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Executive Summary

Why RAA did this study?

Article 25.1 of the Constitution of the Kingdom of Bhutan and Section 3 of the Audit Act of Bhutan 2006 state that *“There shall be a Royal Audit Authority to audit and report on the economy, efficiency and effectiveness in the use of public resources”*. Further, Section 40 of the Audit Act states that *“Notwithstanding the provisions of any laws relating to the accounts and audit of any public authority, the Parliament, if satisfied that the public interest so requires, shall direct that the accounts of such authority be audited by the Auditor General”*. Thus, in line with this important constitutional responsibility and in terms of Parliamentary directives received from the National Assembly vide ref. No. PAC (Ga/1)2009/9285 dated 6th August 2009, the Royal Audit Authority (RAA) conducted the ‘Performance Audit on the operations of the Bhutan Broadcasting Service Corporation Limited (BBSCL)’ in which the Royal Government of Bhutan allocates huge resources every year. In conducting the performance audit, the RAA not only looks at *“what has been done”*, but also *“what has not been done”* to achieve the organizations’ ultimate objective.

The Royal Audit Authority conducted the performance audit of the BBSCL to ascertain the economy, efficiency and effectiveness in the use of resources and in particular:

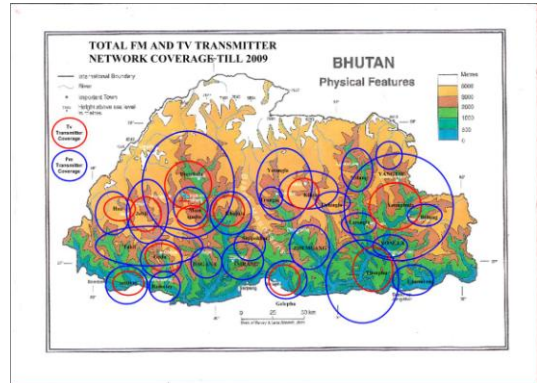
- ❖ To ascertain whether there are sufficient and effective control measures in place to ensure achievement of its goals and objectives;
- ❖ To assess whether the procurements are made economically, efficiently and effectively with respect to air ticketing, construction and other procurements;
- ❖ To assess the nomination procedures and relevance of the ex-country training;
- ❖ To review the effectiveness of strategies adopted for increasing revenue generation;
- ❖ To ascertain main cost centers having material effect on the Income Statement of the BBSCL and effectiveness of cost control measurers;
- ❖ To review the effectiveness of pricing strategies for both the services rendered and equipment leased;
- ❖ To review the adequacy of asset and inventory management system;
- ❖ To analyze the constraints and factors impeding operation of BBSCL as a full commercial organization; and
- ❖ To provide recommendations for improvement of systems, practices and operations of the BBSCL.

What RAA found?

Achievements:

The BBSCL had made considerable progresses in last few years. Some of the notable accomplishments of the BBSCL are:

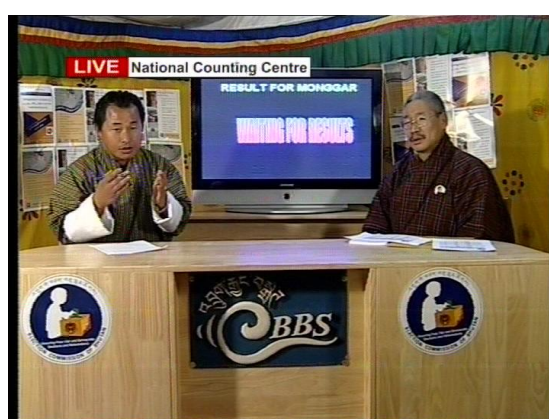
- ✓ Radio air time and television time had been increased to 15 hours and 5 hours respectively; The number of regional bureaus had been expanded to 10 in the year 2003;
- ✓ Launched Nationwide FM service, and live telecast expanded to other dzongkhags beside Thimphu;
- ✓ The nationwide satellite Television was launched on 20th February, 2006 and the signal is available to more than forty countries;
- ✓ In 2007, the Broadband Global Area Network (BGAN) was used for the first time which enabled live report from different Dzongkhags;
- ✓ The BBSCL played a pivotal role in the Nation's first parliamentary democratic election in 2008 by producing extensive educative and informative programmes like education on Democracy and Constitution, Voters Education Programme and live reports on the polling and results;
- ✓ The BBSCL also successfully covered the live telecast of some significant and historic events of the Nation like signing of the Constitution on 18th July 2008, the coronation and



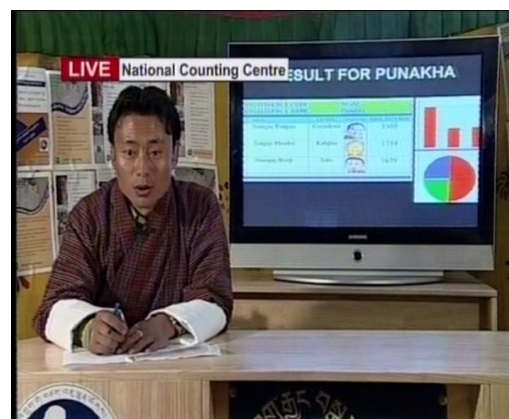
Achievements:

- ▶ First democratic election
- ▶ Live Broadcast of Parliament
- ▶ Signing of Constitution
- ▶ Coronation and Centenary Celebrations
- ▶ BBS feed of coronation celebrations to international broadcasters
- ▶ FM and TV Transmission network expansion
- ▶ National TV centre
- ▶ JICA ODA Project
- ▶ BBS Radio Online
- ▶ BBS Dzongkha webpage
- ▶ Entertainment programmes
- ▶ Organizational Development Exercise
- ▶ Human Resource Development Programmes
- ▶ BBS RTM
- ▶ BBS Radio at RSTA Bus terminal
- ▶ IBN-MSO
- ▶ ABU Admin Council meeting
- ▶ 24hrs Radio Service
- ▶ Live coverage of Solar Eclipse
- ▶ Coverage of 205 Geogs
- ▶ TVRO installed in 172 geogs

the centenary celebrations, and the parliamentary sessions.



