

1. EXECUTIVE SUMMARY

1.1 Why RAA conducted this audit?

Article 25.1 of the Constitution of the Kingdom of Bhutan and Chapter 1, Section 3 of the Audit Act of Bhutan 2006, states that “*There shall be a Royal Audit Authority to audit and report on the economy, efficiency and effectiveness in the use of public resources*”. In line with this important constitutional responsibility, the RAA is required to ascertain whether the public resources were used in an economic, efficient and effective manner. The Constituency Development Grant (CDG) was one of the important initiatives of the Government aimed towards deepening and strengthening democracy by establishing a basis for direct and regular interaction between the Members of the National Assembly (MNA) and their constituencies. The grant involving total allocation of Nu. 282 million for the last three financial years was primarily to support decentralization, strengthen local governments, and provide communities with access to small funds that are flexible and able to meet emergent and unplanned needs expeditiously. In this respect, the RAA not only looked at “what has been done”, but also looked at “what has not been done” to achieve the ultimate objective.

The Performance Audit of the CDG was taken up with an overall objective to “*ascertain the economy, efficiency and effectiveness in the use of public resources in strengthening the democracy*”. **The Royal Audit Authority however, did not look into the merit or otherwise of the CDG Policy decision itself.**

In particular the audit was aimed at verifying whether:

- ★ CDG activities were initiated, proposed, approved and implemented in accordance with CDG Rules, FRR 2001 and other applicable laws, rules and regulations;
- ★ CDG activities funded were consistent with the provisions of the CDG Rules;
- ★ Activities were implemented economically and effectively and intended objectives of CDG initiatives were being achieved;
- ★ Assets and facilities created were being used and CDG activities had benefitted the community;
- ★ The ownership of community assets created by way of grant activity had been properly transferred to the concerned Gewogs;
- ★ The maintenance and upkeep of assets created were adequate; and
- ★ The up-to-date and comprehensive list of community assets created was maintained.

1.2 What RAA found?

The audit findings were based on the review of accounts and records made available, information provided; site visits conducted and interactions with the Dzongkhag officials and stakeholders such as some of the Hon'ble MPs. Pertinent audit findings comprising accomplishments as well as shortcomings and lapses are highlighted below:

- ★ As against the total fund of Nu. 282.00 million i.e.; Nu. 2 million per constituency per year (for three years), activities involving Nu. 174.36 million were proposed and approved representing 62.82% of the earmarked fund;
- ★ Community feedback received through survey questionnaires distributed to the direct beneficiaries in eighteen constituencies indicated that the grant was beneficial for the rural community;
- ★ Out of the 570 activities proposed, forty-six constituencies had actually implemented 523 activities (91.75%) and only 47 activities (8.25%) were not implemented. One constituency did not propose and implement any CDG activities;
- ★ As against Nu. 174.36 million proposed and approved for 570 activities, only Nu. 152.50 million representing 86% of approved budget was utilized;
- ★ Actual utilization of Nu. 152.50 million represented only 54.07% of the total fund allocated which indicated possible lack of absorption capacity of the constituencies;
- ★ Expenditure of Nu. 9.91 million were incurred for activities which were not in keeping with Section 3.7 of CDG Rules 2009 which restricted the use of grant on "*recurrent expenditure, construction and renovation of Gewog office buildings and government staff quarters, purchase of vehicles, acquisition of land and buildings, contribution/donations and supplement activities funded by the government under regular programmes*";
- ★ In twelve constituencies (covering twenty-three Gewogs), 25 activities were implemented benefiting the individual households only. Further, four activities implemented in three Constituencies (covering three Gewogs) had benefitted less than 10 households which may not be consistent with Section 3.5 of the CDG Rules 2009;
- ★ The existing system of allocating the CDG equally amongst the constituencies may not be reflective of varying national poverty index, geographical spread, population size, pace of economic development, accessibility and sizes of the constituencies etc.;
- ★ In many of the constituencies and Gewogs, the maintenance and upkeep of the assets created by way of grant activity and maintenance of records were inadequate;

- ★ Many Gewogs implementing the grant activity had not submitted periodic progress and final completion reports; and
- ★ Backhoe loader procured at a cost of Nu. 2.070 million under CDG funding was registered in the name of Ex-Gup instead of Gewog and the asset was hired out to him for a period of five years. Hire charges of Nu. 0.385 million was not collected from the Ex-Gup.

1.3 What RAA Recommends?

The CDG has potential in transforming peoples' lives and contributing in uplifting in particular rural economy through judicious and optimal use of fund. Learning from the '*strategies that work*' the CDG implementation may add impetus in the effective implementation of activities at the grass root level. Notwithstanding the merit of the CDG initiatives, based on the reviews and findings, the RAA has drawn a set of recommendations for informed decision making and strengthening the accountability process of CDG implementation if continued in future which are summarized as under and detailed in chapter five of the main report:-

- ★ The Government may consider the need for adopting rational approaches in allocating CDG amongst constituencies which adequately reflect varying population sizes, geographical spread, economic conditions and development needs of each constituency;
- ★ Proposals for CDG activities should be initiated with greater involvement of local communities and beneficiaries before final approval by MNAs as their involvement would promote better understanding and cooperation and sense of pride and ownership on the activities implemented in their locality;
- ★ Works pertaining to social sectors like education, drinking water supply, health and family welfare, drainage, etc. may be given priority over others as these were likely to create direct impact on the people and ensure long-term sustainable benefits;
- ★ CDG funds should be used judiciously only for intended purposes and any activity implemented should benefit a minimum of ten gungs;
- ★ Expenditure on specifically disallowed activities in the CDG Rules 2009 should be avoided;
- ★ MNAs may insist on a periodic reporting of the grant activity and require constant monitoring and inspection of both on-going and completed works;
- ★ Assets and facilities created from CDG funds should be optimally utilized besides ensuring adequate maintenance and upkeep of such assets;

- ★ Asset register for assets procured out of CDG funds should be strictly maintained by the implementing Gewogs as per the CDG Rules 2009; and
- ★ Mechanism of releasing of CDG disbursements should be strengthened.

2. INTRODUCTION

2.1 BACKGROUND

The Constituency Development Grant (CDG) was a strategy for devolution of decision making process and allocation of resources. It was hoped that the strategy would enhance people's participation and power in decision-making processes; promote good governance, transparency and accountability. It was initiated and implemented by the first democratically elected government. Its primary purpose as stated in the CDG Rules 2009 was deepening and strengthening democracy by establishing a basis for direct and regular interaction between the MNAs and their constituencies. It was also aimed at ensuring that the government elected by the constituencies does not become distant. The grant was intended to support decentralization, strengthen local governments, and provide communities with access to small funds that were flexible and able to meet emergent and unplanned needs expeditiously. It was so designed as to promote innovation, community vitality, and self-help.

The grant proposed by the MNAs comprises a sum of Nu.10.00 million per constituency for a period of five years or Nu 2.00 million per annum per constituency. A total of Nu. 282.00 million had been earmarked and set aside by the Ministry of Finance covering the period up to 30.06.2011 in keeping with the maximum annual ceiling of Nu. 2 million per constituency. Of the total fund set aside, the accounts of the DNB reflected budget proposal of Nu. 206.84 million. Further analysis of accounts of DPA and DNB showed budget proposal of Nu. 174.36 million only were submitted and approved for a total of 570 activities. Out of which expenditure of Nu. 152.50 million was incurred for a total of 523 activities including the ongoing works.

The CDG was additional resources provided for development at the local level by channelling money to constituencies under the discretion of the MNAs. The goal of the grant was to help promote the highest level of good governance within the parliamentary democratic system by MNAs who were directly accountable to the citizens.

The CDG was adopted with the following objectives¹:

- ★ *“to cause legislators to stay close and be accessible to the constituencies while ensuring that they remain human centered, knowledgeable, sensitive and responsive to grass-root needs even as they live in the capital and must maintain a national perspective;*
- ★ *to give MNAs the capacity for direct and prompt response to various emergent, unforeseen or unplanned needs of their constituencies through small but very useful and flexible funding;*

¹ CDG Rules 2009

- ★ *to give to the local governments and communities easy and convenient access to a constant and assured source of funding outside the normal budgetary framework;*
- ★ *to create synergies of partnership between the local leaders and the MNAs, for the creation of sustainable goods and services within the community through innovative and self-help mechanisms;*
- ★ *to create reasons and bases for trust, understanding and cooperation among central government, local governments and the MNAs as opposed to acting as competing rivals. The dangers of conflict among them at this early stage of democracy are real and could threaten its integrity in the long run;*
- ★ *to compel and enhance the constitutional purpose of good governance through 'check and balance' and the principle of separation of power; and*
- ★ *to enable voters to be familiar with their own MNAs beyond their rhetorical/ intellectual skills in parliament and to ensure that it is the true spirit of 'free and fair' elections that prevails in the elections by providing voters a clear basis for choice of individual MNAs or candidates aside from 'party performance'.*

The performance audit report on CDG represents detailed audit findings in the CDG implementation, management, upkeep and utilization of CDG assets and benefit of CDG activities. The field audit was carried out between 15th August 2011 and 31st January 2012 followed by series of discussion and receiving of responses until 8th of June 2012. The audit covered all 47 constituencies for the last three financial years from 1st July 2008 till 30th June 2011.

