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**Royal Audit Authority**



**AUDITOR GENERAL'S OCCASIONAL PAPER**

**ON**

**AGENCIES RATIONALIZING IRREGULARITIES**

VOLUME I

OCTOBER 2021

## VISION

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

## MISSION

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

## RAA CORE VALUES

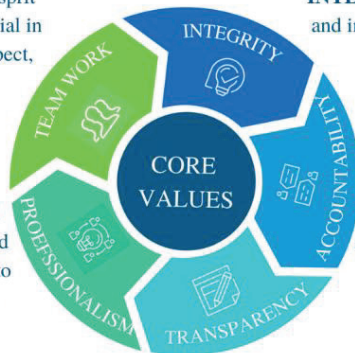
**TEAM WORK:** We believe in team spirit and diversity to unleash our full potential in achieving common goals through respect, trust and support.

**PROFESSIONALISM:** We perform quality audit services through dedicated and competent work force conforming to auditing standards and best practices.

**INTEGRITY:** We are independent, honest and incorruptible in our conduct & remain impartial and trustworthy.

**ACCOUNTABILITY:** We are accountable for our own actions in a similar way we propound accountability audited agencies.

**TRANSPARENCY:** We are transparent in all our dealings and actions, and promote culture of openness and submit yourself to scrutiny.





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ROYAL AUDIT AUTHORITY

*Bhutan Integrity House*

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



RAA/(AG-SP)2020-2021/092

Date: 7th October 2021

This Occasional Paper on the theme “Agencies Rationalizing Irregularities” is issued in accordance with Section 114 of the Audit Act of Bhutan 2018 intended towards promoting accountability, transparency, integrity and value for money in public operations.

The copy of report shall be made available on RAA’s website.

(Tashi)  
Auditor General

*‘Every individual must strive to be principled. And individuals in positions of responsibility must even strive harder.’*

*-His Majesty the King Jigme Khesar Namgyel Wangchuck*

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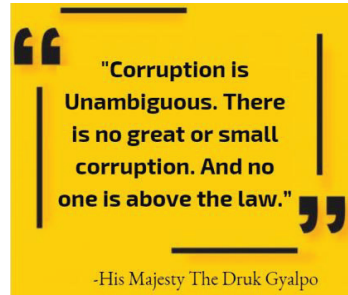
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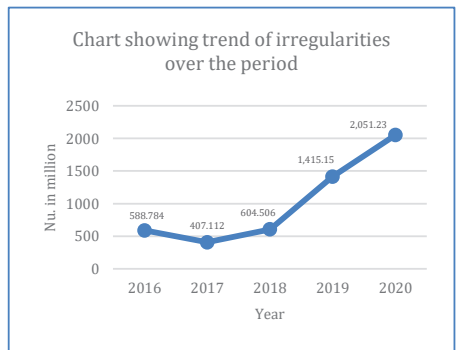


## INTRODUCTION

Over the recent years, the Royal Audit Authority has reported increasing trend of unresolved irregularities in its Annual Audit Reports as shown in the Chart I. The RAA also reported cases of fraud and corruption involving Nu. 95.918 million in the past four years. Citizens questioned the effectiveness of auditing especially the role of RAA and also the extent to which audit reports have been able to promote accountability, transparency, integrity, and value for money in public operations. Persistent irregularities surfacing year on year basis have always been a matter of concern for RAA as the nation's conscience keeper. Audit institution of the nation has the responsibility of building trust and confidence in the public sector and government through its work of auditing and reporting. The process of informing audit results to the stakeholders and providing basis for holding those charged with governance responsible is expected to promote desirable values and bolster accountability mechanism. The RAA in a cycle of accountability, attempts to seek attention of the authorities and agencies to act upon its reports and recommendations on a continued basis.



Yet, in terms of trend of reported irregularities, there is no sign of improvements. While rising trend of irregularities could be attributed to range of factors such as increase in the size of public expenditure, enhanced coverage of audit, etc., it is also an indication that there is deficit of ethics and morality in the way public resources are managed.



All players having specific roles to play in the accountability cycle, it places equal responsibility to each of these institutions to uphold the culture of professionalism, ethics and accountability. The current state of affairs should knock on the conscience of all! Unless the collaborative mechanisms amongst all institutions in the public sector are put in place to pursue collective responsibility towards creating a cleaner society, institutions and agencies shall always remain derailed in their collective mission and continue to revolve around the question, "who is responsible?" and set in vicious cycle of blame game. It calls for a deeper introspection to take the step forward. It should provide insights into what, where, and how things have faltered in the journey of creating a cleaner public sector worthy of trust and confidence of the stakeholders.

