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ROYAL AUDIT AUTHORITY
Bhutan Integrity House

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



PRESS RELEASE

In accordance with Article 25.5 of the Constitution of the Kingdom of Bhutan and Chapter 6, Section 111, 115 & 116 of Audit Act of Bhutan 2018, the **Annual Audit Report (AAR) 2020-21, Performance Audit Report on Operations of Natural Resources Development Corporation Limited (NRDCL) and Auditor General's Advisory Series on Review of Government Procurement System** of the Royal Audit Authority has been submitted to the Druk Gyalpo, the Prime Minister and Parliament, and for tabling in the Joint Sitting of the Parliament.

A. AAR 2020-21

The AAR 2020-21 has been compiled from 197 audit reports issued from 1st January 2021 to 30th June 2021, including one performance audit report. Volume - I of the AAR contains audited Annual Financial Statements of the Royal Government of Bhutan for the financial year ended 30th June 2021 and summary of audit findings with irregularities amounting to Nu. 4,002.448 million observed during the period. Volume - II contains the unresolved irregularities amounting to Nu. 3965.143 million during the period.

The significant matters contained in AAR 2020-21 include the following:

I) Certification of Annual Financial Statement of the Royal Government of Bhutan

The RAA issued an unmodified (unqualified) audit report of the Annual Financial Statement of the Royal Government of Bhutan for the financial year ended 30th June 2021.

Highlights of Annual Financial Statements:

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| • Revised Budget | Nu. 85,381.423 million |
| • Actual Expenditure | Nu. 71,091.811 million |
| • Revised Capital Budget | Nu. 40,890.974 million |
| • Actual Capital expenditure | Nu. 27,576.031 million |
| • Underutilised Capital budget | Nu. 13,314.943 million (32.56% of revised capital budget) |
| • Total Public debt | Nu. 238,398.910 million (Domestic Debt Nu. 17,074.451 million and External Debt Nu. 221,324.473 million) |

"Every individual must strive to be principled. And individuals in positions of responsibility must even strive harder."
- His Majesty the King Jigme Khiesar Namgyel Wangchuck

Debt Situation

Comparative analysis of outstanding debt with the GDP for the past three years (FY 2018-19 to FY 2020-21) revealed constant increase in the debt to GDP ratio. The total public debt had increased by Nu. 31,195.32 million (16.94%) at the end of FY 2019-20 and by Nu. 23,029.07 million (10.69%) at the end of FY 2020-21 compared to previous year. As a result, the debt to GDP ratio has increased from 100.57% in FY 2018-19 to 129.06% in FY 2020-21.

Government's fiscal deficit

The fiscal deficit of the government has constantly increased over the past years from Nu. 545 million in the FY 2017-18 to Nu. 11,139 million in the FY 2020-21, which could be attributed to limited revenue growth and increased public spending.

Proportion of recurrent expenditure to internal revenue

The proportion of recurrent expenditure to internal revenue for FY 2020-21 was 88.94%.

Lack of policy for operating General Reserve

On the review of the Budget Report FY 2020-21 and transfer of reserves, it was noted that Nu. 3,335.997 million was provisioned under the General Reserve during the financial year. Of the total reserve, Nu. 3,146.769 million was transferred to the relevant agencies under following different categories of activities. The fund transfers from the reserve mostly accounted for COVID-19 containment measures under Disaster Contingency. However, some funds were transferred to meet the normal capital expenditure of agencies. Therefore, the RAA strongly recommended MoF to come up with the Guidelines on the operation of General Reserve at the earliest. The Guidelines should be approved by the Cabinet.

II) Total irregularities in AAR 2020-21 **Nu. 4,002.448 million**

III) Irregularities by categories

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|---------------------------------------|-----------------------|
| 1. Fraud and corruption | Nu. 133.006 million |
| 2. Non-compliance to laws and rules | Nu. 2,325.336 million |
| 3. Shortfall, lapses and deficiencies | Nu. 1,544.106 million |

The RAA acknowledge the support and cooperation of the Ministry of Finance for early submission of Annual Financial Statement of the Royal Government of Bhutan which enabled AAR 2020-21 to be submitted six months ahead of the current practice.

B. Performance Audit on Operations of Natural Resources Development Corporation Limited (NRDCL)

Performance audit on operations of NRDCL was conducted to assess the adequacy of existing legal and institutional framework in delivering its mandate, and efficiency and effectiveness of

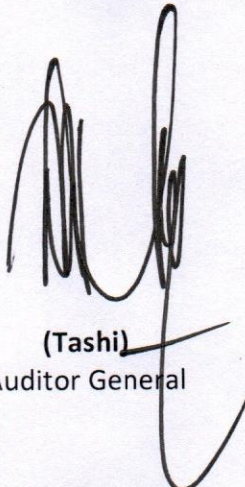
the services provided. Audit period covered is from January 2013 to December 2020. The RAA observed a total of eight significant findings and provided eleven recommendations to address the identified findings.

C. Auditor General's Advisory Series on Review of Government Procurement System

The RAA conducted Review of Government Procurement System based on the issues observed in existing procurement practices, review of authorities governing the public procurement and analysis of the information gathered from various audit reports issued by the RAA.

The RAA suggested 15 specific recommendations classified under three thematic areas of i) enabling Procurement Rules and Regulations; ii) Strengthening internal controls and oversight functions; and iii) Enforcing accountability and stricter sanctions.

The AAR 2020-21, PA report on operations of NRDCL and AG's Advisory Series are available on the RAA website www.bhutanaudit.gov.bt



(Tashi)
Auditor General

Date: 15th December 2021