It was worth noting that 27 constituencies had implemented 100% of the proposed and approved activities while 19 constituencies had implemented most of the proposed CDG activities. However, Bji-khaso Constituency had not proposed and implemented any CDG activity.

3. COMMON AUDIT FINDINGS

The Royal Audit Authority conducted the performance audit of accounts and operations pertaining to CDG funds covering all twenty Dzongkhags. CDG being a new initiative, it was important to ascertain that implementation of the activities were carried out for the intended purpose in the manner as prescribed in the CDG Rules so as to achieve the desired objectives.

Accordingly, the RAA reviewed the aspects of the economy, efficiency and effectiveness in the uses of CDG fund and compliance with applicable laws, rules and regulations including the CDG Rules. **The audit, however, did not include review of the merit or otherwise of the CDG Policy itself.** Nonetheless, in the process of ascertaining the likely impact of CDG activities, the audit team obtained feedback on as to whether the CDG activities had benefitted the community. Based on the review of documents and information made available to the audit team and interactions carried out with some stakeholders and beneficiaries, the RAA observed that while there were many good accomplishments and initiatives, there were certain shortcomings where improvements are desirable.

We have reviewed the responses furnished by the Hon'ble MNAs and Dzongkhags/ Gewogs and accordingly incorporated changes in this final report. Some of the audit findings were settled in view of the responses, clarifications, supporting documents and evidences furnished subsequently and taken out from the report.

Significant accomplishments as well as shortcomings and weaknesses observed by the RAA are discussed hereunder:-

3.1 Significant achievements

Significant initiatives and accomplishments made in the implementation of CDG activities are presented below:-

3.1.1 Promulgation of CDG Rules

It was important that the CDG Rules were framed prior to implementation of the CDG activities providing clear basis and directives in the uses of CDG. This was indeed the case as CDG Rules 2009 were framed and approved in April 2009. This had facilitated proper utilization of CDG fund and implementation of CDG activities to a great extent.

3.1.2 Over 92.57% CDG activities implemented

As against the total of 570 activities proposed and approved, 523 activities representing 92.57% of total activities proposed were

implemented. Considering the early stage of implementation of CDG activities, the achievements made appeared very encouraging. In financial term, out of the total releases of Nu. 165.41, expenditure incurred amounted to Nu. 152.50 million indicating fund utilization of 92.19% which was very much in conformity with the physical accomplishments achieved.

3.1.3 People's views on CDG

Local communities of the smaller Dzongkhags expressed satisfaction and happiness on the CDG initiative and also felt that irrespective of any changes in the government the CDG will be a continued source of funds in addition to normal budgetary allocations to meet their pressing needs. Some community members felt the need of an Act which may mandate and regulate the CDG activities.

3.1.4 CDG beneficial to the community

In order to ascertain the extent of benefit of CDG to the local community, the RAA distributed survey questionnaires to the direct beneficiaries in eighteen constituencies. However, only 154 responses were received. The analysis of responses received showed that 79% of the respondents considered the grant activities as beneficial for the rural community. While the results of limited scale of survey may not be representative of the view of the entire community and thus may not reflect the perception of the local community correctly which otherwise a more comprehensive and scientific survey could have reflected, direct interactions of the audit team with the local leaders also affirmed the view that CDG was considered as beneficial to the community.

Other notable impacts of the CDG were:-

- ★ The CDG initiative as a whole had encouraged greater community participation and vitality in identifying their pressing needs thereby creating positive impact in promoting accountability and ownership in initiation and implementation of activities as well as use and upkeep of infrastructure and assets created. In addition, the CDG bursary provided had enabled needy children from poor backgrounds to acquire education, especially in secondary school;
- ★ Despite shortcomings in terms of meeting minimum standard specifications, the CDG had led to the expansion of road infrastructure through construction of new farm roads countrywide. This had contributed significantly to the improvement of infrastructure particularly in rural areas with high agricultural potential thereby making many areas accessible and hence improving transport and communication;

- ★ In some constituencies, CDG had provided seeds and seedlings, livestock breeds and agricultural machineries to farmers at free of cost to enhance agricultural productivity and attain self-sufficiency;
- ★ Through the CDG, many RWSS schemes were rehabilitated and maintained. This had enhanced accessibility to clean, healthy and safe drinking water. This would contribute significantly to community development through improved health by reduced water borne diseases, reduced time to fetch water thus spending more time in productive activities; and
- ★ People had formed groups and started collective agricultural activities. The CDG had also encouraged people to start dairy and poultry farming to protect and preserve indigenous cattle.

3.2 Weaknesses and Shortcomings

Notwithstanding the achievements made and likely impact of CDG, the RAA observed certain shortcomings in the implementation of CDG activities where improvements are desirable. These included allocation of funds and implementation of activities not in line with CDG and other relevant rules, inadequacies in record keepings and upkeep of assets created and poor/non-implementation of activities in some constituencies.

The shortcomings and lapses observed were as detailed below:-

3.2.1 Need for fair and equitable allocation of CDG amongst constituencies

The CDG was one of the key initiatives set up by the Government to mitigate poverty and to harmonize the spread of development throughout the country. It was hoped that the CDG and devolvement of funds in general, would enhance people's participation in decision-making processes, promote good governance and promote transparency and accountability. The CDG comprises a sum of Nu. 10.00 million per constituency for a period of five years (Nu 2.00 million per annum at pro-rata basis) placed at the discretion of the MNAs.

The equal distribution of CDG among the constituencies was not reflective of national poverty index, population size, and pace of economic development, accessibility and sizes of the constituencies.

Though, the CDG had an ultimate goal to transform the economic wellbeing of local communities leading to poverty reduction, allocation of the CDG equally among the constituencies may not be reflective of the economic factors such as poverty index, population size, level of economic development and size of the constituency which vary enormously across constituencies in twenty Dzongkhags. The present system of allocation of CDG could result in

lesser flexibility to MNAs and local leaders in allocating resources in larger and less developed constituencies. Moreover, the absorption capacity of various constituencies may not be same as evident from huge variations in number of activities proposed and implemented by each constituency.

3.2.2 Awareness on CDG among local communities

Even after three years since the start of implementation of CDG initiatives, the RAA observed lack of adequate awareness about the CDG amongst many rural people. Many even could not differentiate CDG fund from other sources of funding. Lack of adequate awareness may impede effective implementation of CDG activities and promoting community vitality.

For promoting effective community participation and creating desired impact, it was important that greater awareness about CDG initiatives and rules were created amongst rural community.

3.2.3 Participation and involvement of communities in identification and prioritization of CDG activities

Involving community in CDG activities and programmes at the local level created ownership of the CDG funded activities. Participation of local people in identifying and prioritizing activities was very important since the people understand their problems better and were better placed to come up with lasting solutions. Accordingly, the CDG Rules also prescribed the requirement for involvement of local community in the decision making before coming up with any proposals.

However, in some constituencies people expressed that they were not involved and consulted while proposing grant activity. The Gewogs had directly obtained approval from the Gewog Tshogdey and implemented the activities without discussing with the community members.

The local leaders on contrary explained that even after several request being served to attend such community meetings, people failed to attend. Despite the absence of participation of local community, the grant activities were implemented with the approval of the Gewog Tshogdey.

Therefore there was a need to create greater awareness amongst local community of the CDG Rules and activities for increased involvement in identifying activities beneficial to them.

3.2.4 Underutilization of earmarked CDG fund

Implementation of CDG was started in the country after issuance of CDG Rules in April 2009. The Ministry of Finance (MoF) had earmarked and set aside a sum of Ngultrum two million per constituency retrospectively from the year 2008. The total CDG set aside for three financial years i.e. 2008-09 to 2010-11 for forty seven constituencies @ Nu. 2.00 million per annum for each constituency aggregated to Nu. 282.00 million. As against the total earmarked fund of Nu. 282 million, the status of budget approved, budget actually released and utilized as of 30.06.2011 were as summarized in the table 3.1 below:

Actual CDG fund utilization for the year 2008 to 2011 in terms of budget provision (2 million per annum) was 54.08%

Table 3.1: CDG earmarked vis-à-vis approved budget, budget released, expenditure and variances (Amounts in Million)

Year	CDG earmarked (A)	Budget approved (B)	Budget released (C)	Exp (D)	Variance			Variance %		
					(E) A-D	(F) B-D	(G) C-D	(H) (E/A) *100	(I) (F/B) *100	(J) (G/C) *100
2008-10	188	95.90	94.51	90.50	97.50	5.40	4.01	51.86	5.63	4.24
2010-11	94	78.46	70.90	61.90	32.10	16.56	9.00	34.15	21.11	12.69
	282	174.36	165.41	152.50	129.50	21.86	12.91	45.92	12.54	7.80

As may be noted from the above table, in the past three years, against the earmarked CDG of Nu. 282 million, CDG actually utilized amounted to Nu. 152.50 million (54.07%) indicating that Nu. 129.50 million of earmarked amounts was not utilized representing 45.92%. This indicated lack of absorption capacity in the Dzongkhags and Gewogs leading to blockage of funds of the government which could have been utilized for other emergent needs.