In accordance with Section 114 of the Audit Act of Bhutan 2018, this Occasional Paper is issued to highlight irregularities that continue to persist and attempts to analyze the conditions that allow perpetration of fraud, corruption and irregularities in public operations. And finally, to delve into what roles each institution is expected to play to bring about positive changes in the society in terms of curbing irregular practices and bring about enhanced governance across public agencies.

### WHAT IS IRREGULARITY?

The term “irregularity” in the parlance used by Royal Audit Authority is basically “act that does not conform to set norms”. It is the difference between the actual conditions (actual practice) and criteria (standards or norms). Generally, it has a negative connotation, while exception can be made and represent what ‘not ought to be’. Criteria represent what is supposed to be, commonly expressed through laws, rules, standards, SoPs, etc. which are explicit. Some are implicit through generally accepted principles, norms, practices, etc.

All irregularities do not necessarily indicate existence of fraud and corruption. It can also occur by mistake. If deviations take place with the intent of deriving undue advantage, monetary or otherwise, it is deemed to have elements of fraud and corruption. Such acts could have been committed with a deliberate intent. However, all irregularities have potential at varying degrees to undermine the culture of propriety, performance and compliance in the organization. Not all irregularities can be quantifiable in monetary terms.

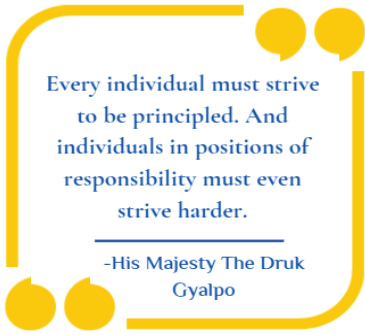
### HOW DO FRAUD AND IRREGULARITIES OCCUR?

Irregularities occur basically due to failing of control systems put in place to ensure that processes designed produce desired results. The conditions or factors that allow perpetration of fraud is explained by Donalt Cressey's Fraud Triangle. The cases of irregularities classified under fraud and corruption are those which have occurred with the intent to deceive as suggested by the evidences obtained by the auditors. As such the irregularities that are classified as fraud technically would have been allowed by presence of all these factors. Even for non-fraud irregularities to occur, similar conditions exist except for intent to defraud and derive undue advantage.

Figure 1: Donalt Cressey's Fraud Triangle



What is challenging is that there is a thin line between fraud and error in that, fraudulent act can be conveniently justified as “error” and when no substantive evidence could be obtained to counter such claims, there is no basis to suspect fraud. In the process, there are possibilities that perpetrators go scot-free. As such irregularities classified under non-fraud cases may not necessarily be free from fraud elements as it poses a big challenge to detect and establish. However, on the premise that all irregularities are undesirable behaviours having potential to undermine overall governance of the organization, all institutions need to focus on its negative impacts and seek to address and curb the irregularities in their operations.



Every individual must strive to be principled. And individuals in positions of responsibility must even strive harder.

-His Majesty The Druk Gyalpo

It is important to look at conditions that trigger irregularities, how such conditions are created and reflect upon responsibility of each institution and individual have in bringing about desired improvements in the governance of public agencies. The discussion makes certain references to the actual cases to illustrate how conditions are created for perpetration of undesirable behaviors using three elements of the Fraud Triangle.

## Opportunity

The following discussions relate to how conditions and circumstances were created to allow irregularities to occur with reference to cases reported by RAA.

Irregularities occur when basic controls are lax. In what RAA sees it as a manifestation of lack of control consciousness within the organization, there were cases of frauds committed by officials operating the accounts involving colossal amount of funds in the absence of even the basic and minimum controls in operating the accounts. An amount of Nu. 10.878 million was embezzled in 2019 by an accountant looking after the accounts of four Gewogs. The RAA noted that the operations of accounts were managed single handedly by the accountant and there were no check and balance put in place. Similarly, fraudulent case involving Nu. 8.398 million was also detected in one of the Dungkhags which was also perpetrated by an accountant. It reportedly happened due to lack of knowledge of supervisor in financial rules.

