

Dedication

To

*the most enlightened and selfless Druk Gyal Zhip
His Majesty the King Jigme Singye Wangchuck who
so delicately and endearingly
sculpts the Jewel that is*

Drukgyul.

Annual Budget of the Royal Government. About Nu. 442 million of the government money was lying unadjusted or unrecovered from the contractors, suppliers and employees in the form of outstanding advances. Similarly, revenue worth over Nu. 105 million remained unrealized. Excess and irregular payments to contractors/suppliers were regular observations in all audited agencies. Works were awarded without inviting tenders/quotations on which the interest of the government was overlooked.

Impressive as the above statistics on the multitude of cases of irregularities in the use of the government fund may appear, they are only symptomatic of a fundamental systemic problem. Internal control systems are weak in all Ministries and their subordinate agencies.

With due improvement in the areas of government accounting, it is expected that auditing of those accounts will be more effective and transparent. The Royal Audit Authority strives to continuously play a crucial role in the safeguard and proper utilisation of public money. In the year 2000 alone, audit has contributed to the cash recovery of over Nu. 10 million from the suppliers and employees of different government organisations and agencies.

Indirectly, audit has been playing a crucial deterrent role in protecting government money and property from misuse or misappropriation. The shift of approach in auditing from transaction to performance would further strengthen our effort in ensuring value for money spent in the entire public sector.

The present reorganisation and development efforts undertaken in the Royal Audit Authority would reinforce the capabilities of the Authority to work for the establishment of transparency and accountability in the government as a whole, which the Royal Audit Authority is committed to.

It is imperative that this office prepares itself to meet the challenges of the dynamic environment to discharge oversight function and serve as a watchdog agency that provides assurance to the government and others on how the government conducts its business, entrusted to carry out. In our audit reports, we not only focus our attention on financial regularity and propriety, but also on economy, efficiency and effectiveness of government business. It shall be our modest contribution to good governance.

The task before us is not easy but let us all carry our work without “Fear or Favour”.

“The woods are lonely, dark and deep.

I (we) have promises to keep and miles to go before I (we) sleep”.

Kunzang Wangdi

Auditor General of Bhutan

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CHAPTER I

Background

By virtue of the *Kashos* and the provisions contained in the General Auditing Rules and Regulations of Bhutan (GARR), the Royal Audit Authority (RAA), the Supreme Audit Institution (SAI) of Bhutan is responsible for audit of public sector agencies and reporting its findings to the Royal Government and to His Majesty the King.



A session during the 4th Annual Audit Conference' 2001

In 1961, the 16th Session of the National Assembly formed a Committee of Accounts and Audit in response to the need for establishing accountability. The Committee would comprise of one representative of the King and one representative each from the Cabinet, Public and the Monk Body all nominated by the King. The

Royal Government issued the first edition of the “Financial Manual” in 1963. The manual provided for the organization of the Development Wing of the government and the Accounts and Audit for the Development Wing. The Audit and Accounts organization maintained the books of accounts, conducted budgetary controls of revenues and expenditures, and undertook periodic audit and inspections of accounts and records.

In October 1969 the 31st Session of the National Assembly based on a motion proposed by the King to delegate the auditing authority voted for the appointment of Royal Auditors to conduct the audit of accounts and records of the Royal Government. Consequently, four Royal Auditors were appointed on 16th April 1970 under a *Kasho*. The *Kasho* defined and authorized the jurisdiction of the then Royal Audit Department as primarily responsible for

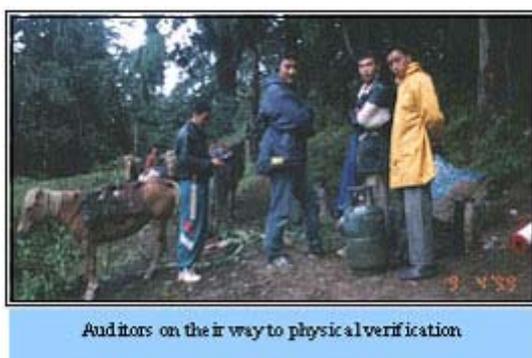
the audit of accounts of the Ministry of Finance, Ministries, the Royal Bhutan Army, the Royal Bhutan Police, and His Majesty's Secretariat.



In 1974, the financial management system was restructured. The Financial Manual 1974 was passed by the 29th Resolution of the 34th Session of the National Assembly. The Committee of Accounts and Audit was re-organised with four permanent posts of Royal Auditors to form the Royal Audit Department under the administrative

supervision of the Ministry of Finance. Posts were filled up by one people's representative, one monastic, and 2 two-government representatives. A representative and participatory arrangement to ensure the auditing is fair and objective without any bias.

In 1985, in order to enhance its effectiveness the department was upgraded as an autonomous and an independent entity and re-named as the Royal Audit Authority (RAA).

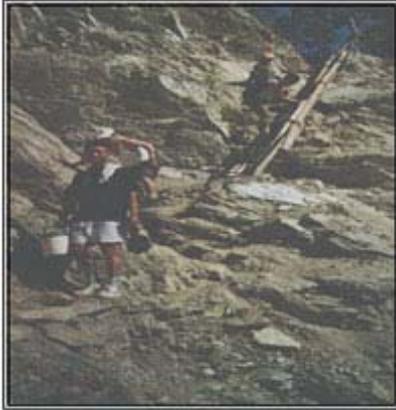


In tune with the issue of the Financial Manual 1988 to further strengthen the financial management system the General Auditing Rules and Regulations (GARR) were issued in 1989. This properly defined the roles and responsibilities of the Royal Audit

Authority.

The Royal Audit Authority:

the Roles and Responsibilities



Auditors visiting sites for physical verification.

The *Kasho* issued by the Third King in 1970, the General Auditing Rules, Regulations 1989, and the Financial Manual 1988 delineated the roles and responsibilities of the Royal Audit Authority. Audit shall primarily be responsible towards enhancing accountability in the government. In pursuance thereof, the Royal

Audit Authority's function are to:

- I. Conduct audit, ascertain and evaluate in accordance with laws, rules and regulations of all account, records and operations pertaining to;
 - 1) The revenue and receipts and expenditures;
 - 2) Property owned or held in trust by or pertaining to the Government or any of its instrumentalities, Government owned and controlled corporations and their subsidiaries to ascertain and evaluate whether government resources are handled properly and in compliance with laws, rules and regulations;
 - 3) Non-government entities subsidized, funded by the donations or grants through the government, those for which the government has put up a counterpart fund or those required to pay levy, and loans approved and /or guaranteed by the government;
 - 4) Foreign assisted and special projects of the Government; and
 - 5) Any other organization upon commands of His Majesty the King;
- II. Assess and provide information whether the government agencies apply the government resources for the purposes for which they were established and for which they are made available to them;

- III. Prepare and transmit audit reports containing audit findings and recommendations of measures to improve economy, efficiency, and effectiveness of government operations;
- IV. Issue rules and regulations, or manuals to facilitate the exercise of its audit functions to enhance the information value of government accounts and to ensure compliance with the applicable laws, rules and regulations; and
- V. Issue records of outstanding audit observations to accountable officers or any other government officer/employee, upon recommendation of the proper administrative head or authority and settlement of deficiencies and un-cleared accounts for purposes of promotion in rank or salary, foreign travel, etc. as may be required or necessary.

Besides, the Royal Audit Authority is also responsible to:

1. Promulgate auditing rules and regulations;
2. Institute control measures through the promulgation of rules and regulations or issuance of guidelines governing receipts, disbursements and uses of funds and property, consistent with the total social and economic development efforts of the Government;
3. Recruit and appoint the officials and employees of the Royal Audit Authority.



རྒྱལ་གཞུང་ཉེས་ཞིབ་དབང་འཛིན་སྤྱི་ལྷན་ལྷན་པའི་ལྷན་པ་ལྟེ་སོ་སོའི་ནང་གཞུང་གི་མ་དངུལ་དང་རྒྱ་
དངོས་ཀྱི་རིགས་སྤྱོད་ཐངས་དང་ལྷན་ཟུང་གི་ཉེས་ལྡན་བཞག་ཐངས་ཚུ་ཉེས་ཀྱི་ལམ་ལུགས་དང་འབྲེལ་ཏེ་ཚུ་ལ་
མཐུན་ཡོད་མེད་ཀྱི་ཞིབ་དཔྱད་རྒྱབ་ཞེའི་འགན་ཁུར་གལ་ཅན་འདྲི་རྒྱལ་གཞུང་ཉེས་ཞིབ་དབང་འཛིན་ལྷན་གསལ་
ལས་ལས་འགན་དེའི་བྱ་སྤོའི་རིགས་ལག་ལེན་འཐབ་དེ་དྲག་ཞན་ཆེ་ཆུང་གི་ངོ་སོའི་དབང་ལུ་ཤོར་བར་
ཆགས་ལྷང་ཕྱོགས་རིས་མེད་པར་དབྱེ་ཞིབ་མཐོལ་ཕྱིན་རྒྱབ་དགོས་པ་ཉ་ཅང་གིས་གལ་གནད་ཆེ་མ་ལས་བརྟེན་
རྒྱལ་གཞུང་ཉེས་ཞིབ་དབང་འཛིན་དེ་ཉེ་མ་ལས་གཞུང་གི་ལྷན་ཁག་དང་ལས་ཁུངས་གི་མངའ་འོག་ལུ་ཡང་
མེན་པར་རང་དབང་རང་སྤྱོད་བཞོག་ནང་སྟེ་ཡོད།

ད་རིས་ཚུན་ཉེས་ཞིབ་དབང་འཛིན་གྱིས་ཞིབ་དཔྱད་རྒྱབ་ཚར་བའི་སྤྱན་ལྷན་དུས་རྒྱུན་རང་སོའི་
ལྷན་ཁག་དང་ལས་ཁུངས་ལས་ལྟེ་སོ་སོ་ལུ་བཏང་མ་ལེན་རུང་འབྲེལ་རྒྱལ་ཡོངས་ཚོགས་ཐངས་ཀྱི་ལུ་ཡོད་པའི་གྲོས་
ཚོད་དང་འབྲེལ་ཏེ་གཞུང་གི་འཛིན་སྤྱོད་དབང་ཆ་ལྷན་རྒྱལ་གཞུང་ཚོགས་ལུ་གནང་ཡོད་པ་བཞིན་དུ་ད་ལས་པར་
ཉེས་ཞིབ་སྤྱི་ལྷན་ལྷན་གསལ་མ་བདེ་མ་ཡོད་མེ་ཚུ་ཐད་ཀར་ལྷན་རྒྱལ་གཞུང་ཚོགས་ལུ་གནང་དགོས་པའི་ཁར་བྱིས་
ཀྱི་སྤྱོད་ཚོགས་ཀྱི་ཉེས་ཞིབ་སྤྱི་ལྷན་ལྷན་པའི་ལུ་དང་དྲག་ལྟེ་གསལ་གྱི་མ་དངུལ་བདག་འཛིན་
འཐབ་མི་དངུལ་ཉེས་ལྷན་ཁག་ལེན་མ་ལས་ཁོང་གི་ཉེས་ཞིབ་སྤྱི་ལྷན་ལྷན་པའི་རིགས་དངུལ་ཉེས་ལྷན་ཁག་ལུ་གནང་།