As compared to approved budget of Nu. 174.36 million, fund actually utilized amounted to Nu. 152.50 million representing 87.46% leaving 12.54% of approved budget unutilized.

3.2.5 Number of activities proposed, implemented and not implemented

On review of the activities funded through grant for the period since inception to 30th June 2011, 570 activities were proposed, 523 activities were implemented and 47 activities were not implemented. The

Constituency-wise statuses of activities proposed, implemented and not implemented are detailed in **Annexure-I**. The overall summary thereof is as shown in the table 3.2 below:

Table 3.2: Summary of activities planned vis-à-vis implemented

Year	No. of activities		Not implemented	% not implemented	% implemented
	Proposed/Approved	Implemented			
2008-10	325	316	5	1.5%	97.23%
2010-11	245	207	42	17.14%	84.49%
	570	523	47	8.25%	91.75%

From the above table it would transpire that in terms of numbers of activities planned ignoring the size and complexities of activities, overall accomplishment in implementing planned activities was 91.75%. As against 570 activities planned and budgeted, 523 activities were implemented and 47 activities were not implemented. However, out of 47 activities reported in the draft report as not implemented as of 30th June 2011, MNA's subsequently informed completion of 9 activities and 10 activities as under implementation. The MNA's confirmed that 28 planned and approved activities were either not implemented, dropped or funds diverted to other activities as depicted in figure 3.1 below:

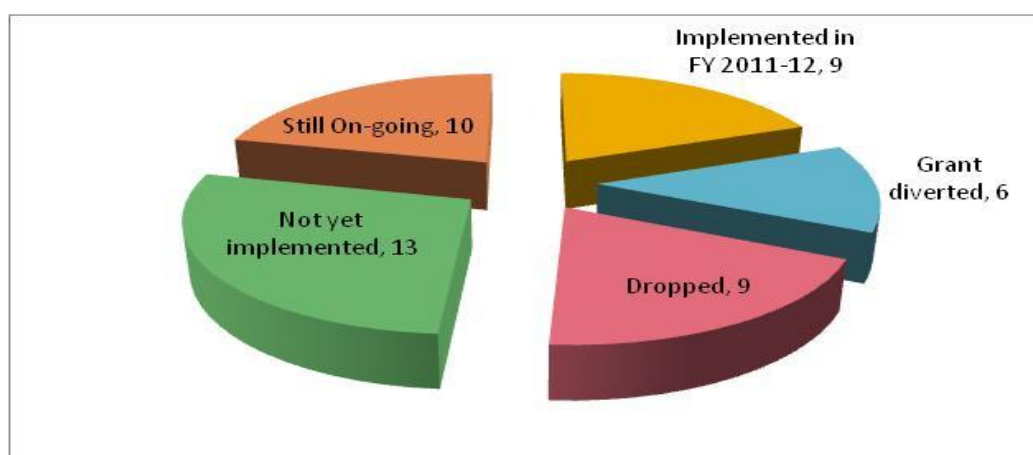


Figure 3.1: Status of activities not implemented as on 30th June 2011

Numbers of activities proposed by constituencies varied from as many as 59 to as low as one. Top ten constituencies had implemented as many as 17 to 54 activities as shown in figure 3.2 below:

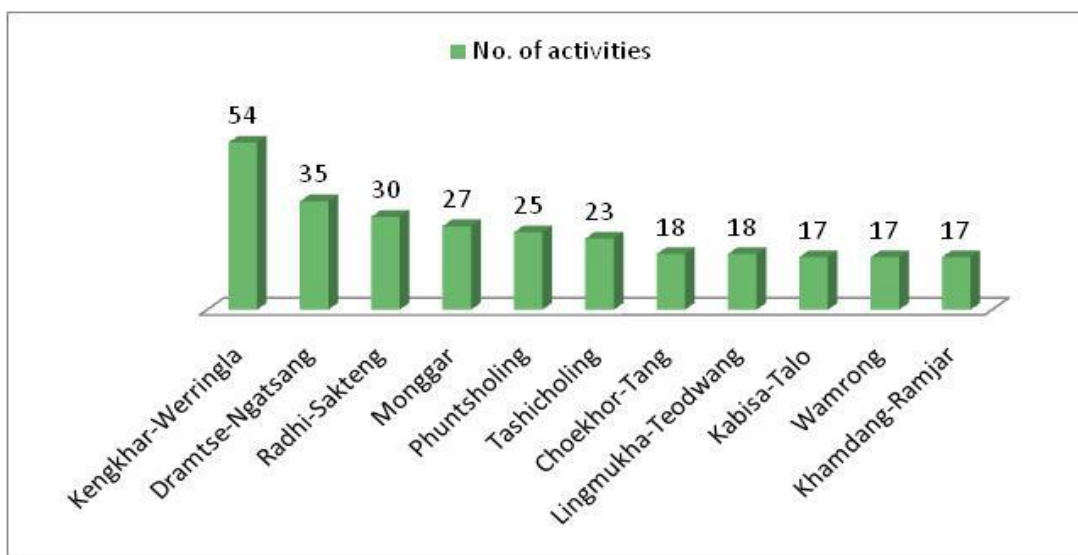


Figure 3.2: Constituencies implementing 17 activities to as many as 54 activities

The above graph shows that Kengkhar-Werringla, Dramtse-Ngatsang, Radhi-Sakteng, Monggar and Phuntsholing had the maximum numbers of activities planned and implemented with Kengkhar-Werringla constituency having highest number of 59 activities planned and 54 implemented.

Bji-Khaso constituency under Haa Dzongkhag had not proposed and implemented any CDG activities.

The extent of variation in the CDG implementation in terms of number of activities proposed and implemented may be indicative of either differing needs or absorption capacity of the constituencies.

3.2.6 CDG utilized benefiting below 10 gungs

Section 3.5 of the CDG Rules 2009 states that “*The Grant shall....ensure that any activity funded by the Grant must benefit a minimum of ten gungs*”. Section 10.2 further stipulates that “*The Gewog Administration shall maintain an inventory of all assets created under this scheme.*”

On review of 523 activities implemented during the financial years 2008-10 to 2010-11, the RAA observed that four CDG activities had benefitted less than ten households as indicated in the table 3.3 below:

Table 3.3: Showing activities benefiting less than ten households

Year	Activity Name	Exp. (Nu. M)	Constituency	Gewog	No. of H/Hs benefited
2009-10	Construction of Irrigation Channel at Phomdrong Village	0.323	Chhoekhor-Tang	Tang	8
2009-10	Construction of RWSS at Semchenbi	0.185	Gangzur-Menjay	Gangzur	6
2009-10	Construction of RWSS at Fataley	0.264	Gangzur-Menjay	Gangzur	6
2009-10	Construction of RWSS at Manizor and Barshong	0.256	Wamrong	Khaling	5

While there was no denial of the fact that the above households had benefitted from the above activities, the CDG Rules explicitly requires benefit to be extended to a minimum of ten households by any CDG activity. Thus the use of CDG fund in the above cases may not be consistent with the requirements of CDG rules.

3.2.7 CDG utilized benefiting individual households

The RAA observed many instances where CDG funds were directly extended to individual households either in cash or kind. The benefits provided included *for instance distributions of butter churner, barbed wires, CGI sheets, construction cowsheds, distribution of chicks, electrical materials, scholarships, seed and seedlings, cows etc.* directly to individual households and individual students.

Although the benefits extended covered large number of households i.e. from 10 to 623 households, the approach adopted was not consistent with true spirit of CDG initiatives. CDG activities implemented as above had created individual assets rather than community assets. Moreover, distribution of CDG fund directly to individual households or to individual beneficiaries themselves such as students may not promote community spirit and vitality. The summary of CDG funds utilized benefiting individual households and students directly by distributing various types of materials and as stipends is presented in table 3.4 below and detailed in **Annexure-II**.