Had it not been for the absolute control given to a single official to operate the accounts without any monitoring system, and the leaders in positions possessed at least the minimum knowledge of operations he/she has taken charge of, such undesirable behaviors could not have occurred. It reflected failure to exercise leadership and monitoring at various levels. Opportunity to perpetrate frauds was thus, created and rendered the system vulnerable.

Such kind of situations rendered by lack of control consciousness lead to numerous questions such as: ***What prompted the Dzongkhag to assign four Gewogs to one Accountant without putting in place even a minimum check and balance? What encouraged the supervisor to continue approving payments without assessing the legitimacy? Can such apathetic attitude of those in positions of responsibility lead to creating a corrupt-free society? Can one afford to be complacent if it was one's own money or can one be in a position to place same level of trust on others without putting in place even a basic control?*** Not limiting to the cases referred here, same questions could be asked for all irregularities occurring across the agencies.

1. Another case of creating opportunity for perpetrating fraud and irregularities in our system is creating vulnerabilities to enhance propensity for compromising on individuals' ethics and code of conduct. Civil servants like accountants, revenue officials, auditors, customs and tax officials, engineers and procurement personnel are considered vulnerable groups as per the Bhutan Civil Service Rules and Regulations (BCSR) 2018 due to their nature of work and susceptibility to corruption and corrupt activities. Such category of civil servants need to be regularly shuffled and transferred to ensure that there is no familiarity threat and risk of animosity with clients.

Figure 2: Repercussion of Familiarity/Animosity Threat



When transfer of people in these professions are not enforced, their long relationship with the clients poses risk of familiarity or animosity, both leading to compromising on ethical standards. The familiarity may lead to various undesirable practices through collusions, illicit dealings and undue influences. On the other hand, holding animosity with long tenured officials may lead to unnecessary harassments or disfavor. Therefore, enhanced vulnerabilities act as an opportunity to resort to undesirable behaviours.

2. One of the examples of weak controls put in place is the absence of verification process in making payments for goods and services. RAA reported host of instances where agencies had made extra payments for works not executed or for goods not delivered. Usually, in such cases, site engineers have the responsibility to verify the claims of contractors and for goods, stores officials to verify the goods received. The fact that cases of extra payment made on these accounts continue to surface repeatedly, the credibility of verification process remain doubtful. These are basically fueled by lack of oversight mechanism to exercise due diligence and authenticate the verification done by the site



engineers. Unless done with justifiable reasons, such acts could be construed as favouring the contractors, suppliers or consultants and would fall under fraudulent activities.

To illustrate the case, in one of the Industrial Parks, excess payment of Nu. 2.206 million was made to the contractor. The RAA noted that claim was made for two buffer tanks whereas only one tank was constructed. The agency had released the payment without actually verifying the completed works.

Numerous cases of excess payments in procurement involving substantial funds occur from lack of system of verification and validation by the agencies and such cases form significant portion of irregularities reported in the Annual Audit Reports.

3. The lack of control consciousness and setting a tone at the top is also exemplified when agencies are reluctant to take actions against individuals responsible for irregularities pointed out by the RAA and weakening the accountability mechanisms. Fixing of accountability is crucial for treatment and prevention of lapses. There have been instances where some agencies have not taken appropriate actions against individuals involved in corrupt practices. The actions to be taken as pointed out in the audit reports solely rests with the implementing agencies. However, it has been observed that the agencies tend to be protective of officials and often times, resort to either refraining from taking actions or initiating mild actions like transferring them to another place, withholding increment for a year or barring them from training nominations for a year even when involved in serious cases. The RAA has also come across cases where officials continued with similar corrupt practices even in the new place of posting. The particular case in point was pertaining to the embezzlement of Nu. 0.732 million in 2018 by an accountant who was transferred in another agency where he embezzled another Nu.0.503 million in 2019.

“ An Account Assistant had embezzled Nu. 0.732 million in the year 2018 and was transferred to another agency where he embezzled another Nu.0.503 million in 2019. ”

While this exhibit signs of complacency on the part of concerned agencies, it also indicates an increased tolerance towards corrupt practices, raising questions like: **What commensurable actions can be taken for various types of corrupt practices? Who decides on the severity of actions? What if agencies do not take actions on corrupt individuals or practices? Are not such practices constitute tolerating corruption?**

## Pressure

Pressure relates to incentives or circumstances/compulsions under which the individuals are compelled to resort to undesirable acts. While fraud perpetrators would naturally have incentives to monetary benefits or otherwise, some acts of commission or omissions could be fueled by factors not related to individual incentives. The following paras discuss on circumstances rendered as motivation to resort to committing irregularities with specific reference to cases reported by the RAA.

