap could be better addressed by adopting a standard timeline for service delivery and better assistance from the employees of the management to expedite clearance formalities.</p>	<p>REDCL reported that every officer of REDCL has their own ToR regarding the job responsibilities. It is also reported that if all the documents are submitted in complete by the clients, the projects are appraised and approved within two weeks.</p> <p>The Management further informed that the service delivery is enhanced through:</p> <ul style="list-style-type: none"> • Focal person 20 Dzongkhags; • CSOs (YDF and BAOWE) with focus on women and youth; • Collaboration with Loden foundation for entrepreneurship developments; • Collaborated with CNR and DCSI for incubation program on Entrepreneurship; 	<p><u>Partially implemented:</u></p> <p>The terms of reference (ToR) on job responsibilities is developed. However, service delivery standards are not developed.</p>	In progress.
4.11	<p>Efficient monitoring initiatives should be in place for RF II projects</p> <p>It was observed that there were no mechanisms in place to monitor the progress of RF II projects with no follow up efforts from the fund management team at the BOIC. Given that RF II projects have a very high risk of not</p>	<p>The monitoring are planned for RF II funded projects. The REDCL has reported to start from August 2017.</p>	<p><u>Partially implemented:</u></p> <p>The REDCL reported the monitoring the monitoring are planned for RF II</p>	In progress.

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	performing, effective monitoring is very critical. The succeeding agency should initiate better coordination between the relevant stakeholders, ensuring proper implementation of provisions of MoUs/contacts. Further, RNR extension agents need to be properly sensitized on the RF II projects implemented across the country.		funded projects.	
4.12	<p>IT systems should be integrated and used appropriately</p> <p>The two major systems, MY APP and RELEASE MANAGEMENT SYSTEM, used to store client information and to prepare fund disbursement order need to be properly integrated to avoid manual data-punching causing data redundancy, erroneous information and time overrun. Further, the following are recommended:</p> <ul style="list-style-type: none"> a) In order not to create confusions, only two dates should be considered, in the process of assigning ticket date, instead of three different dates; FDO Created date and Assigned dates. When the FDO"s are finally approved by the approving authority, instead of printed dates, assigned dates should be mentioned. b) The string length for both client"s CID and Guarantor"s CID in the RELEASE MANAGEMENT SYSTEM should be defined and consistent. c) The system should be able to segregate interest income of RF I and RF II for better review reports. d) The micro banker system may require upgrading to ensure multiple use of the system for improved efficiency. 	The REDCL reported that they are exploring the new IT system and stated that implementation could happen only in 2018.	<p><u>Partially implemented:</u></p> <p>The REDCL reported that they are exploring the new IT system.</p> <p>The recommendation is categorized as partially implemented as the work is stated to have initiated.</p>	In progress (time line till 2018)