Table 3.4: Summary of activities benefitting individual households

Sl. No	Name of constituency	No. of activities	Expenditure (Nu. M)	No. of individual H/holds benefitted
1	Bongo-Chapcha	1	0.400	10
2	Goenkhatoed-Laya	2	2.907	110
3	Drametse-Ngatshang	1	0.125	100
4	Kengkhar-Werringla	5	0.260	68
5	Nanong-Shumer	3	0.500	546
6	Radhi-Sakteng	5	0.900	365
7	South Thimthrom	1	0.979	48
8	Athang-Tedsho	1	0.300	65
9	Bardo-Trong	2	1.998	623
10	Panbang	3	2.980	361
11	Bartsham-Shongphug	1	0.500	37
12	Kanglung-Samkhar-Udzorong	2	2.200	88
	Total	26	13.142	

Utilization of grants for such purposes needs proper deliberations at appropriate level for ensuring use of grants in the true spirit of CDG Rules 2009.

3.2.8 CDG and new farm road constructions

The RAA observed instances where CDG had been utilized for construction of new farm roads. Grant amount of Nu. 2 million per constituency per year appeared to be too small an amount for the new farm road constructions which require a budget of as high as Nu. 2.5 million per kilometre excluding bridges as per the MoAF's Guidelines for Farm Road Development, 2009.

The RAA conducted budget comparison using the cost of new farm road constructions as per MoAF's Guidelines for Farm Road Development, 2009 with that of the cost of few farm roads constructed under the grant as summarized in the table 3.5 below:

Table 3.5: Comparison of budget (Nu. M) as per farm road guidelines and CDG

Name of Farm road	Road Length in Km (1)	Budget provided by CDG (2)	Budget provided by CDG for 1km (3)	Standard budget as per MoAF Guideline for 1km (4)	Budget required as per MoAF Guideline (5)	Total variance in fund (2-5)	Var. in % (less budget)
Construction of farm road from upper Garigang to lower Garigang	2.5	1.20	0.48	2.50	6.25	-5.05	-81%
Construction of farm road from Ghaley via Gewog Office	4.2	1.00	0.24	2.50	10.50	-9.50	-90%
Construction of farm road at Ramitey	1.5	0.70	0.47	2.50	3.75	-3.05	-81%
Construction of farm road from Domashong to Ngunmaling	4.0	2.50	0.63	2.50	10.00	-7.50	-75%
Construction of farm road from Patpachu to Khapleng	1.5	0.74	0.49	2.50	3.75	-3.01	-80%

From the comparative study above, it would be seen that the grant budget for one kilometre of new farm road construction was unworkably lower compared to the budget required as per the MoAF's Guidelines for new farm road constructions. In all five cases considered above, shortfall in budget against the MoAF's Guidelines for Farm Road construction ranged between 75% to 90% of the fund requirement.

Upon field visits to various farm roads constructed through the grant it was revealed that most of the new farm roads constructed did not meet the requisite specifications prescribed under the MoAF's Guidelines and were in dilapidated conditions. Inadequacy of budget may be one of the main reasons why most of the farm roads constructed under the grant were in dilapidated conditions. Owing to inadequacy of the fund bridges, side drains, culverts, retaining walls, etc.; were not constructed rendering the roads seasonally pliable. Thus, the objectives of CDG may not be achieved if the activities implemented do not bring in any real value or benefit to the local community.

Considering the sizeable amount required, it may not be feasible to utilize the CDG in the construction of new farm roads. Some examples of sub-standard farm roads constructed under the grant are presented in Figure 3.3 below:



Figure 3.3: Sub-standard farm road

While the new farm roads constructed would have resulted in increased connectivity and access to market and other facilities, the farm roads constructed without complying with the requisite minimum standard specifications will inevitably have limited useful economic life. Though there could have been some exceptions as through free community contribution it would have reduced the cost and quality of construction could have been maintained to some extent, evidences gathered suggested that in most cases new farm roads constructed were of poor quality.

Thus, there was a need for the decision makers to revisit the policy of financing such activities for better utilization of limited resources.

3.2.9 CDG spending needs diversification as envisaged by the CDG Rules 2009

Section 3.4 of the CDG rules, 2009 states that *“The Grant shall...encourage socio-economic innovation and community asset creation in areas such as advancement of women and children, poverty alleviation, skills development, community vitalization and cooperation, environmental preservation, sustainable energy, cultural promotion etc.”*

On review of 523 activities initiated through grant in forty six constituencies, the RAA observed that majority of the fund had been focused on few themes indicating need for diversification in the grant spending.

During the financial years 2008-09 to 2010-11, 52% of the works were focused for poverty alleviation, 32% for cultural promotion, 8% for advancement of woman and children, 4% for community vitalization & cooperation and 3% for environmental preservation. The summary of grant activities implemented program-wise is depicted in figure 3.4 below:

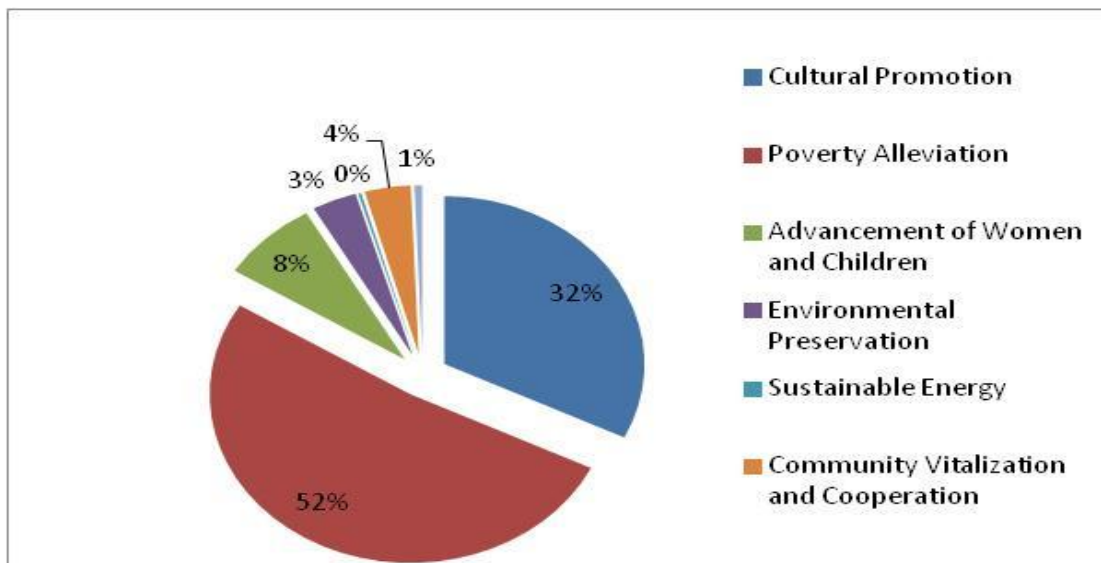


Figure 3.4: CDG spending program wise

Further, the RAA had also reviewed the number of activities under each sector or theme for which the grant was utilized. A total of 182 activities were implemented for ‘Agriculture’ programs in thirty-seven constituencies (covering eighty-four Gewogs), representing about 33% of total grant expenditure, followed by ‘Religion and Culture’ with 169 activities in thirty-three constituencies (covering seventy-two Gewogs) representing 32% of total grant expenditure as shown in figure 3.5.

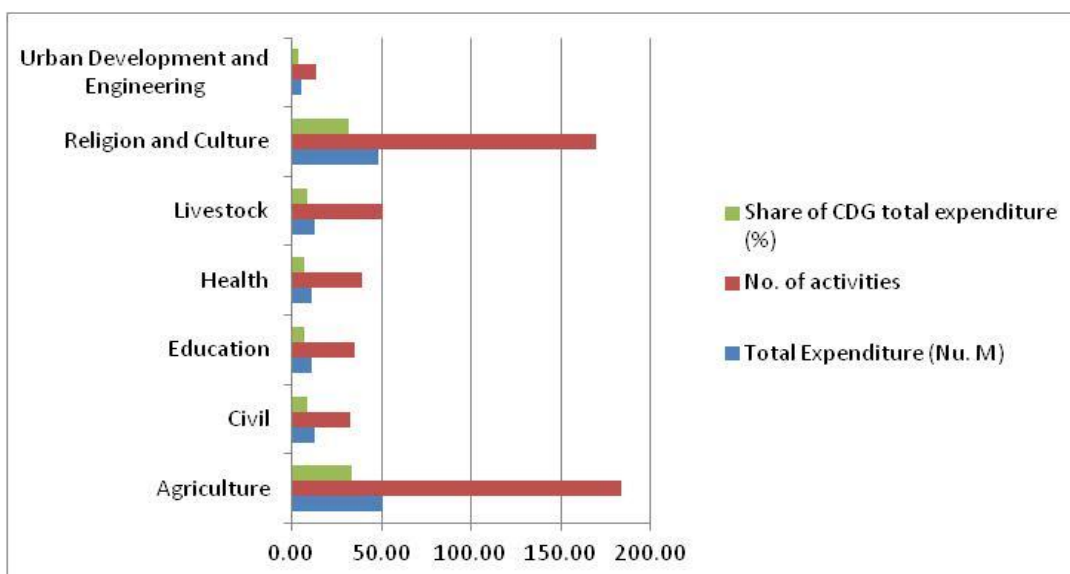


Figure 3.5: Summary of CDG activities implemented via economic sector wise

As depicted in Figures 3.4 and 3.5 above, there were limited or no focus at all on skills development, community vitalization & cooperation,

environmental preservation and sustainable energy. As a result, the tangible impact from the funding may be rendered very limited. It may be noted that while substantial resources were allocated on renovations & maintenance of lhakhangs, many other important areas were not considered.