Broadcasting election results



Relaying the results of elections

Shortcomings and Lapses:

While it is encouraging to note some of the commendable progresses as highlighted above, the RAA also observed certain inherent weaknesses in the BBSCL's operations, resulting primarily from the lack of proper legal frame work to regulate its activities, and absence of proper planning and coordination. The RAA also observed that the BBSCL had failed in its initial objectives to be a self-sustainable organization. It exhibited huge and consistent losses since inception. The losses were mainly attributed to huge depreciation cost. Its Profit and Loss Statement for last five years is summarized in **Table 2.1**. However, the BBSCL has re-oriented its objectives after 2007 by omitting objective on sustainability. Some of the other deficiencies observed are highlighted below:

Shortcomings:

- 1. Lack of proper legal framework and clear mandate*
- 2. BBSCL has been sustaining recurring losses*
- 3. Lack of adequate cost control and reduction measures*
- 4. Business Master Plan was not implemented*
- 5. Flaws in procurements and constructions*
- 6. BBSCL sustained Loss in MSO operations*
- 7. Lack of strategies for pricing of products and services*

- * The BBSCL lacks synchronization of the corporate objectives and departmental plans which is a vital element in the successful implementation of the organizational goals;

- ✘ Some of the manuals and guidelines developed to streamline the procedures and processes as a corporate entity were not complied, attributing to inadequacies surfaced after OD exercise;
- ✘ The corporate objective of financial sustainability through increased revenue generation as envisaged in the Business Master Plan (2005-2010) developed by the BBSCL was not achieved. The management attributed its non-achievement to constraints such as, compromising commercial opportunities to maintain the image of Public Broadcaster, limited market, cable television services, competition from print media, un-skilled personnel, lack of training, limited manpower, etc.;
- ✘ The BBSCL invested substantial fund and incurred losses in the implementation of MSO Project due to lack of clear directives.
- ✘ The BBSCL does not have proper basis or strategies for pricing its products and services;
- ✘ There were instances of enormous delays in the completion of projects, unfair evaluation and resultant loss - defeating the very purpose of competitive bidding;
- ✘ Some deficiencies were noted in the air ticketing system where quotations were limited to few selected agents, lack of documentation of the receipt of tenders and there were inconsistencies in the requirement specifications;
- ✘ Deficiencies were noted in the construction activities where erroneous clauses were framed in the contract agreements. The percentage of penalty for liquidated damages was fixed below the range prescribed in the procurement manual;
- ✘ The BOQS prepared by the consultant were inadequate as it exhibited incorporation of unnecessary works and omission of required items, leading to abnormal deviations. Thus the very purpose of hiring the expertise of the consultant seems to be defeated;
- ✘ The BBSCL as a separate entity lacks detailed and considered rules and regulations regarding the training and development.

What RAA recommends?

Based on the review, findings and analysis, the RAA offered certain recommendations with an attempt to address the identified deficiencies and weaknesses. Some of the significant recommendations requiring attentions are:

- ✦ The BBSCL should have proper regularity/legal framework setting out clearly its service mandates and accountability requirements. Its status either as a Public Service Broadcaster or a Commercial Broadcaster should be clarified through an appropriate authority to facilitate the BBSCL to formulate its plans and objectives to fulfill the mandate given;
- ✦ The BBSCL should develop proper action plans to ensure the achievement of targets and Corporate objectives;
- ✦ The BBSCL as a separate legal entity should subscribe itself to proper guidelines and regulations in order to strengthen its internal control system in the field of accounting and human resource;
- ✦ The BBSC should seek clear cut policy directives on the continuity and advancement of MSO Project activities;
- ✦ The BBSCL should conduct regular nationwide survey for improving its news and programmes;
- ✦ The BBSCL should constantly review and monitor its operating cost. The high cost components should be identified and monitored so as to reduce the gap between the increase in revenue and cost;
- ✦ The BBSCL should have proper pricing policies followed by consistent monitoring of prices to improve the profitability of the organization;
- ✦ The BBSCL should strictly adhere to the provisions of the procurement manual so that the objectivity of the requirements stipulated therein are upheld and thus derive economy in procurement;
- ✦ The BBSCL should ensure transparent and competitive bidding procedures in the procurement of air tickets. The RAA also recommends the BBSCL to make use of its in-house platform for advertising and quotation for procurement;
- ✦ The BBSCL should strengthen the asset management and control system. The corporation should review the current practice of codifications/ labeling of assets to facilitate proper control on the movement and tracking of assets;
- ✦ The BBSCL as a separate entity should develop a detailed and considered rules and regulations regarding the management and development of Human Resources.

2 Introduction

The BBS was established in 1973 by a group of youth volunteers known as National Youth Association of Bhutan (NYAB). On 18th September 1992, His Majesty the King issued a Royal Edict delinking the Bhutan Broadcasting Service from the erstwhile Ministry of Communications to enhance its professionalism and to enable it to be more effective in fulfilling its important responsibility to society. Thus, the Bhutan Broadcasting Service (BBS) is supposedly the national public service broadcaster functioning as an independent media organization under the Board of Directors and provides radio, television, and news online through the internet. However, the BBS was incorporated under the Companies Act of the Kingdom of Bhutan, 2000 on 15th August 1996, though the actual corporatization of the organization began only in 1997. Accordingly, the commercial accounting system in the BBSCL was introduced from July 2002.

Initially, the BBSCL had formulated the following objectives:

- ✦ To disseminate reliable and impartial information and programmes, promote education and awareness and provide entertainment;
- ✦ To encourage and enhance people's participation in the governance of the country and the nation-building process;
- ✦ To help, preserve and promote the country's cultural heritage and traditions;
- ✦ To record and be a source of the historical, cultural, religious and other developments of the country; and
- ✦ To strive to be a self-sustainable media organization.

Objectives:

1. *Inform, educate, inspire and entertain the people of Bhutan;*
2. *Contribute to national identity and consciousness by promoting the values, aspirations and rich cultural and traditional heritage of Bhutan;*
3. *Promote democratic debate; and*
4. *Nation-wide coverage and state of the art broadcast technology.*

Principles

BBSCL functions as a public service broadcaster and work to fulfill the following principles:

- ✦ It shall broadcast to all parts of Bhutan;
- ✦ It shall ensure that it contributes to the cultural, social, economic and political development goals and;

- ☛ It shall serve as a medium for communication, information and for sharing of views and opinions. All sections of the society shall have fair and equal access to the medium.