ཉེས་ཞིབ་སྤྱི་ལྷན་ལྷན་པའི་བདག་རྒྱལ་པའི་ཞབས་མར་ལུ་ལྟེ་ཉེའི་ཐད་ལུར་བཞིན་བཀའ་རྒྱ་ལོགས་ལུ་གནང་མ་དང་
མ་གཏོགས་ལུ་མེད་གོས། ཞིབ་དཔྱད་སྤྱི་ལྷན་ལྷན་པའི་ཚུ་ལུ་བྱིས་ལུ་གསལ་དང་འབྲེལ་བའི་ངོ་སོའི་ལེན་དུས་
ཐོག་ལུ་འབད་ནིའི་འགན་ཁུར་འདྲི་རྒྱལ་གཞུང་ཚོགས་དང་ལྷན་ཁག་འབྲེལ་ཡོད་ལས་ལྟེ་སོ་སོ་ལུ་ཕོག་པའི་
ཁར་གལ་སྤྲོད་དང་ལེན་ཚུ་ལ་མཐུན་མ་འབད་མི་འཛོན་པ་ཅེན་ཉེས་ཞིབ་དབང་འཛིན་ལྷན་གསལ་ལས་དྲན་བསྐྱུལ་
དང་དྲི་དཔྱད་འབད་དགོས་པ་མ་ཚད་ཞིབ་དཔྱད་ཀྱི་སྐབས་ག་ལུ་ཡང་འཚོར་ལྷང་དང་མེ་ཚོམ་མེད་པར་དམ་དམ་
འབད་ནི་གལ་ཆེ་མ་ལས་བརྟེན་ཉེས་ཞིབ་དབང་འཛིན་གྱི་གནས་ལྷང་མ་དེ་ལུར་བཞིན་རང་དབང་རང་སྤྱོད་འབད་
རང་བཞག་དགོས་པའི་བཀའ་ཐམས། ཞེས་རང་ལུགས་རབ་བྱུང་བཅུ་གཉིས་པའི་གནས་ལོ་མ་མོ་ཡོས་ལོ་
ཟླ་ ༩ པའི་ཚེས་ ༡༥ ལུ་བྱིས་ཚོས་མཛོང་ལས་གནང་བ་དགོ།

Jawang Chue
འབྲེལ་མངའ་བདག་རྒྱལ་པོ།

Human Resource Development

The Royal Audit Authority, the Supreme Audit Institution (SAI) of Bhutan is responsive to the vital need for human resource development in order to maintain a high professional standard in the discharge of its lawful duties. Continuous efforts have been made to enhance professionalism and standards in the auditing profession.



AG and the officials attending the –ASOSAI Conference, Chisumai, Thailand

In-house Training



Hon'ble Auditor General presenting his report to the IV Annual Audit Conference.

Although scarce resources limit the staff development efforts of the Royal Audit Authority, the Authority undertakes a balanced strategy of equal opportunity and continuous in-house training. Recently, the Royal Audit Authority conducted a series of trainings for its staff including a course on the Rule of Law and Auditing. The Authority also organized workshops on construction-related subjects, quality control, and Bhutan Schedule of rates etc. All these efforts aim at achieving a high level of

professionalism in the Royal Audit Authority.

Foreign Training

The Royal Audit Authority maintains links with various international professional bodies as well as leading training institutes in other countries. These include the International Organization of the Supreme Audit Institutions (INTOSAI), Asian Association of Supreme Audit Institutions



The participants during the 4th Annual Audit Conference'2001

(ASOSAI), and the Office of the Comptroller and Auditor General of India. The Royal Audit Authority benefits from the trainings conducted in different areas of auditing and accounting by the CA&AG Office of India and the auditing bodies.

Next step



Auditors visiting sites for physical verification

environment.

The roles of the SAIs are increasingly becoming more dramatic and challenging over time. To meet the challenges of the dynamic environment the Royal Audit Authority, the Supreme Audit Institution of Bhutan strives to adapt itself to the fast changing

The Royal Audit Authority used to carry out only routine financial audits. With the Bhutanese economic environment changing rapidly over the last two decades, the need for performance auditing is imminent.

1. Value for money audit

One of the issues raised and recommended by the Special Task Force for Restructuring of the Government has been the value for money auditing or economy, efficiency and effectiveness auditing in the government. The present capability of the RAA does not permit execution of such aspects of auditing. Thus, in order for the RAA to be able to carry out such functions, there is need to train its staff in area of value for money audit.

2. Computer audit or EDP audit

With the information technology revolution, change in auditing is inevitable. The trend shows a move away from the traditional method of record keeping to one of electronic data processing. The RAA must make itself adaptable to this change when all transactions with the government bodies would be computerized eventually.

3. Environmental audit etc.

Environmentally sustainable development is the priority of the Royal Government. More resources will be made available in this sector as more organizations participate in environmental auditing independent of other regularity mechanisms.

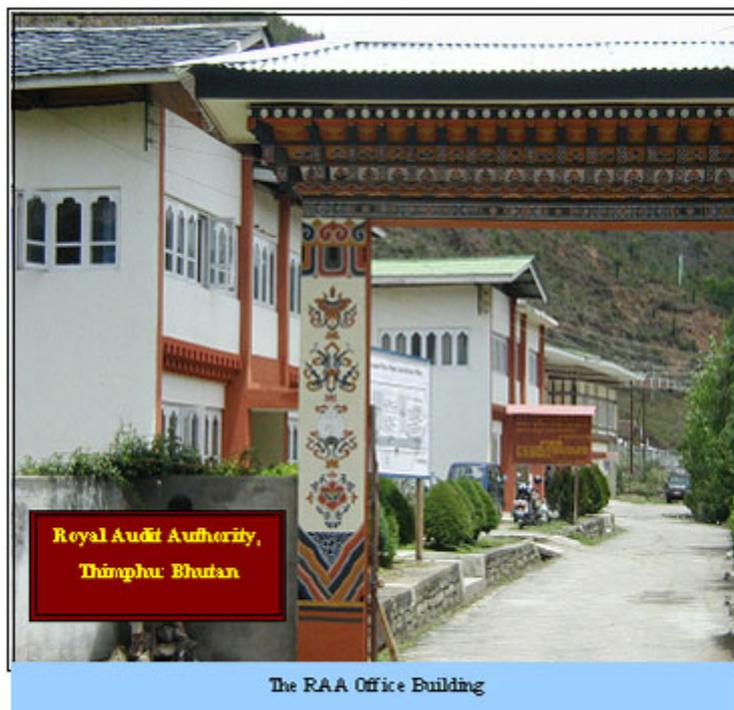
4. Networking with the RAA branch offices and other organizations for information sharing.

Efficiency and effectiveness of the RAA with flow of timely and necessary information is very critical. The RAA need to network with other organizations such as the Royal Civil Service Commission, Dept. of Immigration and Census, Dept. of Revenue and Customs, Ministry of Trade

and Industry and Dzongkhags etc. to make required information available on time and contribute to efficient audit planning thereby contributing to the effectiveness of the RAA.

5. Improving the government accounting system.

What makes the task of the accountants and auditors in Bhutan more difficult is the non-existence of standards of sound accounting and auditing practice to which each could refer in carrying out their work. Consequently, there is a lack of uniformity in the reporting system. The RAA considers improving the internal control and accounting system in the Royal Government as a



priority. To this end, the RAA endorses the need for development of Accounting and Auditing Standards at the earliest.

A glimpse of the annual budget for the financial Year 1999-2000

Table 1.2 : Showing the annual budget for the F.Y 1999-2000

Expenditure outlay	Amount (Nu.in millions)	Percent(%)
Current expenditure	3,570.150	43.43
Capital expenditure	4,424.273	53.82
Sub total	7,994.423	97.25
Net Lending	17.074	0.21
Repayment	209.258	2.55
Total	8,220.755	100.01

Table 1.3 : Showing the source of income for the F.Y 1999-2000

Source of income	Amount(Nu. in million)	Percent(%)
Domestic revenue	3,869.791	47.07
Grants		
a) GOI program Grants	800.000	9.73
b) GOI Project Grants	1,430.249	17.40
c) Grants from other sources	1,386.333	16.86
Sub total (a+b+c)	3,616.582	43.99
Borrowings	436.988	5.32
Resource gap	297.394	3.62
Total	8,220.755	100.00

Source: National Budget for Financial Year 1999-2000, Ministry of Finance.

Audit Coverage

The Royal Audit Authority has jurisdiction over the entire public sector Agencies, Corporations, Financial Institutions, Autonomous bodies, and foreign assisted projects. Each Division in the RAA is responsible to look after the audits of group of homogenous Ministries or agencies. About 70% of the time are devoted towards the audit of government departments in an effort to enhance accountability in the government. Although maximum time is devoted to government auditing, constraints such as lack of trained professionals, lack of skills and technologies and lack of proper accounting and auditing standards undermine the quality of audit reports. Nevertheless, efforts are being made consistently to overcome the difficulties and the recent trend indicates the improvement.

In this Annual Audit Report (ARR), the audit observations on various organizations under a Ministry have been put together from findings drawn by different audit teams under the Audit Division. These findings are then grouped into the following categories:

- a) **Excess Payments:** Cases of expenditures incurred in excess of what was actually admissible, either with or without intent.
- b) **Irregular payments:** Cases of violation of rules and regulations or budgetary stipulations.
- c) **Misappropriation:** Cases of loss due to willful malpractice by public functionaries.
- d) **Outstanding Revenue:** Cases of revenue earned but not collected by the accountable agencies.
- e) **Loss of revenue:** Loss of government revenue due to negligence on the part of management.
- f) **Loss due to tendering and procurement lapses:** Losses sustained because of incompetent tendering or uneconomic procurement decisions.
- g) **Non-accountal of stocks:** cases of government property not accounted by the agencies.
- h) **Outstanding Advances:** Advances lying unadjusted by the suppliers and the employees of the agencies.
- i) **Award of work on work order basis:** Cases of contracts awarded without NIQ's but no financial implication has been worked out.

CHAPTER II

Ministry of Home Affairs

Audit report of the organizations for year 2000 under the Ministry of Home Affairs includes 174 observations involving irregular and excess payments, misappropriations, outstanding advances and revenue, loss due to tendering and procurement lapses etc. The total amount involved in these observations is Nu. 56.05 million. During the year 2000, reports on the following Dzongkhags were issued:

1. Dzongkhag Administration Chukha,
2. Dzongkhag Administration Sarpang,
3. Dzongkhag Administration Haa,
4. Dzongkhag Administration Punakha,
5. Dzongkhag Administration Zhemgang,
6. Dzongkhag Administration Samdrup Jongkhar,
7. Dzongkhag Administration Pema Gatsel,
8. Dzongkhag Administration Trashi Yangtshi, and
9. The Ministry of Home Affairs, Hqrs.

Table 1.4: Showing the Audit Observations by different categories.