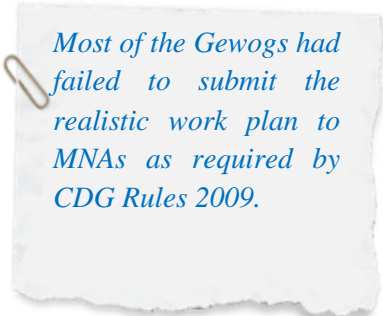
While the proposals for the work originate from the grass root level and that CDG was a flexible funding mechanism, to create greater impact of limited resources and inspire creativity, innovation and enterprise through new and diverse ideas, there was a need for greater involvement of MNAs.

It also appeared that concentration of grant spending on few programs was mainly due to lack of awareness on the CDG Rules 2009 as most Dzongkhags and constituencies had not received a copy of it. Thus there was also a need for wider circulation of these rules and greater efforts in creating awareness of CDG Rules and activities amongst various stakeholders.

3.2.10 Implemented Grant activities lacked realistic work plan

Section 7.2 of the CDG Rules 2009 states that *“The respective recipient shall prepare work-plan for implementation of the activities to be endorsed by the MNA. This will ensure that the MNA will have control over the actual utilization of his Grant which might otherwise lapse”*.

On review of the documents, it was observed that many Gewogs had not submitted the work plan to the MNAs and also to the Dzongkhags.



Most of the Gewogs had failed to submit the realistic work plan to MNAs as required by CDG Rules 2009.

From the analysis of the information provided by the Dzongkhag Administration, it was observed that from the 523 activities implemented, 140 activities or 27% of the activities did not have work plans submitted. Even those work plans submitted by some Gewogs were not comprehensive. On analysis of the data collected from the twenty Dzongkhags, it was revealed that four Dzongkhags had never prepared the work plan and the remaining Dzongkhags had partially prepared the prescribed work plan form of the CDG Rules 2009.

Inadequacies in the work plans were one of the main reasons attributable to the non-completion of grant activities on time leading to spill over of some of the activities particularly in financial year 2009-10.

3.2.11 Non-submission of Periodic Progress and Completion Reports

Section 7.4 of the CDG Rules 2009 specifically stipulates that *“The Gup shall submit a periodic progress report on each activity to the Dzongdag with copy to the MNA in addition to the activity initiation (start of implementation) and activity completion reports.”*


Submission of Periodic Progress and Completion Reports was essential for monitoring purpose by the various authorities to keep proper track of the progresses. It was also to facilitate the Dzongkhag Administrations and the MNAs to intervene in case if problem arises during the implementation of the activities.

However, on analysis of the data received from the twenty Dzongkhags, it was observed that out of the total of 523 activities implemented, progress reports for 266 activities were not submitted representing 51% of the total activities implemented. Likewise, in respect of 329 activities representing 63% of activities implemented, final completion reports were not submitted. Besides, non-compliance of CDG Rules 2009, failure to submit progress and completion report could also impede economy and the progress as well as the quality of work.

3.2.12 Selection of activities inconsistent with the grant provisions

Section 3.7 of the CDG Rules 2009 formulated by the Ministry of Finance states *“The Grant shall not be used to finance activities listed below:*

- *Recurrent expenditure;*
- *Construction and renovation of Gewog office buildings and government staff quarters;*
- *Purchase of vehicles;*
- *Acquisition of land and buildings;*
- *Contribution/donations; and*
- *Supplement activities funded by the government under regular programmes.”*



As of 30th June 2011, 16 activities implemented were inconsistent with the CDG Rules 2009.

The RAA's analysis of activities revealed that 16 activities with a total expenditure of Nu. 9.91 million implemented during FY 2009-10 and 2010-11 were not consistent with the CDG Rules 2009. These have been summarized in table 3.6 below and detailed in **Annexure-III**.

Table 3.6: Summary of activities in contravention to CDG Rule 2009

Broad heads of Expenditure	No. of activity	Exp. (Nu. M)	Constituency
Recurrent expenditure	1	0.32	1
Purchase of vehicle	1	0.91	1
Construction and renovation of government staff quarters	3	1.32	3
Supplement activities funded by government under regular programmes	11	7.36	4
Acquisition of land and buildings	0	0.00	0
Contributions/donations	0	0.00	0
	16	9.91	

Such cases clearly indicated that the provisions of CDG Rules 2009 were not observed properly while initiating, endorsing and approving the grant activities.

3.2.13 Maintenance and upkeep of CDG assets

Section 10.1 of the CDG Rules 2009 stipulates that *“It shall be the responsibility of the beneficiaries to maintain the assets created through the Grant”*. The RAA observed instances where the assets created from the grant activities were not adequately maintained by the community. On inquiry it transpired that there was a lack of commitment from the community or beneficiaries to maintain the assets. Many gups, whom the audit team interviewed, pointed out that community were not willing to render labour contribution required for maintenance activities. There were also no agreements drawn between the beneficiaries and Gewog Administration for the maintenance of assets created either at the initiation of the grant activity or during handing over of the completed activity. Some examples of non-maintenance of grant assets were as shown in the figure 3.6



Figure 3.6: Examples of assets created through CDG lacking maintenance

Non-maintenance of assets will render them unserviceable and unusable. It was, therefore, necessary that firm commitment of local community for maintenance of assets created was received before activities were approved and implemented.

3.2.14 Inventory of assets created not maintained

Section 10.2 of the CDG Rules 2009 stipulates that *“The Gewog Administration shall maintain an inventory of all assets created under this scheme.”*

Section 10.2 of the CDG Rules 2009 further stipulates that *“The ownership of the assets so created shall vest with the Gewog and any transactions, disposal, sale or transfer of such assets shall be guided by Government rules and regulations.”*

The RAA observed that inventory of assets created was not maintained in many Gewogs. Some assets created by way of grant activity were also found registered in individual Gup’s name without transferring the ownership to the Gewog and thus not recorded in the Gewog Asset Register. There were some assets (*For example: Milk churner, barbed wires, CGI sheets, power tillers, rice hullers, cornflake machines, potato chips machines, oil expeller, power chain saw etc.*) which were not recorded in the records of the Gewog Administration as these assets were distributed to individual households and Community Groups.

Maintenance of Asset Register was necessary as per CDG Rules 2009 and would facilitate better control, proper use and accountability of assets created.

3.2.15 Strength of engineers at the Dzongkhag vis-à-vis need for rationalizing basis for allocation of works

On review of the construction activities including activities funded by the grant vis-à-vis the number of engineers, the RAA observed that each site engineer at the Dzongkhag had a minimum of nine activities and maximum of 32 activities to supervise in a year. The number of activities will eventually increase with coming up of more grant activities as most of the activities required the involvement of engineers. Too many activities may eventually hinder effective supervision and monitoring thereby impeding economy and progress as well as the quality of works.

An executive order No. PM/01/08/1150 dated 10 March 2008 by the Hon’ble Prime Minister states *“In order that the huge investment in social*

and economic infrastructure yield excellent returns in terms of quality and durability, and as resolved during the meeting held on 14th January 2008 with district engineers and concerned agencies, henceforth, engineers in Dzongkhags shall not be assigned to more than five works, the distribution of which shall be judiciously done by the Dzongkhag engineer considering site location and magnitude of work”.

However, the Dzongkhag Engineering Cell had not adhered to this provision. Such problems, if not corrected at an early stage could result into poor monitoring and supervision of the works, thus affecting the quality of construction works as well as implementing CDG activities as engineers were also involved in the implementation of the CDG activities. Moreover, in the short-run the problem of engineers if existed may be addressed to a considerable extent by prioritization and allocation of works amongst various levels of engineers with reference to the size and complexities of works involved. Thus there was a need for judicious distribution of works by the Dzongkhag engineers to address the shortage of engineers. Adequacy of existing strength of engineers in the Dzongkhags also needed to be analysed and ascertained with reference the volume and complexities of activities to address real shortage of engineers.

3.2.16 Variations in the figures of budgets, releases and expenditures

Comparison of financial statements and budget details pertaining to CDG activities obtained from the Department of Public Accounts (DPA) and the Department of National Budget (DNB) with the accounting records and financial statements maintained at various Dzongkhag Administrations revealed variations in budgets, releases and expenditure figures. The details of such differences are given in **Annexure-IV**.