However, with the Organizational Development Exercise carried out in 2008, new strategic statements and motivational outputs were defined as follows:

Vision:

'A trusted public service broadcaster of international standing reflecting the Bhutanese expression'

Mission:

'Excellence in broadcasting inspired by the values of Gross National Happiness promoting the wellbeing, equanimity and sense of community among the people of the Kingdom of Bhutan'

The financial performance of the organization for the last five years of its operation is as under:

Table 2.1: The net operating profit/loss for the last five years

Figures in million Nu.

Particulars	2008	2007	2006	2005	2004
Revenue	26.399	17.415	17.506	5.735	7.611
Grants	106.707	66.299	71.269	38.740	35.834
Other Income	17.568	1.133	0.717	0.769	0.060
Total Income	150.674	84.847	89.492	45.244	43.504
Total Expenditure	151.760	118.435	106.467	95.530	75.474
Net operating profit/ (loss)	(1.086)	(33.588)	(16.975)	(50.286)	(31.970)

The Royal Government of Bhutan deployed huge resources every year to the corporation, constituting more than 70% of the operating fund. Therefore the RAA intended to ascertain whether due regard was given in ensuring economy, efficiency, and effectiveness in the use of these resources.

3

Findings

Achievements:

The BBSCL was set up with a mission to inform, educate and entertain the Bhutanese audiences. So on their pursuit towards contributing to the cultural, social, economic and political development goals, the BBSCL had made considerable progresses in last few years. Some of the notable accomplishments of the BBSCL in its last few years of operations are:

- ✓ Radio air time has been increased from 9 hours to 15 hours, and the television airtime has been increased to 5 hours and another 5 hours of rebroadcast;
- ✓ The number of regional bureaus had been expanded from 5 to 10 in the year 2003, increasing its reporting bases for effective delivery of their services;
- ✓ In 2005, BBSCL launched Nationwide FM service, and live telecast expanded to other dzongkhags beside Thimphu;
- ✓ The BBSCL had installed high capacity FM and TV transmitters in different pockets of the country to enhance radio and TV transmission;
- ✓ In addition to its service towards providing equal and fair access to the news and information, the BBSCL produces educative and informative programmes like education on Democracy and Constitution, Voters Education Programme, etc.;
- ✓ The BBSCL played a pivotal role in the Nation's first parliamentary democratic election in 2008 by providing the live reports on the polling and results;
- ✓ There had been considerable improvement in quality of the programmes, some of which competed at the international level and backed outstanding awards like, prestigious jury prize from the Asia Pacific Broadcasting Union;
- ✓ The BBSCL also successfully covered the live telecast of some significant and historic events of the Nation like signing of the Constitution on 18th July 2008, the coronation and the centenary celebrations, and the parliamentary sessions;
- ✓ It has also upgraded its infrastructures with procurement of state-of-the-art equipment and construction of new building for TV centre in 2009.

Shortcomings and Lapses

3.1. Analysis of factors impeding BBSC's operations

3.1.1 Strategic Plan without focus and clear intent

The BBS was granted autonomy on 18th September 1992 through a Royal Edict, delinking it from the erstwhile Ministry of Communications. Since then, the BBSC was established as an autonomous corporation governed by an editorial board comprising of representatives of the government, media professionals, scholars and eminent citizens. However, as provided in the *Bhutan Information, Communications and Media Act 2006*, the regulation responsibility for the information, communication and the media industry lies with the Ministry of Information and Communications. The Board is the governing body of the corporation and is responsible for setting strategic plans for the BBSC.

Being the only broadcaster in the country, the BBSC strives to fulfill the mandates of a Public Service Broadcaster (PSB). The vision statements subscribed by the BBSC after the recent Organizational Development (OD) Exercise stand testimony to its intent of assuming the role of a PSB.

Conversely, the organization's objective and delineation of its strategies towards fulfilling its mission statement of attaining financial sustainability through its commercial operations indicated commercial intents. As such, on reviewing its performance for last five years in terms of its financial sustainability, it does not appear encouraging as it exhibited trend of huge losses as shown in **Table 2.1**. Though the losses were mainly attributed to huge depreciation cost, for organization to sustain commercially should recognize both direct and indirect costs. However, such trend in their performance could be attributed to un-clear mandates and objectives. The ambiguity in their role is also perceived from the fact that they had assumed their roles either as commercial broadcaster or as PSB without clear mandate specifying their role.

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Loss sustained by BBSC:

In million Nu.

2004	31.970
2005	50.286
2006	16.975
2007	33.588
2008	1.086

The management explains their current position to function as PSB after reviewing their role in new democratic set-up during their Round Table Meeting with various external stakeholders as well as after extensive consultation in-house. However, the BBSCCL still does not have any regularity framework to base its strategic intents and formulate its plan of actions. Therefore, the BBSCCL lacks its purpose in absence of proper mandates.

3.2. Control measures and achievement of plans

3.2.1 Lack of synchronization of departmental plans with corporate objective

The review of the planning process of the different departments of the BBSCCL showed that the departments lack the practice of formulating annual plans of individual department. The planning and setting of departmental objectives based on the long term Strategic Plan would entail identification of activities that are pertinent to achievement of the organizational objectives. The system of aligning the departmental goals to that of overall goals and outlining the activities to achieve them would ensure successful implementation of the organizational goals.

However, the management responded that the efforts are being made to synchronize the plans.

3.2.2 Absence of documented delineation of job responsibilities

Though some of the departments have initiated to draft the procedures and guidelines outlining the roles and responsibilities of the various levels of positions following the recommendations of the recent Organizational Development exercise, it has not come up with formal documents. In absence of these formal documents, the employees may not have a focused direction to head towards. These documents would serve as standards for services and performances expected of the employees and would ensure that employees know what is expected of them in the capacity of positions they hold.

The management attributed lapses in documenting primarily to their constraint in manpower and their pre-occupation requiring to meet daily dateline of reporting. However, the BBSCCL has indicated that revised detailed job responsibilities has been initiated and addressed in their service rules which will be completed soon.

3.2.3 Non compliance to corporation's Financial Manual

In effort to streamline the procedures and processes as a corporate entity, various manuals and guidelines for financial management, human resource development and business plans have been drafted.