Number of observation	Number	%	Amount (Nu. in million)	%
Excess payment	70	40	3.73	4.486
Misappropriation	17	10	2.11	2.537
Outstanding advance	14	8	45.80	87.671
Outstanding revenue	29	17	1.09	1.311
Irregular payments	28	16	3.12	3.752
Tendering losses	6	3	0.13	0.156
Non-accountal of stocks	6	3	0.07	0.084
Award of work on work order basis or on Cut-Of basis	4	2		
Total	174	100	56.05	100

Major findings:

1. Excess payment Nu. 3.73 million

The audit of the organizations under the Ministry of Home Affairs in the Year 2000 detected that Nu. 3.73 million were paid more than what was actually admissible to the contractors, suppliers and to the employees. The nature of such excess payments are categorized below:

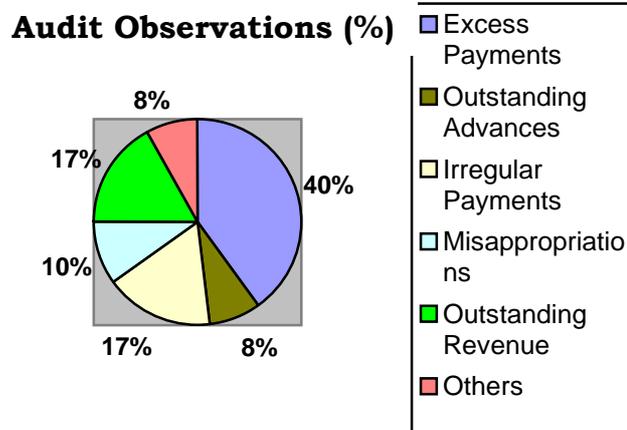


Table 1.5 : Excess payment made to contractors/employees by nature

Agency	Nature of Excess payments (Nu. in million)					
	Works not executed	Materials other than specified	Double payments	Rate difference	Residential tele.charges	Total
Chukha	0.51	0.031				0.541
Haa	0.54	0.131	0.33	0.41		1.411
Punakha	0.029		0.025		0.012	0.066
Sarpang	0.077		0.1	0.06		0.237
S/Jongkhar					0.020	0.020
Wangdue	0.92		0.021			0.941
Zhemgang	0.14		0.063			0.203
Pemagatshel	0.043		0.1			0.143
Trashy Yangtshel				0.018	0.011	0.029
MOHA		0.088	0.05			0.138
Grand Total	1.103	0.088	0.05	0.018	0.011	3.729

Major instances of excess payments as seen above are described agency wise below:

a) Chukha Dzongkhag

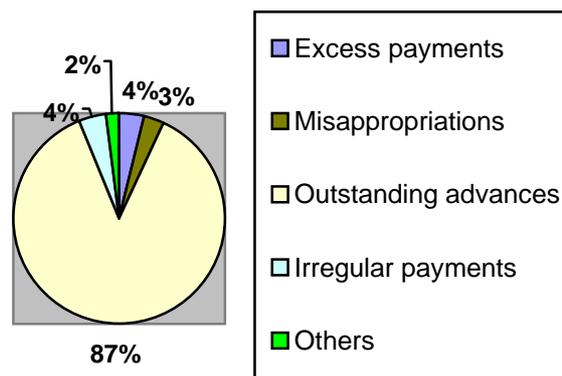
Excess payment to the extent of Nu. 0.51 million were made to the contractors by entertaining claims for works not executed. This relates to construction, renovation of staff quarters of the primary schools and construction of BHU's under the Dzongkhag.

This indicates that the site engineers did not verify the measurements or supervise the works properly.

b) Haa Dzongkhag

The Haa Dzongkhag Administration made excess expenditure to the tune of Nu.1.411 million to the contractors. Such expenditures relates to payment for works not executed but recorded in the measurement book, payment at rates higher than originally quoted by the contractor particularly in the construction of Ugyen Dorji High School and double payment of running bills for the RNR Centre at Sombekha.

Amount Involved (Nu.56.05 m)



Audit concluded possible collusion between the contractors and the site engineers.

b) Sarpang Dzongkhag

Payment to the extent of Nu. 0.1 million were made twice to a workshop on account of the repairing charges of the vehicle. Similarly, excess payments

to the extent of Nu. 0.137 were incurred due to accepting claims for works not executed and the difference in rates for the construction of Chuzegang School and Choesham at Tali Dratshang.

c) Wangdue Dzongkhag

Joint measurement of construction works carried out on contract revealed that about Nu. 0.6 million were paid for works not actually executed by the contractors. Similarly, Nu. 0.3 million were paid to the contractor because of the false recommendation given by the Dy. Executive Engineer.

Audit recommended recovery of all such excess payments and to institute proper internal control to avoid such payments in future.

2. Misappropriation

The Royal Audit Authority detected 17 cases of misappropriation involving Nu. 2.11 million during the audit of agencies mentioned above under the Ministry of Home Affairs. The form of misappropriations seem mainly because of non- accountal of revenue collected or what was accounted was not deposited into the Royal Government Revenue Account timely. Summaries of misappropriations are shown in the table below and discussed separately.

Table 1.6: Misappropriation in Dzongkhags by amount and status.

Dzongkhag	Amount (Nu.in million)	Remarks
Chukha, Dzongkhag	0.12	Amount misappropriated by immigration officer
Haa, Dzongkhag	0.20	Misappropriation of sale proceeds of tender forms and other revenues
Punakha, Dzongkhag	0.17	Misappropriation of rural taxes and Life insurance
Sarpang, Dzongkhag	0.35	Misappropriation of proceeds of tender forms, welfare fund etc
Zhemgang, Dzongkhag	0.46	Misappropriation of statutory remittances, sale proceeds of unserviceable items etc.
Trashigang, Dzongkhag	0.04	Entertained the seedling bill without actually receiving the seedlings.
Ministry of Home Affairs, Secretariat.	0.77	Non-accountal of cost of excess land and advances refunded.
Total	2.11	

a) Chukha Dzongkhag

Audit detected that Nu. 0.12 million was misappropriated by the Immigration officer of the Dzongkhag Administration without depositing the revenue collected as fines in to the Government Revenue Account.

b) Haa Dzongkhag

It was found that about Nu. 0.2 million collected as revenue was not deposited into the Government Revenue Account but was misappropriated by the revenue Incharge of the Dzongkhag.

c) Punakha Dzongkhag

It was observed that revenue amounting to Nu. 0.17 million collected on account of rural taxes and life insurance was misappropriated by the revenue Incharge of the Dzongkhag.

d) Sarpang Dzongkhag

About Nu. 0.16 collected, as welfare fund and tuition fees were not accounted by the headmasters of some primary schools under the Dzongkhag. Similarly, Nu. 0.144 million and Nu. 0.044 million were misappropriated by the Immigration Assistant and the Dzongkhag Engineer respectively.

e) Zhemgang Dzongkhag

The audit of Zhemgang Dzongkhag revealed that about Nu. 0.46 million were misappropriated by the revenue Incharge of the Dzongkhag. A large portion of the misappropriation relates to non-deposit of statutory remittances.

f) Ministry of Home Affairs secretariat

Revenue amounting to Nu. 0.73 million, remitted by the Department of Survey and Land Records, were misappropriated by the revenue accountant of the Ministry of Home Affairs.

3. Outstanding advances

As can be noticed from the table below, one of significantly worrying indicators noticed during the audit of the agencies under the Ministry of Home affairs was the outstanding advance. About Nu.45.80 million of government funds were lying with contractors/suppliers/employees pending provision of services/adjustment.

Table 1.7: Agency wise outstanding advances by amount and status.

Dzongkhag	Amount (Nu. In million)	Remarks
Chukha, Dzongkhag	3.34	Outstanding pertains to post and current financial years against staff and suppliers
Haa, Dzongkhag	5.26	Some of these advance pertains to post financial years against staff/suppliers and contractors
Punakha, Dzongkhag	3.54	Nu. 0.025 million belong to post financial year against staff/suppliers.
Sarbang, Dzongkhag	8.05	Nu. 0.088 million advance pertains to post financial year.
Wangdue, Dzongkhag	0.37	Outstanding advances against suppliers and employees
Zhemgang, Dzongkkhag	1.97	Outstanding advances against suppliers and employees
Samdrup Jongkhar, Dzongkhag	12.70	Outstanding advances against suppliers and employees
Pema Gatshel, Dzongkhag	4.22	Outstanding advances against suppliers and employees
Trashi Yangtshel, Dzongkhag	5.95	Outstanding advances against suppliers and employees
MOHA	0.40	Outstanding advance against suppliers & Old outstanding advances remaining in the books of accounts
Total	45.80	

Audit recommended vigorous follow-up on these huge outstanding.

4. Outstanding Revenue

The outstanding revenue amounts to Nu.1.00 million approximately, which was not realized, from annual rural taxes, school welfare fund, admission, token and tuition fees, short collection of illegal cash crops sale proceeds from various bidders, non-deduction of salary tax, health contribution and house rents from the occupants of government quarters.

Agency wise unrealized revenue is as follows:

Table 1.8 : Showing outstanding revenue by amount

Dzongkhag	Amount (Nu. in million)	Remarks
Chukha, Dzongkhag	0.040	Short collection of house rent
Haa, Dzongkhag	0.05	Non-recovery of Rebate, contractors tax and other contingencies.
Punakha, Dzongkhag	0.106	Rural taxes collected by Gups but not deposited in the Govt. revenue a/c
Sarpang, Dzongkhag	0.540	Non-deduction of contractor tax, salary tax, health contribution, less collection of fees and rural taxes and short collection of illegal cash crop sale proceeds.
Wangdue, Dzongkhag	0.036	Non-deduction of contractor tax.
Pema Gatshel, Dzongkhag	0.152	Non-deduction of salary tax and health contribution from teaching allowance.
Trashigang, Dzongkhag	0.046	Non-deduction of house rent.
Ministry of Home Affairs, Hqs.	0.123	Non-deposit of revenue remittances from salary tax.
Total	1.093	

g) Punakha Dzongkhag

Against the assessed annual rural taxes and life insurance of Nu. 0.37 million, only Nu. 0.27 was deposited with the Dzongkhag Administration

leaving unrealized revenue of about Nu. 0.1 million with the gups. It is probable that such outstanding taxes are misappropriated.

h) Sarpang Dzongkhag

Government revenue to the tune of about Nu. 0.54 million remained unrealized because of non-deduction of salary tax from the teachers pay by the AFD, short collection of sale proceeds of seized cash crops, outstanding rural taxes from gups etc.

Audit is of opinion that such outstanding could have been misappropriated.

5. Work awarded to the contractor based on cut off points:

The Dzongkhag Tender Committee of Haa Dzongkhag Administration awarded the construction of Dzongda's residence and the compound wall valuing over Nu. 4.5 million based on the cut off point determined by the Committee and therefore rejected the lowest bids thereby depriving the government of competitive bids. Similarly, works worth Nu. 7.477 million in aggregate were awarded on a work order basis in contravention to rules in force by the Dzongkhag Tender Committee.

Setting of cut of points in the opinion of the RAA lacks transparency and may lead to unfair award of work, which ultimately would jeopardize the interest of the government.

6. Irregular payment Nu. 3.116 million

An overview of the irregular expenditures incurred by each Dzongkhags audited during 2000 is presented below:

Table 1.9: Agencywise irregular payment by amount and status.

Dzongkhag	Amount (Nu. in million)	Remarks
Haa, Dzongkhag	1.322	Refund of security deposit and payment of unbudgeted personal emolument.
Punakha, Dzongkhag	0.124	Time barred payment and entertained loan from the Sport Association Fund.
Sarpang, Dzongkhag	0.591	Payment made without receipt of goods and other irregularities in procurement.
Wangdue, Dzongkhag	0.104	Hiring of vehicle without approval and budget provision
Zhemgang, Dzongkhag	0.058	Hand receipt entertained.
Pema Gatshel, Dzongkhag	0.491	Unbudgeted expenditure
Trashigang, Dzongkhag	0.04	Paid DSA at higher rate and payment made for furniture transportation.
Ministry of Home Affairs, Hqrs.	0.386	Paid without receipt and supporting bills
Total	3.116	

i) Expenditure without budget provision

Haa Dzongkhag had made an unbudgeted expenditure amounting to Nu. 0.956 million towards personal emoluments. It was not known why there was deficit on this budget head since this was a fixed provision. Similarly, Dzongkhag Administration Pema Gatsel spent Nu. 0.423 million without budget provision from the previous years advances recovered.

j) Payment made without supporting documents

Payment to the tune of Nu. 0.581 and Nu. 0.386 were made by the ESU, Gelephu and the Ministry of Home Affairs respectively without proper supporting documents. The immigration and Census Division refunded non-national laborers security deposits on photocopied certificates of expatriation.