It was noted that 39 activities had more expenditures reported than budget releases while 12 activities showed more releases than budgets. Comparison also revealed that in respect of expenditure reported for 19 activities there were no actual budget releases. Further, one activity had no budget provision at all. These are presented in figure 3.7 below and detailed in **Annexure-V**.

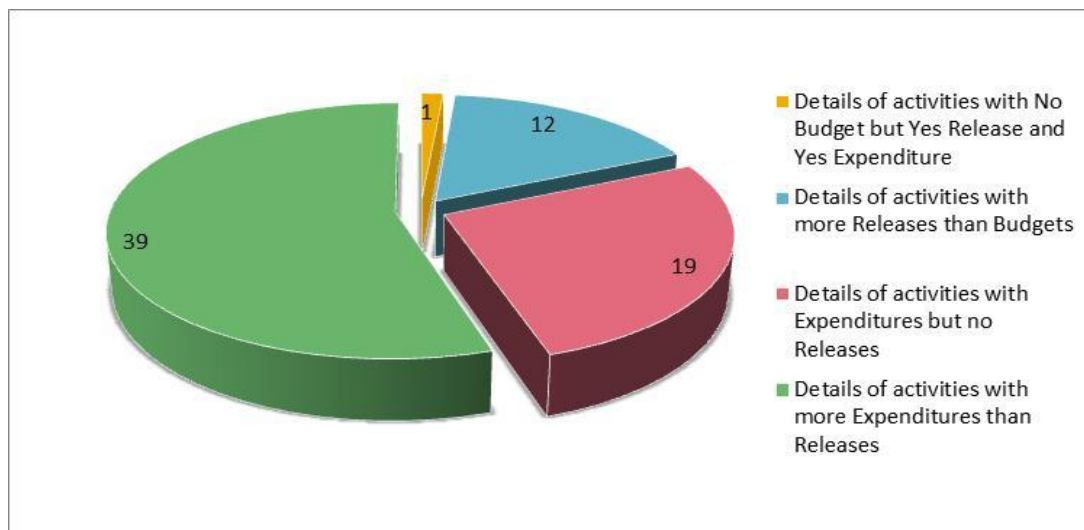


Figure 3.7: Activities with irregular financial figures

Such mismatches in the amounts of budget, releases and expenditure figures may also impair the correctness of the annual financial statements of the government.

The Dzongkhag and Gewog Administrations responded that such variations and inconsistency occurred due to rush of CDG and other activities implementation at the close of the financial years.

3.2.17 Payment for goods not supplied or items of work not executed (Nu. 1.929 million)

The Section 7.1 of the CDG Rules 2009 states *“All activities under the Grant shall be implemented in accordance with the established Government rules and regulations”*.

On sample review of payment vouchers and measurement books vis-à-vis physical verification of various works, the RAA observed several payments made for the works not executed or goods not supplied. Such cases are summarised table 3.7 below:

Table 4.7: Payments for goods not supplied or items of work not executed

Sl. No.	Constituencies & Dzongkhags	Gewog	Nature of observation	Amount (Nu.)
1	Goenkhatoed-Laya, Gasa	Laya	Items of work not executed at site for the renovation of Tashi Lhakhang, awarded to M/s Choedhing Construction, Gasa	362,312.00
2	Goenkhamed-Lunana, Gasa	Khamae	Items of work not executed at site for the construction of Khailo Lhakhang, awarded to the local committee led by Mr. Gyeltshen	392,404.32
3	Goenkhamed-Lunana, Gasa	Khamae	Items of work not executed at site for the construction for the Barsha Lhakhang, awarded to local committee led by Mr. Gyembo Gyeltshen	330,496.75
4	Drametse-Ngatshang, Monggar	Drametse	Payment made to RAMC, Paro without receiving oil expeller	100,000.00
5	Monggar, Monggar	Drepong	Payment made to RAMC, Paro without receiving oil expeller	80,000.00
6	Kengkhar – Werringla, Monggar	Gongdue	Payment made to RAMC, Paro without receiving maize grinding machine	35,569.00
7	Khamdang-Ramjar, Tashiyangtse	Ramjar	Payment made to BPC without having installed water pump at Wangrimo water tank	497,756.00
8	Nyishog-Saepoog, Wangduephodrang	Gangtey	Not provided steel work in single section including cutting, fixing and applying priming coat of lead paint, Gangtey Lhakhang	131,435.00
		Total		1,929,973.07

As revealed from above table, in many cases payments were made for works not executed and goods and services not delivered or rendered or items of works not executed. The above cases were discussed with the Dzongkhags and Gewogs who provided assurance for recovering the amount or completing the unfinished works or supplies.

3.2.18 Excess payment to contractors (Nu. 0.110 million)

On review of running bills, payment vouchers vis-à-vis the actual measurement at site in presence of the officials from the Dzongkhag and Gewog Administration, the RAA observed six cases of excess payments made to the contractors as shown in table 3.8 below:

Table 3.8: Excess Payments to contractors

Sl. No.	Constituencies & Dzongkhag	Gewog	Nature of observation	Amount (Nu.)
1	Goenkhamed-Lunana, Gasa	Khamae	Excess payment to the contractors during the construction of Geysa Neykhang	12,029.72
2	Goenkhamed-Lunana, Gasa	Khamae	Excess quantity claimed for the items executed at site	22,051.93
3	Goenkhamed-Lunana, Gasa	Khamae	Excess quantity claimed for the items executed at site for the construction of lhakhang at Ramina vide work order No.DAG/DES (06)2010-2011/1752 to M/s Damchen construction	41,415.75
5	Shompangkha, Sarpang	Shompangkha	Excess payment due to short execution of items of work	17,600.00
6	Choekhor-Tang, Bumthang	Tang	Excess payment in the quantity of cement	16,560.00
		Total		109,657.40

Above cases had been discussed with the concerned Dzongkhags and Gewogs and the excess payments were agreed to be recovered besides strengthening internal controls to avoid such cases.

4. DZONGKHAG SPECIFIC FINDINGS

In addition to the common findings observed in all Dzongkhags, the RAA has also observed several findings which were specific to some Dzongkhags, which are detailed in the subsequent paragraphs. It may be possible that some of the findings observed in some Dzongkhags would be prevalent in other Dzongkhags/Constituencies as well.

4.2 CHUKHA DZONGKHAG

4.1.1 Five Grant activities implemented still remained un-utilized

A total of five grant activities implemented at aggregate cost of Nu. 1.096 million in various Gewogs had remained un-utilized. The machines were either not installed or not put to use due to lack of electricity supply and non-arrival of accessories thereby depriving the benefit to the rural people in time. Such activities are summarized in table 4.1 below.

Table 4.1: CDG Activities that were still remaining un-utilized

Year	Activity Name	Exp (Nu. M)	Gewog	Remarks
2009-10	Installation of Rice mill at Omchu	0.114	Gayling	Not yet installed
2009-10	Installation of oil expeller at Chanachen	0.087	Gayling	Not yet installed
2010-11	Re-roofing of Chasilakha lhakhang	0.273	Bongo	On-going
2010-11	Purchase of corn flake machine, rice huller and Atta chaki for Eukha, Gompa and Gemina	0.235	Metekha	Not yet installed
2010-11	Purchase of oil expeller machine and promotion of mushroom cultivation	0.387	Phuntsholing	Oil expeller not installed, mushroom cultivation not started
		1.096		

4.3 GASA DZONGKHAG

4.3.1 Poor progress of major renovation at Tashi Lhakhang, Laya Gewog, Gasa

As per the work order No. GAL/Work (02)/2009-2010/01 dated 11 May 2010; the renovation work was required to be completed within a period of eight months, i.e. on 11 January 2011. Due to natural hindrances, the completion date of work was extended to 11 April 2011 vide Letter No.DAG/DES(07)2010-2011/Camp-Gasa/1440 dated 11 January 2011 by the Gewog Administration.

Further, in pursuance to the GYT meeting held on 9 March 2011 at Laya and the 52 DYT meeting held at Gasa, additional work amounting to Nu. 0.603 million was awarded to the same contractor vide work order no.GAL/Work (02) 2010-2011/Camp Gasa/1237 dated 22 Dec 2010. As per this work order the renovation work was required to be completed by 30 June 2011. Again owing to the natural hindrances, the completion date of the work was extended to 31 Oct 2011 vide letter No.GAL (02)2011-2012/16 dated 25 July 2011 of the Gewog Administration.

On physical verification of the site (20 October 2011), it was observed that there was no progress in the renovation works. The Gewog Administration informed the audit team that the contractor was not cooperative and also did not take heed to the reminder letters served by the Gewog Administration.

Though it has been more than a year since the work was awarded to the contractor, the physical progress of the renovation was poor. In fact the progress of work was less than 10 percent, which indicated non-fulfillment of commitments despite repeated time extensions resulting in undue delay in completion of works. Photographs in figure 4.1 below depict the stage of completion of renovation works.