The Financial Manual was prepared to create a mechanism to ensure availability of the required information about finance, marketing, production and other related aspects, and to ensure its timely and systematic flow of information to various levels of the management hierarchy and to guide BBS's management for sound decision.

The BBSCL being a corporation necessitates preparation of corporate budgets outlining its productions and earnings. These would entail preparation of estimate of annual earnings from various programmes, advertisements and other sources through TV and Radio Network. Its estimates are to be based on the market condition, nature of competitions from other TV channels, preference of general public in specific areas, and entertainment values involved in programmes, etc. However, all these prudent norms were just laid but not practiced there by impeding effective management of resources.

3.3. Strategies for increasing revenue

3.3.1 Non achievement of targets/goals set in Business Master Plan 2005-2010

The financial sustainability had been one of the primary objectives of the strategic plan of the BBSCL. In line with this, the BBSCL had drawn up a Business Master Plan for the period 2005-2010 with the support from Danish International Development Agency (DANIDA), Asia-Pacific Broadcasting Union (ABU) and Korean Broadcasting System (KBS). The basic objectives of the Business Master Plan was to explore new sources of revenue generation and side by side promote ongoing commercial activities, prepare the fundamental income system and develop a basic data on income generation. The following strategies had been identified for the implementation:

- i. Increase the number of television sets and audience reach
- ii. Develop new & various advertising services
- iii. Proceed with aggressive promotions
- iv. Focus on commercial areas
- v. Make an objective & essential data of advertising
- vi. Utilize current regional bureaus
- vii. Explore additional ways of making revenue

Based on the strategies identified, annual goals have been set. The objectives of the business plan looked pertinent for creating avenues for the BBSCL to increase the revenue in achieving financial sustainability. Though the BBSCL made exceptional progress to increase the number of TV sets and audience reach, and also in utilizing current regional bureaus, many targets set in Business Master Plan remained unaccomplished despite plan period nearing completion dateline.

3.3.2 Avoidable expenditure on Multi Service Operator (MSO) business plan

The BBSCL had been appointed as the Multi-Service Operator in Bhutan for the period of 3 years as approved in 234th Session at the Coordination Committee Meeting of the Council of Ministers held on June 01, 2004. The total estimated cost of the project was Nu. 135.00 million. Under this the BBSCL was to acquire broadcast signals and distribute it to the cable operators spread across the country. The appointment of BBSCL as MSO was approved for the period of only three years as conveyed through letter no. COM/04/04/8 dated 7th July 2004. The letter indicated that the restriction imposed on the DTH TV Service was temporary until proper legal and regulatory framework was put in place. The Ministry of Finance approved the BBSCL to avail loan of Nu. 9 million from the National Pension and Provident Fund for the period of one year by mortgaging the land owned by BBSCL. Subsequently, the loan of Nu. 6.1 million @ 6.25% p.a. for the maximum period of 3 years was availed from the NPPF.

On scrutiny of the reports and related documents of the MSO project, the audit team noted the following deficiencies:

- a) The BBSCL has gone for preparation of Detailed Project Report incurring expenditure of Nu.1,324,200.00 during three years of MSO licensing. The decision on legalization of DTH TV services was critical to the success of the MSO project. Consequently, when the DTH was legalized by the government, the MSO plan was a failure as it became unfeasible, and the BBSCL was asked to come up with a concrete plan to phase out the operation of MSO. However, the management of BBSCL argues that implementation of Phase II of MSO became unfeasible because of difference in the licensing criteria set for DTH by BICMA, whereby the DTH operator unlike the MSO is not required to invest in a head-end in Bhutan. The accounts submitted by BBSCL on account of investment in the MSO project indicated the loss of Nu. 5,336,151.08 during the period from January 2006 to August 2009 on account of investment on MSO Project.
- b) The accumulated loss of Nu. 5,336,151.08 is inclusive of loss due to interest payment on the loan availed from the NPPF. The interest paid on account of Loan from NPPF amounted to Nu. 116,331.67 as of August 2009. With the direction of the government to phase out the operation of MSO by the BBSC, the servicing of the loan further creates additional pores in the limited revenues generated by the BBSC.

The BBSCL had incurred expenditure of Nu.1,324,200.00 in preparing a Detailed Project Report. The decision to phase out the MSO Project would result in not achieving value for money in the investment made. The lack of clear cut directives may further impede effective use of resources. The management while acknowledge losses sustained, indicated that MSO has made possible for the large number of

small cable operators around the country to have access to pay channels, thereby enhancing delivery of quality services to their customers.

3.4. Cost Centers and its effects on P&L of the Organization strategies for increasing revenue

3.4.1 High operational loss

The analysis of the final accounts of the BBSCCL from the year 2004-08 showed huge operational loss as exhibited in **Table 3.1.**

The audit conducted study to review and also to identify the major cost centers to compare the trends of its internal revenue with those costs.

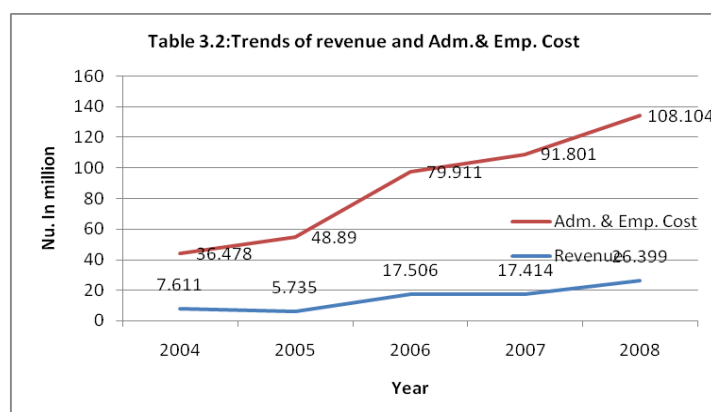
Table 3.1: Operating Income and Expenses

Figures in million Nu.

Particulars	As at 31/12/04	As at 31/12/05	As at 31/12/06	As at 31/12/07	As at 31/12/08
Operating Revenue	43.504	45.244	89.492	84.847	150.674
Operating Expenses	75.474	95.530	106.467	118.435	151.760
Operating Loss	(31.97)	(50.286)	(16.976)	(33.588)	(1.086)

Source: Statutory Audit Report

The operating revenue consists of internal revenue of BBSCCL, Grants received from the government and other sources. The trends of operating losses are not consistent as it varies with amount of grant received from the government. However, as can be seen from the **Table 3.2**, the operating expenses are on an increasing trend.