CHAPTER III

Ministry of Finance

The Royal Audit Authority conducted the audit of the following agencies under the Ministry of Finance during the year 2000:

1. Ministry of Finance, Hqrs;
2. Regional Revenue and Customs Office, Phuntsholing;
3. Regional Revenue and Customs Office, Samtse;
4. Regional Revenue and Customs Office, Gaylephu; and
5. Duty Free Shop, Thimphu;

Table 1.10: Showing audit observations by different categories

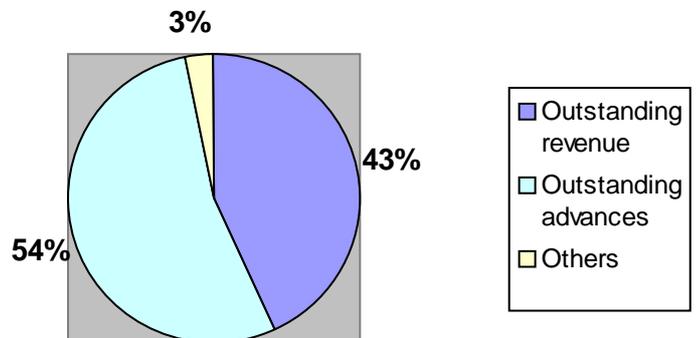
Nature of observation	Number of observation	%	Amount (Nu. in million)	%
Excess payments	7	15	0.65	0.34
Irregular Payments	1	2	1.91	1.01
Misappropriation	2	4	0.18	0.09
Outstanding revenue	26	55	82.90	43.63
Outstanding advances	10	21	100.76	54.52
Loss of revenue	1	2	0.78	0.41
Total	47	100	187.18	100.00

Amount Involved (Nu.187.18m)

Major findings:

1. Excess payment

Government Fund amounting to Nu. 0.65 million were paid more than what was actually admissible under the rules in force.



Such excess payments are categorized as follows:

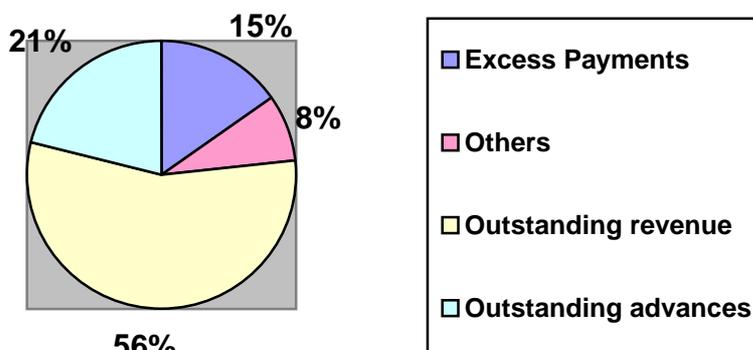
Table 1.11 : Showing the excess payments by nature and amount

Agency	Nature of excess payments (Nu. in million)			
	DSA for treatments outside Bhutan	Payments to contractors	Payment of DSA to officials	Total
RRCO,Galephu		0.13		0.13
RRCO, Samtse		0.045		0.045
RRCO,P/Ling		0.01		0.01
Ministry of Finance	0.38		0.08	0.46
Grand total	0.38	0.185	0.08	0.645

a) Excess payment to contractors

The Royal Audit Authority detected that the RRCO, Gelephu accepted claims of about Nu. 0.13 million made by the contractors for works not carried out in the construction of staff quarters at Kalikhola and Rangapani Check posts. Similarly, the RRCO, Samtse had paid about Nu. 0.044 million to the contractor for works not performed in the construction of fencing around Jitti Check post.

Audit Observations (%)



Acceptance of claims by the contractors for works actually not executed would tantamount to collusion and therefore perpetration of fraud by both the contractor and the management.

b) Excess Payment of DSA for treatments outside Bhutan

The Ministry of Finance had overpaid about Nu. 0.38 million in terms of DSA to patients and escorts in Thailand and New York for their treatment abroad. Likewise, the Ministry of Finance had overpaid Nu. 0.08 million on account of DSA to the officials of Revenue and Customs who had traveled abroad.

2. Irregular payment

Expenditure amounting to Nu. 1.91 million were found incurred on construction of boundary walls and security rooms at private residences of the Hon'ble members of Council of Ministers.

3. Misappropriation

Audit detected that taxes collected on account of Bhutan Export Tax (BET) and the sale proceeds of seized liquor amounting to Nu. 0.178 million were misused by the officials of the RRCO's of Gelephu and Phuntsholing respectively.

4. Outstanding Revenue

Government revenue amounting to Nu. 82.9 million due from BST, Business income tax, sale proceeds, royalty, CIT etc. remained unrealized under different subsidiary organizations under the Ministry of Finance during the year 2000.

These outstanding taxes are summarized below:

Table 1.12: Showing the types of revenue outstanding by amount.

Agency	Types of revenue outstanding (Nu. in million)						
	Sale proceeds	BIT/ CIT	Custom	BST	License fees	Royalty	Total
Duty Free Shop	2.2						2.2
RRCO, Samtse		17.36				12.66	30.02
RRCO, P/Ling		38.72	1.46	8.85	1.66		50.69
Grand Total	2.2	56.08	1.46	8.85	1.66	12.66	82.91

a) Outstanding sale proceeds Nu. 2.2 million

Government revenue amounting to Nu. 2.2 million remained unrealized by the Duty Free Shop for goods sold on credit to Government agencies and to private individuals. Repeated observations were made by the audit on the issue recommending realizing in particular the old debts.

b) Unrealized Business Income Tax and Corporate Income Tax Nu. 56.08 million

Revenue earned against Business Income tax and Corporate Income tax amounting to Nu. 17.36 million were not realized by the RRCO, Samtse from the Business and Corporate Units under its jurisdiction. Similarly, the RRCO, Phuntsholing had not collected about Nu. 38.72 million from the Business and Corporate Units against the tax assessed.

While the government suffers from serious budget deficits almost every year, non-realization of such huge revenue is serious concern of the RAA as to the accountability in Revenue administration.

c) Non-realization of Royalty, Nu. 12.66 million

The audit of RRCO, Samtse had revealed that royalty amounting to Nu. 12.66 million earned from the Dolomite mining companies have been not collected.

Audit raised a serious concern over the matter.

d) Unrealized custom duty, license fee and custom duty Nu. 11.97 million

Revenue earned against license fee from the liquor vendor shop, Bhutan Sales Tax from the State Trading Corporation and the RBG Canteen amounting to Nu. 11.97 million were found unrealized by the RRCO, Phuntsholing.

The Royal Audit Authority also raised serious concern on this matter

5. Outstanding Advances

A sum of Nu. 100.76 million from the government exchequer was lying with the suppliers and individuals pending adjustments or refunds. These advances are bifurcated in the table below:

Table 1.13: Division-wise outstanding advance by amount.

Agency	Types of advance (Nu. in million)		
	Non-refund of US\$ taken as advance for medical treatment outside Bhutan	Advance to suppliers and employees	Total
Ministry of Finance	1.96	97	98.96
RRCO, P/Ling		1.62	1.62
RRCO, Samtse		0.17	0.17
RRCO, Galephu		0.012	0.012
Grand Total	1.96	98.802	100.762

It was observed that senior government officials availing the privileges of medical treatment outside the country had not refunded about Nu. 1.96 million taken as advance. One of the alarming observations is about the huge outstanding advance in the books of accounts of the Ministry of Finance.

Advances were outstanding as huge as Nu. 97 million and in the opinion of the audit was highly alarming and needed immediate attention of the government.

6. Loss of Revenue

The Royal Government suffered a loss of Nu. 0.78 million approximately because of under assessment of the cost of government vehicles allotted to the government employees.

CHAPTER IV

Ministry of Communications

The Royal Audit Authority conducted the audit of the following organizations under the Ministry of Communications during the year 2000.

1. Telecom Authority of Bhutan;
2. PWD;
3. Department of Urban Development and Housing;
4. Department of Civil Aviation;
5. Central Stores, PWD;
6. City corporation, Thimphu;
7. Hydromet; and
8. Road Maintenance Division, Thimphu.

Table 1.14 : Showing the Audit observation by different categories

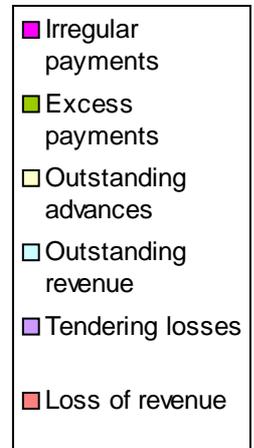
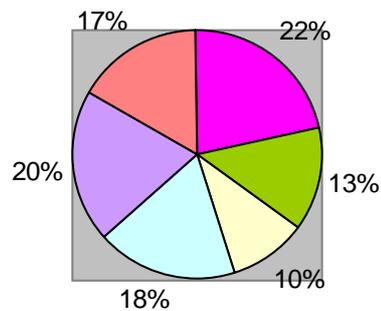
Nature of observations	Number of observations	%	Amount (Nu. in million)	%
Irregular payment	18	22	17.42	16
Excess payment	11	13	4.42	0.5
Outstanding advance	8	10	39.17	45.5
Outstanding revenue	15	18	9.83	15
Tendering losses	16	20	8.6	10
Loss of revenue	14	17	11.34	13
Grand total	82	100	90.78	100

Major findings:

1. Irregular payments Nu. 17.42 million

Audit had detected in year 2000 that irregular payment of approximately Nu. 13.85 million were made in contravention to government rules and regulations.

Audit observations (%)



These include among others, payment made without the approval of estimates by the competent authority, payment made against unrealistic estimates, payment of price escalations not provided in the agreement, irregular payment of advances by the Department of Urban Development and Housing and payment to the contractor made by the Division of Telecom without making record entries in the Measurement Book.