Figure 4.1 Photographs showing poor progress of renovation works

The Hon’ble MP however, had reported to have informed Dasho Dzongda and the Contractor to expedite the work.

4.4 LHUNTSE DZONGKHAG

4.4.1 Expenditure on river dredging works not beneficial

In order to prevent lands being washed away during monsoon season, the river training works at Shawa village, under Gangzur Gewog was awarded to M/S Phuntsho Hiring Agency, Trongsa, vide work order no. GG/LD-08/2009-2010/298 dated 31/05/2010. The work was carried out in June 2010 and payment of Nu. 0.407 million was made to the contractor vide DV No.20 dated 29/06/2010. Upon site visit, the RAA team learned that the river training work had not benefitted the community as approximately 1.5 acres of beneficiaries’ fields had been washed away by the river as evident from figure 4.2.

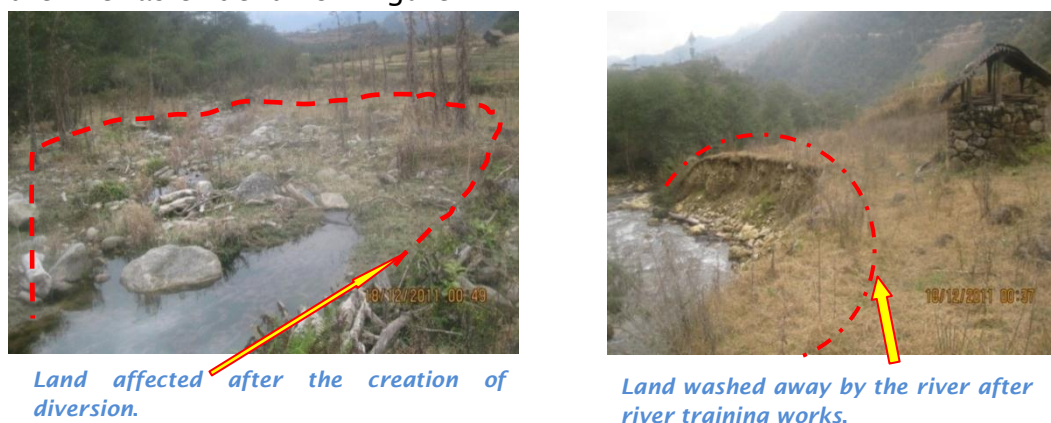


Figure 4.2: Beneficiaries’ fields have been washed away by the river

Main reasons attributable for unfruitful river dredging and excavation works were:

- The contractor had not used the required machinery for the river training work. The contractor instead of deploying PC200 excavator, had deployed PC120 which was smaller than the specified excavator compromising the quality of work that would have been attained had the specified excavator been used, and
- There were no assessment conducted on the volume and flow of river either by the Gewog or by the contractor that would have facilitated the amount and quality of work needed to be executed thereby benefiting the land owners.

Thus, the grant which was allocated to meet such prioritized needs of people was rendered futile. However, after pointing out the lapses, the Gewog had recovered Nu. 43,884.00 from the contractor and deposited into Audit Recoveries Account at the OAAG, RAA, Bumthang.

4.5 PARO DZONGKHAG

4.5.1 Allocation of CDG fund equally amongst Gewogs

As per the CDG Rules 2009 the MNAs should review the proposal submitted by the Gewog Administration and then approve the grant for utilization. In Paro Dzongkhag, the Hon'ble MNAs had allocated the grant equally amongst the Gewogs.

This showed that irrespective of needs, the Gewogs were allocated equal amount of CDG Fund. The RAA opines that such allocation of CDG fund may not be fair and equitable as some Gewogs may not even need the CDG fund or the needs may differ from gewog to gewog.

4.6 SAMDRUP JONGKHAR DZONGKHAG

4.6.1 Non utilization of the CDG assets

Agriculture machineries under Dewathang and Orong Gewogs had remained unutilized as observed during the RAA's review in Dec 2011. The details of the unutilized machineries are shown in table 4.2 below:

Table 4.2: Non-utilization of CDG assets in Dewathang and Orong Gewogs

Sl. no	Description	Qty	Rate	Value (Nu)
A	Dewathang Gewog			
1	Agriculture machinery	1	32,000.00	32,000.00
2	4 bolt Viking oil expeller NA	1	61,650.00	61,650.00
3	Flat belting 3"x 4ply (in meter)	16	164.00	2,624.00
4	Belt Fastener No16	6	8.00	48.00
B	Orong Gewog			
1	Corn Flake machine	1	1 issued to Rimoong	Not installed
2	Kirloskar diesel machine (Maize mill)	4	1 issued to Moorong	All machines were not used
			1 issued to Melum	
			1 issued to Phulum	
			1 issued to Phu	

In addition, machineries were also found lying in an open ground rusted with few accessories missing. The Hon'ble MP in his response stated that proper sheds had been constructed and the machineries were safeguarded adequately.

4.7 TRASHIYANGTSE DZONGKHAG

4.7.1 Community asset registered in individual name and hire charge of Nu. 0.385 million not collected

In the financial year 2010-11, the Bomdeling-Jamkhar Constituency under Trashyangtse Dzongkhag had purchased a Backhoe Loader at the cost of Nu. 2.070 million for use by four Gewogs of Bumdeling, Tongshang, Yangtse and Jamkhar. However, the backhoe loader was found registered in the name of Ex-Gup Neten Dorji with registration No. BP-2A-5215. Even after election of new Gup, the ownership of the backhoe was not transferred to the Gewog. Further, the backhoe was hired out to the Ex-Gup for his personal use from 1/3/2011 to 31/3/2016 for the period of 5 years at rate of Nu. 0.055 million per month based on the agreement drawn between Ex-Gup Neten Dorji and the eight Chiwog Tshogpas. The hire charge of Nu. 0.385 million for 7 months from 1/3/2011 to 30/9/2011 (7 x 55,000.00) was not collected. The registration of asset created from CDG grant in private individual's name was not proper. Moreover, hiring of such an expensive asset to a single individual for a long period of time and non-collection of hire charges extended undue benefit to one individual at the cost of community as a whole.

It was also noticed that the backhoe loader had remained idle most of the time without utilization as details of work done by the machine was not found recorded in the Log Book except the maintenance of Tokaphu and Dalikhar farm roads for which the machinery was used. Thus purchase of such expensive machinery with limited use did not bring in much benefit to the community. However, the Hon'ble MP has responded that the collection of hire charge and the transfer of ownership were under process by the Gewog.

4.8 TRASHIGANG DZONGKHAG

4.8.1 Advances of Nu. 0.220 million still remained un-utilized

In Radhi, Merak, Sakteng Constituency the CDG amount of Nu. 0.220 million were given as advances for buying "Phasuens" of mithun and yak for the community as shown in table 4.3 below:

Table 4.3: Advances given for buying 'Phasuens' of mithun and yak in Merag Gewog

Sl. no.	Particular	Amount	Remarks
1	Lobzang Tashi	120,000.00	Advance to purchase Phasuens (Merak Gewog)
2	Pema Tenzin	100,000.00	GAO (Merak Gewog)
	Total	220,000.00	

The RAA observed that advances of Nu. 0.220 million paid for buying "Phasuens" of mithun and yak were still not utilized.

To this end, the Hon'ble MP has reminded Gewog Administration to purchase "Phasuens" of mithun and yak.

4.9 WANGDUE DZONGKHAG

4.9.1 Payment of Grant money in Cash (Nu. 0.300 million)

Under Athang Gewog, CDG fund of Nu. 0.300 million was found paid in cash to the following villages to purchase materials for internal house wiring of sixty-eight households under five Chiwogs without any estimates being prepared as shown in table 4.4 below:

Table 4.4: Showing distribution of cash to households

Sl.#	Village	No. of h/ holds	Amount paid (Nu.)	Total Amount (Nu.)
1	Athang	41	4,775.00	195,775.00
2	Zawa	17	4,470.00	75,990.00
3	Lhakang in Athang	3	4,745.00	14,235.00
4	Thelma	7	2,000.00	14,000.00
Total		68		300,000.00

The CDG Rules 2009 encourages creation of community assets. Payments of cash to individual households would create individual assets rather than community assets. As such the above mode of implementation of CDG activities may not be in conformity with the true spirit of CDG and therefore needs proper review at appropriate levels.

The Hon'ble MP, however, stated that he had approved CDG fund for the purchase of electric wires and that he was not aware of the distribution of CDG fund in cash to the households.

5. RECOMMENDATIONS

The grant had become an important initiative, which if well managed, has potential in boosting local development around the country. The benefit of grant was that it had reached all parts of the country giving local community the opportunity to participate directly in their own development. However, owing to its early stage of implementation, there were certain weaknesses and deficiencies observed during review, which if not corrected would undermine the success of the grant. Therefore, based on the audit observations discussed above, the RAA recommends following courses of actions to promote greater accountability, decision making and effective implementation of CDG activities.