This analysis does not reflect the correct efficiency of the BBSCCL

as the revenues constitute the grants from the government and other sources which are not the result of organizational operations.

Therefore, the comparison of its revenue with respect to the Employee and Administrative Cost purports to provide rational analysis of performance of the BBSCCL as these are the results of the operations. The

Table 3.3: Relationship between the revenue and the employee cost and administrative exp.

Figures in million Nu.

Particulars	2004	2005	2006	2007	2008
Revenue	7.611	5.735	17.506	17.414	26.399
% change in Revenue	-	-25%	205%	-0.50%	51.60%
Adm. & Emp. Cost	36.478	48.89	79.911	91.801	108.104
% change in Adm. & Emp. Cost	-	34%	63.50%	14.87%	17.70%

Source: Statutory Audit Reports

Employee and Administrative costs represent over 48% of the total operating costs in all the year under review.

As evident from the **Table 3.3**, Administration and Employee costs had been increasing at higher rate than the increase in the internal revenue. The percentage change in revenue is very low and sometimes negative whereas the percentage change in employee and administrative cost shows that these costs had been increasing at an increasing rate. This indicates that the cost had remained uncontrolled over the period and that the increase of it could not be matched by the increase in revenue. The management attributed the increase in cost due to increase in infrastructures and manpower with the increase of air time as well as staff pay revision.

3.5. Review of pricing strategies of BBSC

3.5.1 Lack of proper basis for pricing of the products and services of BBSC

The prices of the services and the products of the BBSC for both the Television and Radio advertisements are fixed basically into two categories: Prime and Regular Time. The rates are fixed according to the durations of air time allotted. The lump-sum amount for programme sponsorships and greetings during Special Occasions are fixed. The rates for the studio and other services such as hire of camera, editing, recording etc. have been fixed based on the usage and programme durations.

The review of the pricing process revealed that the BBSC do not have well planned pricing strategy. The prices fixed were the rates that have been approved by the board based on the trends in the past years. Since the costing has not been done, the prices fixed do not reflect the true cost of the services rendered.

The current practice of fixing prices undermines the organizational goal of achieving financial sustainability. Therefore, it is apparent that the BBSC striving for financial sustainability must ensure its overall profitability through effective pricing. The BBSC lacks sustainable pricing and monitoring policies in place to improve the overall profitability of the organization.

However, the management responded that the effort is being made by initiating series of discussion and survey of price being conducted.

3.6. Assessment of procurement with regard to economy, efficiency & effectiveness

3.6.1 Unfair evaluation and resultant loss amounting to Nu. 2,244,942.00

On verification of procurement of assets worth Nu. 70,504,700.75 made through the GOI funds in the year 2007, the audit team noted unfair evaluation leading to a loss of Nu. 2,244,942.00.

The quantity of cameras required included 4 for main studio and 3 for news studio. In the Schedule of Materials, the BBSC had suggested the models similar to both SONY DXC-D50 and Thomson LDK 300. The financial evaluation of the five technically qualified bidders was done and the contract was awarded vide letter No.BBSC/M-8/2007/3406 dated 21st July 2007 to the lowest bidder, M/s Essel Shyam Technologies Ltd from Noida, India who had quoted Nu. 89,430,446.00 for Sony model.

However, the BBSC's committee proposed to purchase Thomson camera LDK 300 instead of Sony model as the company had also offered Thomson model at the quoted rate of Nu. 91,675,388.00 which was still the lowest. The unit price of Sony model was offered at Nu. 1,073,425.00 and Thomson at Nu. 1,394,131.00. Subsequently, the work was awarded to M/s Essel Shyam Technologies at the enhanced contract amount of Nu 91,675,388.00 vide BBSC/M-/2007/3406 dated 21st July 2007. Thus, the decision to change the model from Sony to Thomson had resulted into extra financial burden of Nu. 2,244,942.00. The details are as worked out in **Table 3.4**.

The audit could not establish the reasons for decisions to switch the models of the camera at the very last stage. As per clause 4.3.1.4 (e) of the Procurement Manual (Rules and Procedures) 2007, discussions to adjust the proposals should be made during the technical evaluation to meet the requirements. The technical solutions as agreed upon should have formed basis for the revised BOM against which the revised technical proposals had to be made. Since no change was proposed during the technical evaluation and both the models were specified in the Schedule of materials, Sony model could have sufficed the requirements of the BBSC. The BBSC had gone for the model having similar functionalities with huge extra cost of Nu. 2,244,942.00.

The management responded that they have opted for superior quality with features available in Thomson LDK 300 camera upgradeable to high definition. They also explained that they obtained the approval of the Chairman of the Inter-Ministerial Tender Committee and had also consulted the GOI consultant for their decision.

Table 3.4: Unfair evaluation and resultant loss amounting to Nu. 2,244,942.00

Model	Unit Price (Nu.)	Quantity	Amount (Nu.)
Sony	1,073,425.00	7	7,513,975.00
Thompson	1,394,131.00	7	9,758,917.00
Difference			2,244,942.00

3.6.2 Enormous delay in completion of the National TV Centre and subsequently the installation of TV equipments

The work for the construction of new TV centre was awarded to M/s Bhutan Builders and the work was scheduled to complete in May 2007. However, the work was actually completed in February, 2009 after the delay of over 21 months.

As per the notice of award of work conveyed vide BBSC/M-8/2007/3406 dated 21st July 2007, the work of supply and installation of TV equipments was to be completed within 6 months from the date of issuance of commencement order. The commencement order was given vide BBSC/M-8/2007/3406 dated 21st July 2007. Hence the completion time reckoned from the date of issue of commencement order falls on 2nd February 2008.

However the start of the work of installation was deferred due to delay in the completion of the building. After the delay of over 16 months, the equipment and the systems supplied/ installed by the supplier were handed over to the BBSC on 15th June 2009. The equipment/ systems are stated to have been tested successfully through supplier's letter dated 11th June 2009 to the Managing Director.

However, after commissioning and testing of systems and equipments, the news studio in the New TV centre has not become functional as on the date of audit.