Amount involved Nu. 90.78m

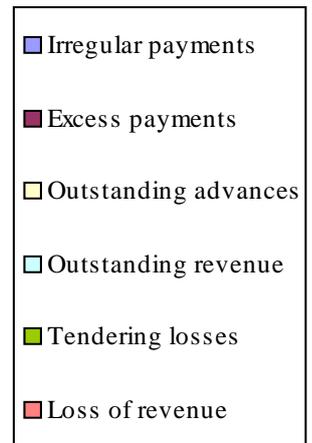
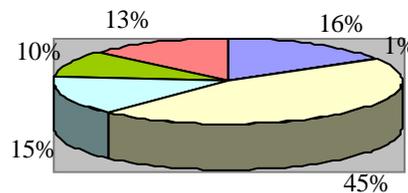


Table 1.15 : Showing the types of Irregular payments by amount

Agency	Types of Irregular payments (Nu. in million)				
	Without supporting documents	Without authorization	Without record entries	Not provided in budget	Total
City Corporation		0.094			0.094
DUDH	0.24	10.98	4.3		15.52
MOC Secretariat				0.075	0.075
PWD		0.29			0.29
Telecom	0.018		1.42		1.438
Grand Total	0.258	11.238	5.72	0.075	17.417

a) Payment made without supporting documents, Nu. 0.25 million

It was noticed that the Department of Urban Development and Housing had incurred expenditure on account of third country travels made by its officials. Necessary supporting documents for expenditures amounting to Nu.0.24 million on the above subject was not produced before audit for verification.

b) Unauthorized expenditure Nu. 11.24 million

It was observed that expenditure to the extent of Nu. 2.24 million were incurred on account of the price escalations paid to the contractors of Bus Terminal Complex, Department of Survey and Land Record Building and the Department of Geology and Mines building against the provisions of the contract agreement. Similarly, the DUDH released about Nu. 5.82 million to the contractors of RAA building and the Khuruthang Water Supply Scheme as mobilization advance without the contractor providing the list of equipment at site and the contractor not making a written claim for the advance as required by the contract agreement.

Audit was of the opinion that the contractor was granted undue favor, which in effect was not advantageous in the interest of the government.

c) Payment without recording measurement in the MB Nu. 5.72 million

It was observed that payment amounting to Nu. 4.3 million were paid to the contractor of the Department of Survey and Land Records without making record entries in the Measurement Books as required under the provisions of the Central PWD code. Similarly, the Division of Telecom made payments to the tune of over Nu. 1 million to M/S Chencho Construction without recording the details of the work done in the Measurement Book.

2. Losses sustained as a result of Tendering/Contracting and Procurement lapses Nu. 8.6 million

Loss to the government to the tune of approximately Nu.8.6 million was sustained due to uneconomical purchases, non-levy of liquidated damages in accordance with the terms and conditions and award of work to bidders other than the lowest. A majority of cases mentioned above relates to DUDH, PWD and the Central Stores, PWD in Phuntsholing. Agency wise summary is reproduced below and discussed separately.

Table 1.16 : Showing the Losses sustained as a result of Tendering lapses

Agency	Losses arising from (Nu. in million)			
	Uneconomic purchases	Non-levy of liquidated damages	Works not awarded to the lowest bidder	Total
Central Stores	3.08	1.64		4.72
City Corporation		0.08		0.08
DUDH		2.47		2.47
Hydromet			0.024	0.024
Telecom	0.42		0.9	1.32
Grand Total	3.5	4.19	0.924	8.614

a) Uneconomic purchases Nu. 3.5 million

It was observed that the Central Stores of the PWD based in Phuntsholing had procured Special Gelatin 80%, a component used with the explosives without analyzing the cost benefit to the government. It incurred an extra expenditure of Nu. 1.44 million by not obtaining Power Gel which was less expensive but served the same purpose. It was also found that the Central stores had placed orders with the STCB for the supply of Bitumen 80/100 with a delivery period of 2 months for which the STCB took over 2 years to supply 500 metric tones of bitumen. The cost benefit analysis carried out by the audit revealed that the government had to bear a resultant loss of about Nu. 1.54 million due to price increases in India over the two years.

Similarly, the Division of Telecom had to incur over Nu. 0.42 million as bank charges due to non-inclusion of clauses as to who should bear the cost while drawing up the contract agreements with foreign firms supplying communication equipment.

b) Non-levy of Liquidated damages Nu. 4.19 million

The constructions of the Bus Terminal complex, Division of Geology and Mines building and the Department of Survey and Land Records building were contracted to construction companies namely, M/s Lhaki Construction and M/s Rinchen Construction. One of the clauses of the contract agreement provides that if the construction is not completed within the period agreed by the parties, liquidated damages at the rate of 1% per week to a maximum of 10% of the contract amount shall be levied to the contractor. Whereas it was observed that these constructions were delayed by more than one year, liquidated damages amounting to Nu. 2.47 million were not realized by the DUDH from the contractors. Similarly, the Stores Unit did not realize an amount of Nu. 1.64 from the suppliers who failed to supply goods within the agreed time.

c) Loss sustained due to works awarded to other than the lowest bidder, Nu. 0.92 million

It was noticed that the Division of Telecom had not accepted the lowest bid of M/S Tshomo Geo-Tech enterprises for the supply of 60 KVA UPS for earth stations but was awarded to M/s Tata Liebert Ltd. losing a saving to the government of about Nu. 0.62 million. Similarly, disparities in the award of works were noticed in the construction of Tsimila and Limukha repeater stations where the works were awarded to the third lowest bidders suffering financial implications on the part of the government to the extent of Nu. 0.287 million.

3. Outstanding Advances Nu. 39.17 million

Government fund to the tune of Nu. 39.17 million remained unadjusted with the suppliers and employees in the form of advance payments as follows:

Table 1.17 : Showing the outstanding advances by amount

Agency	Amount(Nu. in million)
Telecom	12.08
City Corporation	7.48
PWD HQ	17.59
DUDH	0.15
Civil Aviation	1.13
MOC Secretariat	0.74
Total	39.17

Implications of opportunity cost of resources blocked and interest lost was communicated to the agencies and recommended vigorous follow-up for early recovery/adjustment of outstanding advances.

4. Loss of Revenue Nu. 11.34 million

The Royal Government lost approximately Nu. 11.34 million in terms of internal revenue. The loss can be attributed mainly due to systems failure in the then Division of Telecom, extending free call facilities to project DANTAK, allowing free calls to the staff of DoT beyond the ceiling.

Table 1.18 : showing the loss of government revenue by amount

Agency	Loss of revenue due to (Nu. in million)			
	Systems failure/Management	Free call facilities to DANTAK & telecom officials	Non-levy of contractor taxes	Total
Telecom	1.66	2.79		4.45
Civil Aviation			0.43	0.43
DUDH			3.8	3.8
PWD HQ			2.66	2.66
Grand Total	1.66	2.79	6.89	11.34

a) Loss of Nu. 1.66 million due to systems failure

Audit observed that the local call charges for the month of November 1999 was exceptionally low as compared to other months. The failure of the system due to lack of preventive maintenance had been found the cause for a loss of revenue of about Nu. 1.66 million to the government.

b) Loss of Nu. 2.79 million due to free call facilities extended to project DANTAK and the telecom officials

The Ministry of Finance vide its circular No. MOF/MOC/DT/97/410 dated 14 August 1997 stopped the free call facilities extended to project DANTAK. It was observed that this system was still in practice, which was causing an annual loss of revenue to the government of approximately Nu. 2.6 million. Similarly, calls were found made more than what was permitted free by the officials of Telecom Division. Such cases contributed about Nu. 0.19 million as a loss of revenue to the government.

c) Loss due to non-deduction of 3% tax at source, Nu. 6.89 million

In contravention to the requirement to deduct 3% foreign contractors tax at source by the Revenue and Customs Division, the Department of Civil Aviation, Public Works Department, Department of Urban Development and Housing had not deducted such taxes amounting over Nu. 3 million. Similarly, the Department of Urban Development and Housing had not realized consultancy and supervision charges on deposit works amounting to over Nu. 3 million.

These had effected the internal revenue growth of the country.

5. Outstanding Revenue Nu. 9.829 million

Government revenue amounting to Nu. 9.829 million remained unremitted/unrealized during the year 2000. As can be seen from the table below, such outstanding revenues are made up of non-deposit of security deposit adjusted against telephone bills, outstanding telephone bills, outstanding house rents, and outstanding sale proceeds made by the central stores.

Table 1.19: Showing the types of outstanding revenue by amount

Agency	Types of outstanding revenue (Nu. in million)				
	Not deposited	Not realized	Credit sales	House rents outstanding	Total
Telecom	2.139	3.03			5.169
Central Stores			2.87		2.87
City Corporation		0.58			0.58
DUDH				1.21	1.21
Grand Total	2.139	3.61	2.87	1.21	9.829

a) Security deposit of Nu. 2.139 not deposited in to the Government Revenue Account

When the Bhutan Telecom, the then Division of Telecom discontinued to collect Nu. 2000 as security deposits for new telephone connections, the security deposits already held by the Division were adjusted against the customers telephone bills instead of reimbursing it to the customers. Adjustments amounting to Nu. 2.139 million from the security deposits were not deposited into the Government Revenue Account when the Division became a Corporation.

b) Unrealized revenue Nu. 3.61 million

It was observed that the Division of Telecom had not realized about Nu.3 million earned against the telephone call charges from the customers. Similarly, the Thimphu City Corporation was yet to realize Nu. 0.58 million of Municipalities taxes.

c) Outstanding Credit sales of Nu. 2.87 million

The Central Stores of PWD in Phuntsholing despite audit recommendations continued with the practice of selling mechanical items on credit to private parties. It was not able to realize about Nu. 2.87 million to be earned from hire charges of Machinery to Private parties, sale of mechanical items, and the installment on the sale of Komatsu Dozer spares to M/s Gaseb Construction.

d) Outstanding House rents Nu. 1.21 million

Having taken over the government quarters from the Department of National Properties, the Department of Urban Development and Housing had not been able to realize about Nu. 1.21 million as house rents. The house rents outstanding relate to a few senior government officials who are still in service and also those who have already retired from the government service.

6. Excess Payments Nu. 4.419 million

An amount aggregating to Nu. 4.419 million were paid more than what was admissible by the agencies under the Ministry of Communications audited during year 2000. Such payments were made up of excess payment made on account of Bhutan Compensatory Allowance, to contractors for deviations, DSA, hire charges etc.

Table 1.20: showing the nature of excess payment made by amount

Agency	Excess paid (Nu. in million)	Nature of excess payments
Hydromet	0.068	Excess payment of BCA
Telecom	0.013	Excess payment of LTC
City Corporation	0.016	Incorrect recording in the measurement book
PWD	0.022	Excess payment of DSA and consultancy fees
DUDH	4.18	Excess payments to contractors
Civil aviation	0.12	Excess payment to suppliers and DSA
Total	4.419	

a) Excess payment to contractor, Nu. 4.18 million

The Department of Urban Development and Housing paid over Nu. 4.01 million because of work executed beyond the estimates by 20%. It was noticed that deviations from the estimates in the construction of Bus Terminal Complex, Department of Survey and Land Records building, Division of Geology and Mines building was as high as **3900%**. Audit raised concern over the accountability of the Planning and Engineering Cell officials of the Department of Urban Development and Housing who were responsible for the preparation of proper estimates. The Department of Urban Development and Housing had also overpaid Nu. 0.18 million to M/s Lhaki Construction, contractor for the construction of Bus Terminal Complex by not recovering the advances from the final bill of the contractor. Similarly, the Department of Civil Aviation, the then Division of Civil

Aviation allowed excess payment of Nu. 0.055 million to the Uniform supplier. The bill contained extra quantity of uniforms actually supplied.

7. Award of works on work order basis

The DUDH and the RMD, Thimphu awarded works requiring NIQ's on work order basis. The amount involved for such works aggregated to approximately Nu 3.72 million as detailed below:

Table 1.21 : showing works awarded on the Work order basis

Agency	Nature of work	Value of the work (Nu. in million)
DUDH	Upgradation and internal electrification of RIM	1.19
DUDH	Construction of R/wall and B/wall at Jharna	0.27
DUDH	Electrification of Bus terminal complex	2
RDM, Thimphu	Construction of NWF dwellings on Simtokha – Dochula Highway	0.27
Total		3.72

It was found that the Department of Urban Development and Housing allotted the upgradation and internal electrification of Royal Institute of Management worth Nu. 1.19 million to Bhutan Electrical Company without floating tender. Similarly, electrification work of Bus Terminal Complex worth Nu. 2 million was awarded by the Department of Urban Housing to M/s Lhaki construction without inviting tenders.