5.1 Need for rational allocation of grant amongst the constituencies may be considered

Existing system of allocating CDG equally amongst all constituencies may not be reflective of huge variation in the geographical areas, population sizes, rate of poverty and the pace of development among the constituencies. Moreover, absorption capacity of all constituencies may not be same and grant may remain either underutilized or may be utilized for activities not consistent with CDG Rules. Therefore the Government could look into the possibility of allocating the grant on a more rational basis. The criteria may for example include a fixed minimum amount for each constituency and variable amount based on size and other factors of each constituency.

5.2 Grant spending on recurrent expenditure needs deliberation

Though Section 3.7 of the CDG Rules 2009 prescribes that *“The Grant shall not be used to finance recurrent expenditure, construction and renovation of Gewog office buildings and government staff quarters, purchase of vehicles, acquisition of land and buildings, contribution/donations and supplement activities funded by the government under regular programmes”*, several activities which could be categorized in the above mentioned heads were implemented by many constituencies. There were many instances of the grant being utilized for renovations, maintenances, and rehabilitations of various assets. In order to formalize future usage of the grant, deliberation at appropriate level of authority may be instituted to come up with common understanding on the spending of the grant.

5.3 CDG funding towards individual beneficiary needs to be deliberated

As per Section 3.5 of the CDG Rules 2009, any activity funded by the grant “*must benefit a minimum of ten gungs*”. However, the RAA observed some instances of grant being utilized benefiting less than ten gungs. In many cases CDG funds were directly distributed in cash or in kind to individual households or beneficiaries. While the approach adopted contributed in creating individual assets, it did not encourage creation of community assets as envisaged in CDG Rules. The matter, therefore, needs to be examined and deliberated at appropriate levels and proper directives and guidelines issued for common understanding on the usage of grant.

5.4 Activities having tangible benefits and direct impact on the people should be given priority

Considering the limited fund at the disposal of MNAs, it may be prudent that allocation of such funds were made on a rational basis particularly on activities providing tangible benefits and creating direct impact. Works pertaining to social sectors like, education, drinking water supply, health and family welfare, drainage, etc. may be given greater weightage as these activities were observed to have more positive and direct impact on the people and a greater outreach for long-term sustainable benefits.

5.5 Funding of new farm roads out of CDG Fund may be reviewed

Construction of new farm road entails sizeable fund. Due to limited fund requisite quality standards were not met in many cases. While with more new farm roads constructed through CDG funding connectivity would have increased, unless minimum quality standards were maintained such roads may only be rendered seasonally pliable. It was therefore desirable that CDG funds were used judiciously on activities providing maximum benefits to the community instead of allocating in new farm road constructions which may not meet requisite specifications and minimum quality standards.

5.6 Efforts should be made to raise community awareness on Grant and its activities

There was a need to enhance efforts to raise community awareness on CDG programs and activities. The audit revealed that hundreds of

activities have been implemented through the CDG. However, large numbers of rural people do not know about the CDG. Lack of adequate awareness on the CDG initiative will inevitably impede community participation and involvement in the initiation and implementation of CDG activities. It may, therefore be, desirable that appropriate awareness campaigns are carried out including open forum and panel discussions, media publications, direct discussions with the community, dissemination of information through Dzongkhag and Gewogs authorities and local leaders, distribution of brochures and pamphlets etc. Preparation of annual report on CDG containing the status of implementation of CDG activities across country and distribution amongst Dzongkhags and community leaders may also facilitate identification of projects having positive and greater impacts.

5.7 Capacity building of Gewogs and community contractors

Lack of proper reporting procedures, monitoring and record keeping were some of the main factors impeding timely and effective implementation of some of the CDG activities. Training of the Gewogs and community contractors on activity management, procurement, accounting procedures for the CDG funded activities may be necessary in promoting efficiency and effectiveness in implementation of CDG activities. Adequate trainings may strengthen their capabilities in implementing the activities and ensure proper implementation of activities. The capacity building of the Gewogs and community contractors may include the following:

- ★ Identification, initiation and submission of project proposals;
- ★ Procurement procedures and Guidelines;
- ★ Accounting Procedures;
- ★ Reporting procedures i.e. Activity status report and financial report;
- ★ Internal controls, supervision and monitoring mechanisms; and
- ★ Record keeping and documentations.

5.8 Local community should be actively involved in the planning of CDG activities

The CDG Rules encourages active involvement of local community in identifying their urgent needs and in the initiation and implementation of CDG activities. However, involvement of local community in the CDG activities was found to be minimal. There was need to increase people's participation in identification and prioritization of activities in order to actually address the real issues affecting the people and create ownership

of the activities among the people. The importance of involving the people in activities identification and prioritization cannot be gainsaid if the CDG was to achieve the desired results. Therefore Dzongkhags and particularly the Gewogs should encourage the involvement of local people and adopt participatory approach while conceiving, designing, implementation, and supervision of activities under the grant.

5.9 Recommendations of CDG activities should be backed by formal proposals from local community

Considering the nature and objectives of CDG, it was expected that proposals for activities originate from local community in the form of request for any CDG activity and those originating from MNAs are discussed at the local community levels prior to endorsement and recommendations by the Dzongdags for final approval of MNAs. The MNAs concerned should therefore require submission of a formal request of local community for any activities along with the recommendation of Dzongdags. In case of larger activities involving sizeable amounts signed resolution from the local community may be desirable.

5.10 Comprehensive work plan for the Grant activities should be prepared and submitted by the Implementing Agencies

In most cases work plans were not prepared for implementing CDG activities. The work plan was an important tool for identifying tasks of activity, setting deadlines and assigning works to individuals to execute the tasks. The work plan will provide a definitive direction and facilitate control and monitoring of activities, promote transparency and keep the community informed of pace of developments taking place in their locality. The implementing agencies should prepare a realistic work plan, which should be approved or endorsed by the MNAs. This will facilitate proper monitoring and effective implementation of CDG activities.

5.11 MNAs to conduct periodic monitoring and inspection

CDG initiatives were designed to establish closer links of MNAs with the local communities in their constituencies. Success of CDG activities will foster better understanding, co-operation and contribute in creating direct impact on the people. MNAs may conduct periodic monitoring and inspection of both on-going and completed activities for ensuring quality, timely completion and optimal usage of facilities created. Regular review meetings with Implementing Agencies to monitor the progress of activities may also prove to be an effective tool which would also generate

positive understanding of their responsibilities and uplift the principles of decentralization.

5.12 Asset Register to be maintained

Maintenance of asset register for recording assets created out of CDG fund was found to be inadequate. Most of the Gewogs visited by the RAA had not maintained the asset register. Asset register is necessary for promoting and facilitating proper accountability, custody and control over community assets. Asset Register should be strictly maintained by the implementing Gewogs as per CDG Rules 2009.

5.13 Focal person should be identified for the CDG activities

At present information on CDG programmes at the Dzongkhag were available in disjointed forms with various sectors or units. In absence of a comprehensive information system, the effective monitoring over implementation of CDG activities may be rendered difficult. Considering the workload involved in the Dzongkhags and importance of CDG initiatives, it may be desirable to identify a focal person at the Dzongkhag to facilitate institution of proper MIS and effective coordination and monitoring of activities.

5.14 Engineering works to be adequately backed up by engineering staff

Many CDG activities require support and supervision by Dzongkhag engineering staff. Due to implementation of many schemes in the Dzongkhag, they were not in a position to give due attention to the activities thereby compromising on the monitoring and quality aspects of the schemes. In addition to the increasing regular planned schemes, CDG activities might also increase eventually. It was therefore critical that works were prioritized and assigned amongst various engineering staff in a judicious manner.

5.15 Equipment funded through CDG should be registered in the name of Gewog

Any CDG asset is a community asset and it must be registered, owned and maintained under the custody of the Gewog on behalf of the community. Backhoe loader was registered in the name of Ex-Gup under the Trashiyangtse Dzongkhag without the ownership being transferred to the Gewog even after expiry of his term. The transfer of ownership needs to be expedited and hire charge amounting to Nu. 0.385 million should also

be collected. Procurement of such expensive machinery needs proper planning and feasibility study to ascertain the cost benefit of buying and hiring such assets vis-a-vis direct use to the local community.

5.16 Proper maintenance and upkeep OF CDG assets should be ensured

An effective system of periodic maintenance of assets created under CDG scheme through any budgetary support needs to be ensured. CDG Rules restricts the usage of CDG fund on such recurrent expenditures. As such it is imperative that either the communities maintain such assets or some other mechanism for periodic maintenance of assets are instituted.

5.17 Payments made without execution of works and receiving goods should be reviewed and recovered

Cases of payments made without execution of activities and receiving materials should be reviewed immediately and such payments recovered. Accountability should be fixed and action taken on those responsible for approving and booking such expenditure. Steps also need to be taken to strengthen the system of check and balances on CDG activities to ensure that all claims are correctly processed and approved.