Thus, the delay caused in the completion of building and the inability of the systems to go fully functional even after it had been handed over to the BBSC had caused considerable delays in actual implementation and hampered effective delivery of services.

3.6.3 Deficiencies in the air ticketing system

3.6.3.1 Open tender not called for the purchase value more than Nu. 100,000

On review of the procurement of air tickets, it was noted that BBSC had resorted to limited bidding process even for procurements exceeding Nu. 100,000. The practices resorted to was therefore, in contravention to the Procurement Manual. Thus, the BBSC was deprived of the benefits of economy of competitive prices.

3.6.3.2 Quotations limited to only selected few suppliers

In the limited bidding, most of the tender calls were made through fax to few selected ticketing agents who had been doing the business with the BBSC regularly. The BBSC, later on started with the practice of sending the tender calls to the selected ticketing agents through the email. This practice had been adopted in response to the complaints from the ticketing agents with regard to the loss of fax papers.

On review of the process, the audit team noted that the emails indicated the names of all the ticketing agents to whom the tender calls had been made. Although such practice of indicating the names of all ticketing agents in the NIQs is not prohibited by the extant procurement rules, it is felt that such practice could be fraught with the risk of collusive bidding. Thus, the possibility of undermining the purpose of competitive bidding procedures cannot be ruled out.

3.6.3.3 Non specification of duration validity of air tickets

On verification of evaluation of tender documents of the selected ticketing agents, it was noted that the BBSCL does not specify the duration validity of tickets while floating the quotations. Such practices create room for manipulation by the ticketing agents by charging the price of economy class tickets and providing the excursion class tickets. Therefore, the non inclusion of duration validity in the requirement might deter the BBSCL from getting economical prices of the air tickets.

3.6.3.4 Lack of documentation of receipt of tenders

The BBSCL does not maintain records of receipts of sealed tenders. The quotations are directly handed over to a single dealing person by the agent's representative in person. The dealing officials do not have any records to state the number of tenders received for a particular tender call. The exact number of quotations received could not be confirmed in absence of such records.

While such practices not only contravene Procurement Rules, it also provides to show weak internal control system existing in the organization. The management can not remain oblivious to the potential risk posed by such weaknesses in the system.

3.6.4 Framing of erroneous clauses in the contract agreement

The verification of the documents related to the construction of the National TV Centre revealed some irregularities and flaws in the execution of the contract.

The scrutiny of the contract agreement of the construction of National TV Centre revealed that the penalty rate in the liquidated damages clause to be applied in the event of delay in the construction was set at 0.01% per day of the final contract price. It was found that penalty fixed was not within the range prescribed by the conditions of contract for civil works in the procurement manual. As per the procurement manual, the liquidated damages can be levied at the rate of 0.1 percent per day and it should not be less than 0.05 percent and not more than 0.1 percent.

Though the BBSCL has deducted the penalty as per the provisions of the Procurement Manual, oversight on the part of the committee could cost the organization with unnecessary legal complications.

3.6.5 Incorrect estimates of Consultant leading to abnormal deviations

The consultancy service on the preparation of design & drawings for the construction of National TV Centre for BBSCL at Chubachu, Thimphu was awarded to M/s Gandhara Designs Consultancy at a consultancy fee of Nu. 3,200,000.00 vide letter No.BBSC/M-16/2004/3092 dated 5th October, 2004.

The contract for the construction of National TV Centre for BBSCL at Chubachu, Thimphu was awarded to M/s Bhutan Builders at a contract cost of Nu.98.94 million. According to the TOR, the design consultant was required to provide exhaustive and explicit BOQ so as to avoid deviation, changes, additions, alterations and substitution during implementation/ execution phase. The review of Final bills of the Contractor with reference to the BOQs prepared by the design consultant revealed abnormal deviations indicating incorrect/improper assessment of BOQs as well as time overruns. Cases of deviations ranged from (-) 100% to (+) 927.36% as detailed in **Annexure - A**.

Although the overall deviations in terms of financial implication was minus (-) **Nu.6.83million**, many additional items were executed while many items in BOQ were not executed. The consultant had incorporated unnecessary work items worth **Nu.7,210,946.40** (Refer details in **Annexure – B**) and left out necessary work items worth **Nu. 1,623,290.83** (Refer details in **Annexure – C**) where the BBSCL had to execute it as additional work.

The above instances were result of unrealistic BOQS prepared by the consultants. Thus there was no real value in the consultancy services procured at a cost of Nu. 3.2 million.

3.7. Review of Inventory Management System

3.7.1 Physical verification of assets and stocks not carried out as per requirements

The BBSCL has a system of carrying out the physical verifications of stock and materials bi-annually. Such a system would not only facilitate the management to have proper control over material and stocks, but also ensure accuracy of the balances reflected in the books through timely reconciliation of the discrepancies, if any.

A review of the system showed that physical verification is carried out by the same person responsible for custody of stores, undermining the very objectivity of the verifications.

Further the report of the physical verification of the Fixed Assets has not been prepared in the format prescribed in the Financial Manual of the BBSCL.

3.7.2 Improper codification of Fixed Assets

On a random sample basis, the audit test checked the existence of the few television equipment enlisted from the fixed asset register. The tracking of assets was done both from the register to the floor and from the floor to the register. It was observed that list of 4 individual TV equipment under the name “TV equipment” having different codes could not be identified at the floor in the absence of authentic assets code placed on the asset.

In the absence of the proper codification of assets at the floor as well as improper recording by its name and specifications, the tracking of assets becomes difficult and as a result the control system is weakened.

3.7.3 Unclear disposal policy of fixed assets

The Financial Manual of the BBSCL does not prescribe procedures regarding the disposal of fixed assets. The current practice is that the individual departments/units surrender the unusable assets which are subject to further verifications either by the technical department or the IT section. The disposals through the auctions are arranged by the stores department giving due regard to the procedures followed by the government agencies.

However, there are certain equipments like cameras, which were declared to be unusable but retained in the maintenance stores in anticipation of possible replacements usable parts. The equipments are held up in stock and use of its parts arises only in the event of actual requirements. Thus, as the equipments are held up and are not available for auctioning, the management loses on account of opportunity cost. There are no instances of log being maintained for the use of parts of the equipment held up. Thus, there is no proper control over the disposal as well as retention of assets which were declared unserviceable. There are also instances of equipment being declared obsolete and not usable before its economic life.