The Royal Government was therefore deprived of competitive bidding.

8. Irregular purchases

Irregular and wasteful expenditure of 10.67 million were incurred on purchases made without calling quotations, wasteful expenditures on purchases not required by the Departments under the Ministry of Communications audited during the year 2000. The government was therefore, deprived of the advantages of competitive bidding and unnecessary blockage of funds as depicted below:

Table 1.22 : showing types of irregular purchases by amount

Agency	Types of irregular purchases (Nu. in million)		
	Purchases without quotations	Purchase not required	Total
Central Stores		0.78	0.78
Civil aviation	9.78		9.78
MOC	0.11		0.11
Grand Total	9.89	0.78	10.67

a) Purchase without quotations Nu. 10.55 million

It was observed that the Department of Civil Aviation had purchased security equipment, baggage trolleys, CCTV and HF radio worth over Nu. 9 million from two companies in Bangkok. While the payment was made, it was noticed that suppliers' bills were not attached with the payment voucher. Quotations were not called as required under the provisions of Financial Manual, which deprived competitive bidding and it cannot be ascertained whether the government got the best deal.

b) Wasteful expenditure Nu. 0.78 million

It was also noticed that the Superintendent Engineer (B&M) had purchased miragrid 5XT (woven) fabric fibres from M/s Z-Tech Private Ltd. without observing codal formalities. The materials so purchased were found dumped in the store yard without being used even after two years of its purchase. Audit was of the opinion that expenditure incurred was wasteful and a case of deliberate favoring private firm.

9. Government property issued to private parties, Nu. 0.97 million

Audit had detected that the Central Stores of the PWD had issued construction and mechanical items to private parties on returnable basis. These items were not returned even after duration of three years. It was

found out that the superintendent engineer was also not competent to issue government properties to private parties.

10. Non-accountal of Stocks

Audit detected that government property worth Nu.0.2 million were not accounted.

Such non-accountals are reflected below:

Table 1.23 : showing the non-accountal of stocks by amount

Agency	Amount(Nu. in million)	Remarks
Telecom	0.13	Non- accountal of drop wires
Central Stores	0.017	Non-accountal of defreezing salt
RMD, Thimphu	0.073	Non-accountal of hume pipes
Total	0.22	

The Trongsa Telecom Incharge for instance had not accounted drop wires worth Nu. 0.13 million sent by the Telecom Central Stores. Similarly, Road Maintenance Division, Thimphu had not accounted for Hume Pipes worth Nu. 0.073 million.

11. Misutilization of budget Nu. 1.2.million

The Bhutan Telecom the then Division of Telecom had misutilized the budget of Nu. 1.2 million by not surrendering to Department and Budget and Accounts by booking as an advance in the name of the Director at the end of the financial year.

CHAPTER V

Ministry of Health & Education

The Royal Audit Authority conducted the audit of the following agencies under the Ministry of Health and Education during the Year 2000.

1. Ministry of Health and Education Hqrs;
2. National Institute of Education Paro;
3. National Malaria Control Programme, Gelephu;
4. Public Health Engineering Unit, Thimphu;
5. Institute for Language and Cultural Studies;
6. JDWNRH, Thimphu;
7. Health Division;
8. Education Division; and
9. RWSS, Phuntsholing.

Table 1.24 : Showing the Audit Observations by different categories

Nature of observations	Number of observations	%	Amount (Nu. in million)	%
Excess Expenditure	3	9	0.363	0.11
Irregular payment	19	54	5.25	5.14
Outstanding revenue	3	9	0.49	0.46
Outstanding advance	10	29	100.9	94.3
Grand Total	35	100	107.003	100

1. Excess payment

It was found during audit, the excess payment Nu. 0.363 million were incurred from government fund. It relates to excess claims made by the contractors and allowances paid to the officials and staff though inadmissible.

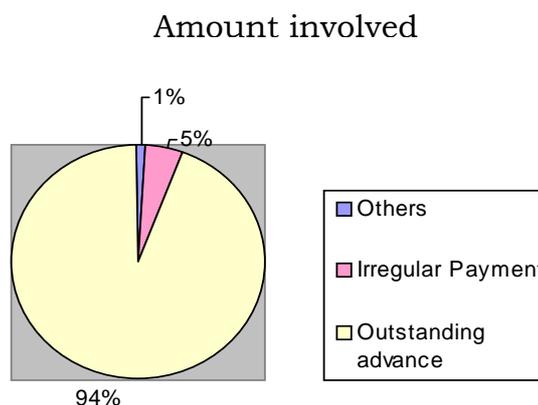
These are discussed below:

Table 1.25 : Showing the nature of excess payments by amount

Agency	Nature of excess payments (Nu. in million)			
	Contractors/ suppliers	Allowances paid to employees	Residential telephone bill	Total
Health Division		0.02	0.14	0.16
Education Division	0.022		0.06	0.082
Ministry of Health & Education, Secretariat			0.048	0.048
Sherubtse College	0.073			0.073
Total	0.095	0.02	0.248	0.363

a) Excess payments to Contractors

Audit had detected that the Sherubtse College management had admitted excess payment of Nu. 0.073 million to Kuenphen Wangchu Construction who carried out the refurbishing of computer class rooms at Sherubtse College. The contractor had claimed for works not provided while the management had accepted the claim.



b) Payment of residential telephone bills from the government fund, Nu. 0. 248 million

In contravention to the Ministry of Finance circular disallowing the payment of residential telephone bills to be paid from the government fund, it was

found that the Ministry of Health and Education and its two Divisions had spent about Nu. 0.248 million unauthorized.

2. Irregular payment

The Royal Audit Authority detected many cases of irregular payments amounting to over Nu. 5.25 million in the audit of the Ministry of Health and Education. These irregularities are described below:

Table 1.26 : Showing the types of irregular payments by amount

Agency	Types of irregular payments (Nu. in million)			
	Without supporting document	Without budget provision	Allowances	Total
Health division	2.15	0.99		3.14
Education Division	0.65	0.09		0.74
Ministry of Health & Education		0.029	0.065	0.094
Sherubtse College	1.28			1.28
Total	4.08	1.109	0.065	5.254

a) Payment made without supporting documents, Nu. 4.08 million

It was observed that expenditure to the extent of Nu. 4.08 million was incurred for which the relevant bills and vouchers were not produced before audit. This relates to expenditures incurred by the Health and Education Divisions and Sherubtse College.

b) Expenditure without Budget provision, Nu. 1.10 million

Irregular expenditure amounting to over Nu. One million were incurred without budget provision or without budget reappropriations. Such expenditures relate to expenditures incurred on foreign drinks for which the Ministry of Finance does not allocate budgets and expenditures met from the security deposits by the Department of Health, the then Health Division.

3. Outstanding revenue

Government revenue amounting to Nu. 0.49 million remained unrealized by the Department of Education, the then Education Division and NIE, Paro. It relates to non-deduction of 3% foreign contractor tax and salary tax by the above agencies.

4. Uneconomic purchases

Physical verification of the stocks of the Rural Water Supply and Sanitation Project revealed that purchases were not planned to reduce cost. Sanitation and construction items worth over Nu. 8 million were lying in stock without use. Audit also found that there were unserviceable items worth approximately Nu. one million left unattended.

Audit concluded that the Project did not adopt the theory of Economic Order Quantity (EOQ) to minimize cost to the government and to avoid unnecessary blockade of funds.

5. Outstanding advance

An alarmingly huge figure appears in the books of accounts of the agencies under the Ministry of Health and Education as outstanding advances. Audit raised serious concern over the matter and recommended early recovery/adjustments.

Agency wise outstanding advances are reflected below:

Table 1.27 : Showing the outstanding advance by amount and status

Agency	Amount (Nu. in million)	Remarks
Secretariat, Ministry of Health & Education	1.17	Outstanding advance against staff and suppliers/ parties
JEWNRH, Thimphu	0.83	Outstanding advances against patients
National Institute of Education, Paro	5.13	Outstanding advances against staff/employees/parties
Public Health Engineering Unit, Thimphu	22.37	Outstanding Advances suppliers and staff
Institute for Language and Cultural Studies, Simtokha	0.09	Outstanding Advances against staff and suppliers
Health Division, Thimphu	37.18	Outstanding Advances against officials/staff/parties
Health Division, Thimphu	18.64	Outstanding Advances against officials/staff/parties
Education Division	13.60	Outstanding Advances from LC Account and IAGPLC Account.
Sherubtse College, Kanglung	1.65	Outstanding advances against lecturers/students/staff and private parties
RWSS center Store, P/Ling	0.24	Outstanding advances against officials of RWSS.
Grand Total	100.90	

CHAPTER VI

Ministry of Trade & Industry

The Royal Audit Authority had conducted the audit of the following agencies under the Ministry of Trade and Industries during the year 2000.

1. Trade Ministry and Industries Hqrs;
2. Regional Trade and Industries Office, P/Ling;
3. Department of Power, Head Quarter;
4. Electricity Supply Unit, Phuntsholing;
5. Electricity Supply Unit, Paro;
6. Electricity Supply Unit, Trashigang;
7. Stores Unit, Phuntsholing; and
8. Department of Tourism.

Audit Reports for the year 2000 includes 27 observations involving Nu. 113.25 million.

These observations are discussed below:

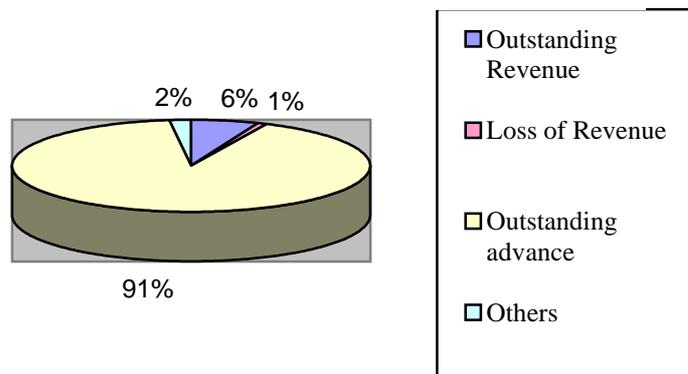
Table 1.28: Showing the audit observations by different categories

Nature of Observation	Number of observation	%	Amount(Nu. in million)	%
Excess payment	2	7.41	0.220	0.165
Irregular payment	4	14.82	0.459	0.405
Misappropriation	1	3.70	0.26	0.229
Outstanding advance	9	33.30	102.955	90.905
Outstanding revenue	7	25.90	7.052	6.223
Loss of revenue	3	11.10	1.4	1.236
Non-accountal of stock	1	3.70	0.91	0.803
Grand total	27	100	113.256	100

1. Irregular payment Nu.0.459 million

The Royal Audit Authority also detected that the Department of Tourism the then Tourism Authority of Bhutan had utilized revenue earned from the tourists against its day to day expenditure. Similarly, the Tourism Authority of Bhutan had retained about Nu. 0.213 million collected from the Travel agents as a contribution to the restoration of Taktshang Monastery.