1. Agencies continue to face challenges of ensuring consistent approach in determining the duration for construction projects. It is a common trend that for the similar construction works implemented by different agencies, there would be huge variations in duration of constructions specified. The construction projects for which the duration specified is unreasonably short, it puts pressure on the officials overseeing the project to complete the project in time. When it is practically not possible, officials resort to collude with contractors to request for time extension on the basis of hindrances unjustifiably certified by the official. It also leads to multiple irregularities that would have inevitably occurred when unreasonable construction duration were thrust on officials managing the contract.

To illustrate the point, the Highway Formation Cutting (FC) works was awarded with initial contract duration of 18 months. However, the actual time taken to complete the project was whopping 65.5 months showing a time overrun of 364% from the initial estimate. In another instance, a contract for Providing and Laying of Base Course, Bitumen Sealing, Construction of L-drain and Cross Drainage in one of the highway constructions had three revisions of duration starting at 10 months to 25 months and back to 14 months even before actual commencement of the work, thereby raising questions on the credibility of determining the duration of construction project.

Such faulty practices in estimation of construction duration invariably lead to inducing irregular behaviors of officials in a bid to deliver results. Besides impacting the quality of work either due to short construction time or due to prolonged construction duration, it also deprives timely services to the nation, increasing costs of construction and substantial increase in workload on supervision and monitoring activities.

2. One of the manifestations of indifference of the agencies in putting in place a system of promoting ethical behaviour within the organization is unwillingness to enforce requirement of Audit Clearance of employees for various purposes. On various occasions, the RAA noted that people who had unsettled issues with RAA had not applied for audit clearance and the requirement was not enforced by some agencies. The tool that RAA applies to reinforce accountability across public sector could be rendered ineffective and purpose thwarted if requirement of audit clearance is not complied with.

Despite requirement of the BCSR to obtain audit clearance certificates for various purposes, if the relevant agencies do not insist or enforce the requirement, employees have the motivation not to comply with the requirements.

## Rationalization

Rationalization is the justification for the act of commission or omission. It is the tendency of making the actions acceptable although it deviates from what is required to be observed. It is the most common conditions created to justify wrong doings of perpetrators. In the process, cases of deviations or irregularities are treated normal, or acceptable behaviors. Some of the rationalization that are pervasive across agencies are in following areas;

1. RAA has observed several instances where the government officials who were supposedly on tour have signed the attendance register on the days they were supposed to be out of station. It is also widely known fact that there exist cases of table tours though such incidences have been reducing over the years. Such instances seriously undermine the efforts of oversight bodies besides creating platform for manipulative practices by individuals and agencies. Travel and Daily Allowances are remunerations provided to the officials for undertaking official works beyond their duty station. It is meant to be the expenses for travelling, food and accommodation including incidental expenses, while on tour. Such allowances are not additional income and also not taxable under the Income Tax Act of Bhutan.

Travels are inevitable part of public service in reaching the services to all parts of the country. However, instances have been observed where officials are granted specified number of days in a month as eligible for TA/DA. While such practice can be a way of ensuring that only legitimate tours are undertaken, it also allows officials to claim the remunerations as a matter of right. It breeds grounds for corrupt practices as officials claim TA/DA irrespective of whether the travel has been performed or not.

"But there is an even greater threat – ignoring corruption. When the corrupt are not held to account, those who observe due diligence, work hard and professionally are most likely to be discouraged. We mustn't allow the latter to lose morale by rewarding everyone indiscriminately, irrespective of his or her performance. That is why, corruption must be curtailed and, more than ever before, extraordinary service must be recognized and rewarded."

- His Majesty The Druk Gyalpo

The RAA observed that civil servants have claimed TA/DA amounting to Nu. 1.110 million without performing travels or undertaking travels for which TA/DA are not admissible.

Review Report on TA/DA (2018-2019)

- Sanctioning of advances to employees beyond rules is rationalized across agencies in that requesting officials feel it is a matter of right and sanctioning officials feel it is morally correct to sympathize and extend assistance in times of need. It is not only that the sanctioning of advance beyond what is permissible becomes irregular, individuals' inability to liquidate within the timeframe also result in violation of rules.