3.7.4 Non-accountal of materials

A test check on tracking of few selected items of assets from the floor to the register showed that the VHF antennas have not been recorded in the appropriate register. The review of list of assets handed over to the present stores in-charge on 26th November 2004, showed that 106 antennas had been handed over. The antennas were supposedly purchased for the distribution at the rate of Nu. 500.00 each. As on date of audit, 91 antennas were either sold or issued for installations at various places. Since proper recording of the procurement of the antennas were not done, the audit team could not ascertain the actual quantity of antennas procured initially and sold/issued subsequently.

**3.8. Human Resource
Development and
Management**

3.8.1 Lack of laid down rules and regulation for training and development

The BBSCL do not have a detailed and considered statement of rules and regulation for the training and development of human resource. The present system follows the blend of the BBSCL Service Rules 2003 and the Bhutan Civil Service Rule and Regulations. Because of the flaccid rules and regulations in place regarding the training and development, there were occurrences of non-uniformity in the application of rules.

For the trainings abroad, the invitations and training slots are forwarded by the HRD to concerned departments and the candidates are nominated by the individual departments. While some of the departments have a training committee for nomination of the candidates, some do not have one. Thus, the lack of laid down procedures for nominations for training and development might lead to inconsistent application of rules.

The management responded that they are currently reviewing their Service Rules and issues will be appropriately dealt with in the revised Service Rules.

3.8.2 Lack of career progression path in the grading structure

The review of the grading structure of the BBSCL, the audit team found some inherent flaws in the system itself. In the grading structure of BBSCL, there are three position titles: the management, professional and Support titles. Each position titles have three position levels: M1, M2, M3; P1, P2, P3; and S1, S2, S3. Each position levels have nine steps.

The section 1.04, Chapter V: Promotion rules and regulations of the BBSCL service rule 2003, states that Promotion to higher level shall be granted only against approved vacant posts, while promotion to the higher step shall be considered only upon the completion of minimum of two years in the present step. According to this clause, an individual should be in a particular position for a minimum of two years.

To illustrate a case with reference to said rules, if a general graduate joins the BBSCL, the entry position level is P3 and its in the third step (P3-3) and for that particular person to reach the Manager Level 3 (M3 level), the person has to serve the organization for 48 years even if he is a performer getting regular promotions (i.e. promotion every after two years). Thus, this system of grading structure of the BBSCL could be seen as serious setback in the human resource management. It translates into lack of career progression path even for the performers.

The management responded that they are currently reviewing their Service Rules and issues will be appropriately dealt with in the revised Service Rules.

3.8.3 High staff turnover of the BBSCL

A review of staff turnover of the BBSCL indicated that in the year 2007 and 2008, 29 employees left the organization out of the total staff strength of 268 and 270 employees in 2007 and 2008 respectively. The employees who resigned included 13 security guards, 13 professionals and 3 others.

Though the reasons for resignation were not reviewed, the RAA felt that the turnover rate is alarming especially on account of losing the professionals. The staff cost in terms of cost of administration of selection, recruitment and resignation processes, induction, training and development and replacement will prove to be extra financial burden on the organization. Further, losing the professionals would affect the quality of services if the organization can not replace the employees with same level of skills and experiences.

The management indicated that high turnover was particularly at the new entrants at professional level. The management attributed the reasons for high staff turnover for low salary as compared to other corporations whilst their working hours and conditions were not attractive to retain fresh graduates.

3.8.4 Non-fielding of dedicated heads for functional departments

On review of the organizational set up and manning of the departments, it was noticed that two of the different functional divisions are headed by a single person. The instance noted was the Finance and Commercial Department (FCD) and Human Resource and Administration Department (HRAD) being headed by a General Manager.

As the functions and responsibilities of two divisions differ, it may not be of interest to the organization for the reasons of exercising proper check and control mechanism in the system. On the other hand, additional responsibilities might deter effective performance of the individual due to overburdening.

4

Recommendations

Based on the observations highlighted above, the RAA recommends following course of actions:

4.1 The BBSCL should have proper legal framework clearly delineating its functional mandates

The BBSCL, though granted autonomy, do not have proper legal framework which stipulates its functional mandates. The current state of the BBSCL reflects its confusion of roles between public service broadcaster and the commercial broadcaster. Without the requisite mandates stipulating its organizational purposes, the BBSCL is not in a position to formulate its strategic intents and also its short term goals and objectives. Further, there are numerous other implications that surge as a result of lack of proper policy or legal frameworks.

Thus, recognizing the fact of broadcasting as the most pervasive and powerful instrument to promote the expression of views and core values, as well as to enhance the quality of citizens' life, there is a need of a proper regularity/legal framework setting out the public service mandates and accountability requirements. Its status of either a Public Service Broadcaster or a Commercial Broadcaster must be granted through a relevant authority to facilitate BBSCL to formulate its plans and objectives to fulfill the mandate given. The change in status would necessitate overhauling of institutional functioning itself as the status would outline organizational structure, strategies and objectives, work environment and its quality contents as per its assigned roles. This has been a trend in all the successful broadcasting services all over the world like the BBC, Public Service Broadcasting of Sweden, etc.

4.2 Requirement of proper planning for the BBSCL

The strategic plan (FYP) sets the framework for developing the annual plans of the organization. The departmental programs contributing towards achievement of common organizational goals must be identified and outlining how individual department efforts synergistically support common endeavors. The successful implementation is accomplished by turning strategic plans into action plans that are executed at the unit level. It entails identification of all the steps required to achieve them including effective supervision and monitoring.

The BBSCL had developed Business Master Plan 2005-10 mainly to achieve financial sustainability through increased revenue and its base. However, the strategies identified for implementation under this plan remained unrealized further substantiating the need to prepare realistic and achievable plans.

4.3 BBSCL should adhere to their guidelines and manuals that govern the organization and policies it has adopted

Despite its perplexed status as a Public Service Broadcaster and a commercial broadcaster, the BBSCL has developed various guidelines and manuals in its effort to stream line the procedures and process as a corporate entity. However, they could not adhere to some of these guidelines and manuals developed.