Amount involved (Nu.113.25m)



2. Outstanding advance

It was observed that government fund amounting to Nu. 102.96 million remained unadjusted/unrecovered from the suppliers and employees of the agencies under the Ministry of Trade and Industry as follows:

Table 1.29 : Showing the outstanding advance by amount

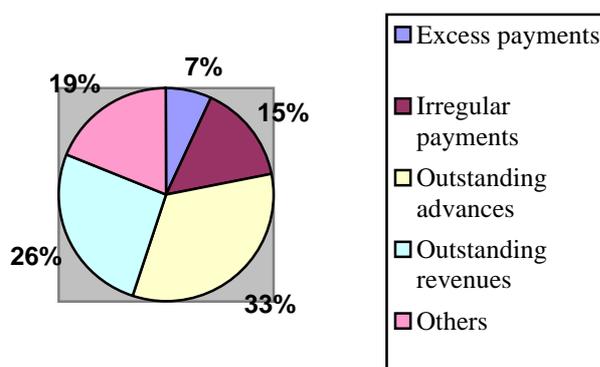
Agency	Amount (Nu. in million)
Department of Tourism, MTI, Thimphu	1.03
Store unit, Division of Power, P/Ling	7.96
Electricity Supply Unit, Phuntsholing	1.89
Secretariat, Ministry of Trade and Industry, Thimphu	0.47
ESU, Paro	1.83
ESU, Trashigang	8.73
DOP, HQ	81.05
Grand total	102.96

Audit had raised serious concern over the matter and recommended early recovery/adjustment from the suppliers and employees.

3. Non-accountal of stock.

Copper conductors valuing Nu. 0.91 million were not accounted for by the Electricity Supply Unit of Thimphu. It relates to loss of conductors from Thinleygang Mini Hydel.

Audit Observations (%)



4. Outstanding revenue Nu. 7.052 million

Government revenue amounting to Nu. 7.052 million remained unrealized during the year 2000.

Such outstanding revenues are segregated below:

Table 1.30 : Showing the types of revenue outstanding by amount

Agency	Types of Revenue outstanding (Nu. in million)		
	Energy charges	Rent	Total
Department of Power	6.28		6.28
RTIO, Phuntsholing		0.77	0.77
Total			7.05

The Department of Power did not realize over Nu. 6 million against sale of energy to consumers in Thimphu, Trashigang and Phuntsholing. Similarly, the Regional Trade and Industries Office in Phuntsholing did not collect about Nu.0.77 million against the rent of Industrial Sheds and cost of spare parts.

5. Misappropriation

The accountant of the Electricity Supply Unit of Paro misappropriated Nu. 0.26 million without surrendering the closing balance at the year-end and without accounting in the next financial year as opening balance.

6. Loss of revenue

It was observed that revenue amounting to over Nu. 1.4 million were lost due to lapses on the managerial actions. For instance, the Electricity Supply Unit of Phuntsholing had to incur about Nu. 0.46 million towards penal interest to M/s Chukha Hydroelectric Project Corporation for late remittance of energy charges. Similarly, the Royal Government lost over Nu. 0.9 million earned against royalty, which the Department of Tourism had waived off.

CHAPTER VII

Ministry of Agriculture

Under the Ministry of Agriculture, the following units and departments were audited during the year 2000.

1. Royal Veterinary Epidemiology, Centre, Serbithang;
2. Bhutan Forestry Institute, Taba;
3. Central Store, Phuentsholing, MoA;
4. RNR-RC, Jakar;
5. Forestry Development Corporation, Zhemgang;
6. Department of Research and Development Services, MoA;
7. National Nublang Breeding Farm, Trashiyangphu;
8. Ministry of Agriculture Secretariat;
9. National Pig Breeding Centre;
10. Regional Mithun Breeding Farm, Arong, Samdrupjongkhar;
11. Regional Veterinary Laboratory, RVL Khaling;
12. Conifer Research & Technical Co-operation;
13. RNRRC- West, Yusipang;
14. Crop and Livestock Division;
15. Regional Veterinary Laboratory, Gedu;
16. National Artificial Insemination Prog. & Semen Processing Centre, Wangchutaba; and
17. DFO, Tsirang.

Table 1.33 : Showing the Audit observation by different categories

Nature of Observation	Number of observations	%	Amount(Nu. in million)	%
Excess Payments	4	14.29	0.41	2.19
Losses due to tendering and procurement lapses	2	7.14	0.42	2.24
Outstanding Advance	12	42.86	13.09	69.78
Misappropriation	2	7.14	0.12	0.64
Outstanding revenue	4	14.29	0.53	2.82
Irregular Payment	3	10.71	1.73	9.22
Wasteful expenditure	1	3.13	3.57	13.11
Total	28	100	18.76	100

1. Excess payment

As can be seen from the table below, an excess payment of Nu. 0.41 million were incurred by the agencies audited during the year 2000. It relates to payments made to the contractor for works not executed in the construction of the forest road by the Zhemgang FDC, entertainment of inadmissible DSA to officials travelling abroad for hotel and other incidental charges by the RVEC and the payment of residential telephone charges by the Ministry of Agriculture Headquarters.

Audit Observations (%)

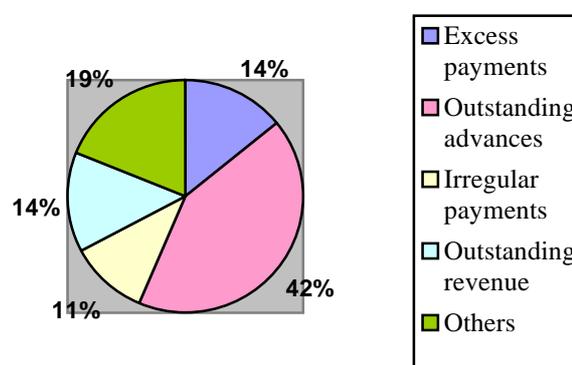


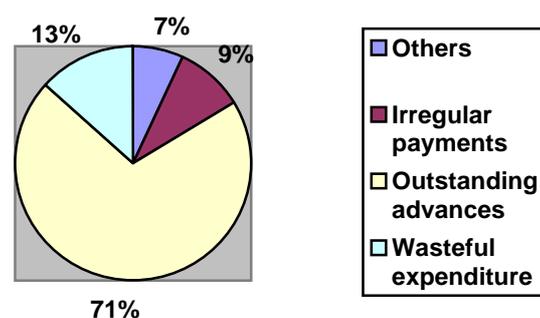
Table 1.34 : Showing the nature of excess payment by type and amount

Agency	Nature of Excess payment (Nu. in Million)			
	DSA on training outside Bhutan	For works not executed	Residential Tele. charges	Total
RVEC	0.041			0.041
FDC, Zhemgang		0.315		0.315
MoA Hqrs			0.016	0.016
CRTC			0.039	0.039
Grand total	0.041	0.315	0.055	0.411

2. Losses sustained due to tendering and procurement lapses

Amount Involved (Nu.27.85m)

It was observed that the Zhemgang FDC management had awarded the forest road construction work to the third lowest bidder without proper justifications for rejecting the first lowest bidder. Consequently, the Royal Government suffered a loss Nu. 0.42 million.



1. Outstanding Advances

As can be seen from the table below, an amount of Nu. 13.09 million remained unrecovered/unadjusted from the suppliers and employees of the agencies

under the Ministry of Agriculture. Audit recommended early recovery/adjustment particularly for advances pertaining to previous years.

Table 1.35 : Showing the advances against employees and suppliers.

Agency	Advances to employees/suppliers (Nu. in million)
Ministry of Agriculture Hqrs	1.97
DRDS	3.61
Royal Veterinary Epidemiology , Centre,	0.32
National Pig Breeding Centre	0.22
National Nublang Breeding Farm	0.12
Regional Mithun Breeding Farm, Arong	0.09
Regional Veterinary Laboratory, Khaling	0.026
Conifer Research & Technical Co-operation	0.03
RNR-RC, Jakar.	0.16
RNRRC- West, Yusipang	0.13
CLSD	6.41
Grand Total	13.09

2. Misappropriation

Audit had detected that the accountant of the Regional Veterinary Laboratory at Gedu misappropriated over Nu. 0.1 million from the government fund. Similarly Nu. 0.02 million forfeited against the earnest money were misappropriated by ex-DM of the Zhemgang Forest Development Corporation.

3. Outstanding Revenue

Revenue amounting to approximately Nu. 0.53 million remained unrealized during the year 2000. It pertains to the sale proceeds of liquid nitrogen, frozen semen, gloves, artificial insemination sheath, vaccines, and sale proceeds of pigs and non-realization of house rents. It relates to National

Insemination Program and Semen Processing Centre, National Pig Breeding Centre and RNR-RC Jakar under the Ministry of Agriculture.

4. Award of work without inviting tenders/quotations

The management of Forest Development Corporation, Zhemgang awarded the construction of forest road worth Nu. 3.37 million to a contractor without inviting tender. Audit also found that the management of the FDC, Zhemgang had awarded the construction of forest road in Chendebji worth Nu. 3.26 million without inviting tender. Incidentally, it was observed that the carrying contractor was one. Other such lapses worth pointing out with lesser financial implications are shown in the table below:

Table 1.36 : Showing the nature of tendering and procurement lapses by amount

Agency	Nature of tendering and procurement lapses (Nu. in Million)		
	Without quotations	Work awarded without inviting tender	Total
Ministry of Agriculture Secretariat	0.053		0.050
DRDS	0.210		0.210
Regional Veterinary Laboratory, Khaling	0.034		0.034
RNR-RC, Jakar.	0.087		0.087
FDC, Zhemgang		3.263	3.263
FDC, Zhemgang		3.37	3.37
Grand total			7.01

It can therefore be seen that the government had been deprived of the competitive advantages of tendering/ quotations.

5. Irregular payment

It has been revealed from the audit of different organizations under the Ministry of Agriculture that a number of cases of gross irregularities occurred in spending government funds. It relates to spending government funds beyond budgetary stipulations, entertainment of time barred claims and payment of muster rolls without approval. The amount involved here is Nu. 1.83 million.

Table 1.37 : Showing the nature of irregular payment by amount

Agency	Amount (Nu. in million)	Remarks
DFO, Tsirang	0.041	Time barred payment of TA/DA
Department of Research and Development Services, Ministry of Agriculture	0.074	Photocopy charges paid to the outside parties besides having their own machines.
Bhutan Forestry Institute	0.057	Unbudgeted expenditure
RNR-RC, Jakar.	1.391	Unbudgeted expenditure
RNR-RC, Jakar.	0.267	Payment without approval.
Total amount	1.83	

6. Wasteful Expenditure

The Forest Development Corporation, Zhemgang had incurred about Nu. 2.549 million for the construction of forest road at Chaplekhola. It was however observed that the timber transportation was carried out using cable cranes leaving the road unused. Proper feasibility studies were not carried out in the construction of the said road, which resulted in the waste of scarce government resources.