In one such instance, an advance amounting to Nu. 37.237 million accounting close to 50 percent of the total value of work was allocated for the Formation Cutting work in one of the highway constructions without any legitimate reasons. Agencies may justify that advances were released to expedite the progress, but has no legal basis to do so.

- Mileage claims in many agencies are paid based on the eligibility criteria. The fact that a vehicle may not be used in the actual travel is not considered. If three officials travel to same place for any official purpose, all three officials are paid mileage claims. However, more often than not, the officials will travel in a single car. Mileage is the compensation for the cost of fuel, and wear and tear of the vehicle for travelling to a certain place. If a vehicle is not used for the travel and transportation, it will not incur fuel and wear and tear costs. As such, logically, the mileage claims can be entertained only when vehicles do actually travel.

Annual Audit Report 2020

"Irregularities in advances" had unresolved issues amounting to Nu.157.526 million.

"...a civil servant shall not claim mileage as a matter of right. The Agency shall rationalize travel arrangements and encourage carpooling wherever possible, for cost effectiveness."

BCSR 2018, 16.6.6

Officials and agencies argue that mileage is the entitlement of the civil servant for travelling for any official duty when the government vehicle is not able to reach them to their duty station. The notion that every eligible individual should receive mileage claims irrespective of whether they are using their own vehicle or not, is how such practices are rationalized. It is an indication that officials are not being ethical in their behavior and agencies not being judicious in the use of limited resources of the government. However, it is good to see some agencies, instituting internal rules of pooling cars (both government and private) while traveling to same destination.

## SO DO AGENCIES RATIONALIZE IRREGULARITIES?

Insofar as institutions and individuals fail to create enabling conditions to counter irregular actions or remain apathetic towards override of internal controls and manifest lackluster attitude towards influencing ethical behaviors and morality, the irregularities are seen to be rationalized. The frauds are committed when all elements of opportunity, pressure and rationalization exist. The irregularities which are not proven as fraud and corruption could also have the presence of all these elements. These conditions induce irregular behaviors and to the extent that the agencies are able to limit these conditions, occurrence of irregularities could be reduced.

## HOW CAN IT BE CURBED?

All institutions in the accountability cycle as well as individuals at all levels as trustees of the public resources have significant roles to play to ensure that collective actions lead to creating a society that upholds the principles of good governance and that the trust and confidence in, and performance of, public sector is reinforced. The discussions in the preceding paragraphs attempted to analyze how conditions were created for perpetration of fraud and irregularities. What ought to be done becomes apparent that all institutions and individuals have responsibility to uphold values and conduct worthy of trust and confidence of citizens. The strategies should be focused specifically on following approaches:

1. All institutions need to create conditions to counter factors that induces and allows undesirable behaviors. Basically, it is all about creating control consciousness, influencing ethical behaviors, zero tolerance to irregularities and setting tone at the top. It is basically about rendering basic internal controls and ensuring its effectiveness in their respective organizations.
2. Responsibility should be taken by individuals either in the position of leadership or as an individual to create ethical culture, drive desirable behaviors, and embrace highest level of professionalism at all times.
3. In addition to prevention and detection, there should be a system for strict enforcement of accountability and sanctions to further stimulate good governance and accountability in the public sector.

## WHAT ARE RAA'S STRATEGIES?

In order to combat irregular practices contributing to fraud, corruption and embezzlements and in continuing our efforts towards improving the public financial management system, the RAA shall continue to implement following strategies:

1. A system of fixing accountability to be reinforced to ensure that right people are held to account. The RAA will review the accountability fixed by the agencies;
2. Discontinue the practice of issuing audit clearance on the basis of undertaking letter from the agencies;
3. Continuously engage and collaborate with RCSC to review cases against civil servants and prescribe sanctions against erring civil servants;
4. Collaborate and coordinate with ACC in sharing of information on corrupt practices;
5. Report in the Annual Audit Report if action taken by the agencies are not uniform or adequate and do not address the issues reported by RAA;
6. Recommend issues and observation from the Annual Audit Report to the Public Accounts Committee for Public Hearing;
7. The RAA will issue AG's Advisory Series from time to time highlighting issues in the areas of governance in the public sector and seek appropriate interventions of authorities for improvement.

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