The BBSCL as a separate entity should subscribe itself to requisite guidelines and regulations in order to establish organizational procedures and mechanisms so as to carry out its activities in an orderly, efficient, effective and lawful manner. The strict implementation of its financial manual could be vital to gear up its activities towards the desired directions through budgeting of its revenue and expenditure. The setting of goals is essential and must provide directions for its activities. Besides, it would also serve as parameters to gauge its performance at the end of the period.

4.4 Clear-cut directives should be sought for continuance of the MSO Project

The Corporation has invested substantial amount in the MSO Project and had also sustained sizeable amount of losses. Considering the investment made and other factors including likely impact on the quality and content of services it is felt that clear directives of the government should be sought on the continuity of the Project.

4.5 Requirement of regular nationwide survey for improving and redirecting news and programmes

For the BBSCL to be socially responsible to the society as mandated through its recently developed vision and mission statements and also to be responsive and proactive corporate entity pursuing for financial sustainability, it is vital to meet the demands and priorities of the customers. The nationwide survey would bridge the communication gaps between the service users and providers and alleviate bottlenecks through tuning its programs and plans to the requirement of the general public. It can also assess the quality of its programming and recommend improvements.

The BBSCL should introduce a system of performance indicators and quality standards to enhance performance. It can be aimed at key areas like audience share,

reach, audience appreciations, quality and diversity of contents and governance and efficiency.

4.6 BBSCL must review the expense heads and initiate cost control measures

The overall financial performance of BBSCL is dependent on its ability to increase its internal revenue or its ability to curtail its cost of operations through constant review and monitoring of the operating costs. The increasing costs which are not matched by the increase in revenue had resulted in the continuous loss over the periods under review. Thus, management's oblivion towards increasing cost would further deteriorate its financial health. Therefore, the BBSCL must review and analyze its costs and initiate appropriate cost reduction and cost control measures.

4.7 BBSCL needs to develop a proper pricing policy to ensure profitability

The BBSCL's objective of attaining financial sustainability would be marred if sustainable pricing policy is not adopted. As there is no definite basis for fixing the prices in the current practice, the prices that are fixed and approved by the board may not be effective and sustainable for the profitability of the organization. Therefore, the BBSCL needs to establish sustainable pricing policies having regard to cost of products and services and prices of similar products and services followed by constant monitoring of prices to improve the profitability of the organization.

4.8 Compliance to the procurement manual must be enforced to derive economy in the procurement

The BBSCL must ensure that the procurement practices are invariably made with due regards to the provisions contained in the procurement manual in order to avoid uneconomical expenses. The strict adherence to the procurement manual would ensure advantages of competitive prices and also provide equal opportunities for the suppliers.

4.9 Ensure transparent and competitive bidding procedures in the procurement of air tickets

The BBSCL should follow open tender procedures for the procurement of air tickets as per the applicable threshold levels rather than resorting to limited bidding for greater transparency, fairness and competitiveness. Further, the practice of enlisting of few ticketing agents must be avoided as it limits wider participation and competition.

For the transparency and fair competition amongst the suppliers, the types and classes/sub-classes should be specified in the tender documents.

The BBSCL must ensure proper documentation is maintained to exercise better control and check in the procedures of issuing receipts and opening of the bids. The

RAA team also recommends the BBSCL to make use of its internal resource of advertising and announcement facilities through the television or the radio services which can also be an effective means of communication and information to the prospective suppliers.

4.10 Ensure contract agreements are drawn in line with the provisions of the Procurement Manual

The clauses of the contracts should be drawn up in line with the standard contract document specified in the procurement manual. Though there is provision for the procuring agencies to customize the clauses of the contracts suiting to their specific requirements, the amendments must be within the parameters set in the standard contract forms. This is to ensure consistent applications of certain clauses and also to check the biasness that might undermine the objectivity of the procurement manual. In the case of liquidated damage detailed in observation 3.6.4, it was erroneously fixed at the rate which was outside the range specified in the procurement manual. This had resulted into litigation in the court of law.

Thus, BBSCL must ensure that contracts agreements comply with the stipulations contained in the procurement manual.

4.11 Penal clauses must be incorporated in the contract for the procurement of consultancy services

The contract for the delivery of consultancy services must prescribe the penalty for the significant deviations that might occur from the bills of materials prepared by them. It would serve as deterrence for the consultants in preparing unrealistic estimates which affects the scope of work at the later stage. The current practice do not contain penal clauses although there were significant cases of deviations ranging from -100% to 927.36% (observation 3.6.5) in the actual execution.

Thus, the BBSCL must review the need to incorporate penalty clause in the contract for the procurement of consultancy services.

4.12 The BBSCL must tone up asset management and control system

In order to exercise effective control over fixed assets of the corporation, the strict compliance to the procedures prescribed in the Financial Manual of the BBSCL for recording, custody and physical verification must be ensured. The BBSCL must review the current practice of codifications/ labeling of assets to facilitate proper control on the movement and tracking of assets.

The policies for the disposal/ retirement of assets must also be laid down for uniform compliance by the different departments of the organization.

The physical verification of stocks must be entrusted to independent personnel who are not responsible for the physical custody of stores or for maintaining the accounts. The proper reconciliations and remedial measures as per the rule must be made for any discrepancies.

4.13 BBSCL must develop a detailed and considered service rule

The BBSCL as a separate entity should develop a detailed and considered rules and regulations regarding the training and development of the corporation as this would provide standard framework for the production of the corporation's plans and policies. It would also provide fair and transparent opportunities and recognitions to the employees.

Proper meritorious promotion criteria and conditions should be developed to make the promotion system fair, consistent, objective and reasonable. Factors affecting the organization's high employee turnover must be reviewed and institute proper retention policies.

4.14 The grading structure of BBSCL should be reviewed to address the career progression path for the employees

The current grading structure of the BBSCL does not seem to facilitate proper recognition of services as even the performers getting regular promotions would take unreasonably long to reach the Managerial Level. The recent Organizational Development Exercise carried out had concluded that 75% of the BBSCL staff craves to achieve better performance which could be directly attributed to the motivation of the staff. This setback in the grading structure could be one of the factors which affect the motivation of the employees.

Therefore, the RAA team would like to recommend the BBSCL management to revisit or amend the grading structure of the staff as having a proper career progression path can be an effective tool of motivating and retaining senior and experienced employees.