CHAPTER VIII

Financial Institutions and corporations

The Royal Audit Authority had conducted the audit of the Royal Insurance Corporation of Bhutan and the Royal Monetary Authority and the State Trading Corporation of Bhutan during the year 2000. Irregularities involving millions of Ngultrums were observed and are discussed here under:

1. Contract awarded based on Cut-Off points

The management of the Royal Insurance Corporation of Bhutan awarded contracts worth over Nu. 47.81 millions to the contractors based on the Cut off points decided by the Tender Committee, which was in contravention to the provisions of the Financial Manual. Audit is of the opinion that award of contracts on such a basis was not fair and transparent since inside-information could alter fair and competitive bidding. For instance, the Tender Committee of the RICB awarded many works based on the Cut off points as follows:

Table 1.31 : showing the constructions awarded on Cut Off basis

Name of the work	Value of the work (Nu. in million)	Work awarded to
Construction of Class III quarters at Phuntsholing	7.64	Contract awarded to third lowest bidder based on cut off points and on negotiation.
Construction of Class III and Class IV quarters at S/Jongkhar	12.20	Work awarded to the highest bidder based on the cut off points and on negotiations
Construction of Office cum guest house at S/Jongkhar	11.25	Work awarded to fourth lowest bidder based on Cut off point determined by the tender committee
Construction of Commercial Building at RICB Housing Complex, P/ling.	0.95	work awarded based on cut off points
Awarded Construction of class III buildings (B group) at Phuntsholing	7.12	Work awarded to fourth lowest bidder based on Cut off point determined by the tender committee
Construction of 4 Nos. class IV buildings at Phuntsholing.	8.65	Work awarded to 5th highest bidder based on Cut off points
Total	47.81	

2. Irregular award of work

It was observed that the construction of Royal Insurance Corporation of Bhutan Head Office building at Thimphu worth over Nu. 61 million was awarded to M/S Kuenleg Construction even before the City Corporation, Thimphu had approved the drawings and design of the building.

3. Uneconomic purchases

It was observed the Royal Insurance Corporation had made purchases of computers, photocopiers, and miscellaneous items worth more than Nu. 6.5 million without considering the benefits of competitive bidding. It was observed that in many instances purchases were made on verbal inquiries from the suppliers and without inviting quotations. It was also seen that in certain cases such purchases made were not accounted for in the books of accounts indicating a serious lack of internal control.

4. Loss of Nu. 0.36 million due to purchase made from unauthorized suppliers

The State Trading Corporation of Bhutan had been allotted quotas by the Government of India to purchase fertilizers from the M/s Hindustan Fertilizer Corporation Ltd. It was observed that the STCB had purchased Urea from local suppliers incurring higher cost, which resulted in extra payment of Nu. 0.36 million.

5. Non-realization of sale proceeds of coal, Nu. 0.85 million

The State Trading Corporation of Bhutan entered an agreement to supply coals to Bhutan Ferro Alloys Limited. From the total amount invoiced Nu. 0.85 million were not realized due to quality problems although the STCB had quality control agreement signed with one Mr. B.B Dutta. The amount remains recoverable from Dutta.

6. Irregular payment of bonus incentive to contractors, Nu. 0.125 million

The Royal Audit had detected that the management of RICB had paid Nu. 0.125 million as bonus incentive to contractors for completing the work before time without the approval of the Board and in contravention to contract agreement provisions.

7. Irregular payment of advances

Over Nu. 7.7 million were found to have been paid to the contractors as advance contrary to the terms and conditions of the contract document by the Royal Insurance Corporation of Bhutan.

8. Irregular payment of Insurance claims

Audit found that the RICB had admitted insurance claims over Nu. 5 million without proper supporting documents. For instance, the company had without the accident reports from the Royal Bhutan Police, admitted numerous motor insurance claims. In the absence of such documents, possibility of misappropriation could not be ruled out.

9. Irregular payment of Donation

The Royal Insurance Corporation incurred expenditure on donation of computers to Phuntsholing Dungthrim and cash donation to BSA, Delhi amounting to Nu. 0.093 million without the approval of the Board. It was not known why there was need to donate computers to Dungthrim since the office was a government agency.

10. Other irregular payments, Nu. 1.08 million

The Royal Audit Authority also detected other irregular payments such as payment of annual increments other than the normal increments without the approval of the Board, payment of gifts in cash to Managing Directors on transfer, payment of interest on performance bonds, inadmissible payment of travel claims and payment towards contract extension without the approval of the Royal Civil Service Commission.

Similarly, the Royal Monetary Authority of Bhutan spent Nu. 0.05 million towards the expenditures for the archery tournament without the approval of the Board.

11. Works executed without inviting tenders, Nu. 11.85 million

Constructions worth Nu. 11.85 million were awarded to contractors without inviting tenders by the Management Committee of the Royal Insurance Corporation of Bhutan. At least a few of these constructions could have been accomplished at a much lower rate if competitive bidding procedures were followed.

Instances of such award of work is shown below:

Table 1.32 : Showing the works executed without inviting tender

Name of the work	Amount (Nu. in million)	Contract awarded to
Construction of class III and Class IV at Phuntsholing	3.9	M/s Kuenleg Construction
Site Development works at Phuntsholing Housing complex	3.00	M/s Cee Dee Construction
Repair and maintenance of Thimphu Housing Colony	1.38	M/s Cee Dee Construction
Extra Works at Samdrup Jongkhar construction	1.47	M/s Tama Construction
Construction of retaining wall at Phuntsholing	0.84	M/s Kuenleg Construction
Construction of park and play ground at Phuntsholing Housing colony	0.41	M/s Kuenleg construction
Construction of water tank at Thimphu	0.85	M/s Kuenleg Construction
Total	11.85	

12. Outstanding advances against contractors

The Royal Insurance Corporation of Bhutan had paid mobilization and secured advance to contractors carrying out the construction works of the company. It was however found that about Nu. 18.94 million were not

adjusted from the running bills of the contractors as required by the provisions of the contract agreement, which had resulted in undue favor to the contractors.

13. Excess payments

It was noted that excess payment of Nu. 0.58 million were paid to the contractors undertaking the construction of the RMA building at Kawangjangsa.

Similarly, it was observed that the management of the Royal Insurance Corporation of Bhutan had paid Nu. 1.16 million more than what was admissible. Transportation Charges for the Chisel dressed stones from Wangdue to Thimphu were entertained when the construction was carried out with hollow blocks. Similarly, the management had entertained additional DSA for training abroad of three employees when the Royal Civil Service Commission had already paid the DSA's. The audit also detected double payment of Leave encashment to the employees of the Company.

Excess payments were also detected in the audit of the accounts of the State Trading Corporation of Bhutan. The STCB had paid M/s SAIL Nu. 0.65 million towards sales tax which was exempt as per the Notification of the Indian Government. This amount remains recoverable. STCB also incurred about Nu. 0.29 million without deducting the discount offered by the supplier and due to incorrect calculation of prices in the purchase of Modi Xerox papers and computers.

14. Non-accountal of Stocks

Physical verification of the stores of the Royal Insurance Corporation of Bhutan revealed that stock worth Nu. 0.175 were not physically available.

It was also observed that Furniture worth Nu. 0.256 million were not accounted by the Royal Monetary Authority of Bhutan.

Stocks worth Nu.3.77 million could not be accounted for at different STCB godowns. It relates to shortages of imported vehicle spare parts, CGI sheets and OEAM stores.

15. Irregular sale of vehicles damaged on voyage from Japan

Three units Toyota Hilux and 1 unit Hiace bus imported from Japan was said to be damaged while on voyage in rough seas. The surveyors' report indicated that there were no major damages and the Royal Insurance Corporation of Bhutan incurred about Nu. 87,000.00 for the repairs. These vehicles were found to have been sold without auction and assessment of value to the private individuals at their offered value which was highly irregular.

16. Execution of substandard works valuing Nu. 0.77 million

It was observed that construction works of RMA Office building executed by the M/s Drubjor Construction, Thimphu included substandard works valuing Nu. 0.77 million

17. Wasteful expenditure

The Royal Monetary Authority of Bhutan had purchased Machinery to set up coin Mint at Thimphu at a cost of over Nu. 2.8 million. It was however decided not to go ahead with the project due to viability problems. Improper feasibility study by the RMA had led to wasteful expenditure affecting the scarce government resources.

Similarly, an expenditure of Nu. 0.63 million incurred on preparation of designs/drawings and earth work etc. proved to be wasteful due to non-utilization of the drawings/designs, estimates etc by the RMA.

It was also observed that the RMA had paid an amount of Nu. 0.449 million (US\$ 10,375.00) to Reuters Service without availing services and which was neither recovered.

18. Monetary Policy failure

The Royal Monetary Authority has been compensating Banks by introducing Reserve Repurchase Scheme to absorbing excess liquidity. As of the date of audit, the RMA had paid Nu. 112.50 million towards 5% interest on such repurchase scheme of Nu. 500 million from BOB and its renewal from time to time. The scheme had continued although it had failed to achieve intended objective and tantamount to providing subsidy to the Bank.

19. Irregular payment of differential interest Nu. 7.71 million

It was observed that differential interest burden amounting to Nu. 7.71 million on fixed deposits upon revision of interest rates were borne by the RMA instead of by the respective Banks as the risks and rewards accrue to the Banks.

20. Avoidable expenditure, Nu. 3.8 million

It was observed that the State Trading Corporation of Bhutan had paid over Nu. 3,8 million being the dealership commission of Maruti vehicles to M/s Beekay Automobiles, Siliguri. Although, trends indicated a rapid rise in the demand of the Maruti make vehicles in Bhutan, arrangements to obtain dealership from the manufacturer to avoid dealership commission was not made. This has resulted in an avoidable expenditure of Nu. 3.8 million.

Similarly, it was observed that the State Trading Corporation of Bhutan had paid to M/s Rabten Engineering Workshop over Nu. One million for the warranty labor expenses for Telco Vehicles for which Telco had explicitly committed to bear 100% of the warranty labor cost.

21. Physical Verification of stocks worth over Nu. 48.4 million

It was observed that the STCB had procured over Nu. 48 .4 million worth of spare parts between 1997 and 1999. The stock records were computerized.

Actual position of the stocks could not be verified due to computer system failure. There was no back- up available. Possibility of misuse was suspected by the audit.

22. Purchase of 14,684.288Ozs of gold and the consequences thereof.

The Royal Monetary Authority, the Central Bank of Bhutan had purchased US\$ 5 million worth of gold from the Republic National Bank, Singapore with a view to maximize yields when the gold prices were rising in the market. When the gold prices went up in May 1997, there was an opportunity for the RMA to make a profit of about US\$ 0.075 million. Since then gold prices fell in the global market. If sold as of 22nd March 2001, the RMA would have incurred a loss of about US\$ 1.15 million.

The investment that was made without the approval of the Board of Directors is now proving to be risky and the consequences on to the government exchequer may be quite heavy.

CHAPTER IX

Judiciary

The Royal Audit Authority had conducted the audit of the Thrimkhangs under the Royal Court of Justice and observed the following irregularities.

7. Irregular payment of residential telephone bills from the government fund, Nu. 0.39 million

The audit detected that residential telephone bills amounting to Nu. 0.39 million were paid by different Thrimkhangs audited during 2000 in contravention to the Ministry of Finance's notification disallowing such payments.

8. Outstanding revenue

It was noticed during the audit of the Thrimkhangs that revenue worth Nu. 0.64 million remained unrealized. It relates to fines levied to illegal business of precious stones and court fees not collected or accounted by the Thrimkhangs.

CHAPTER X

Autonomous and Independent Agencies

The Royal Audit Authority had conducted the audit of the following Autonomous Agencies during the year 2000:

1. National Assembly Secretariat (NAS), Thimphu;
2. Cabinet Secretariat, Tashichhoe Dzong;
3. National Commission for Cultural Affairs;
4. Royal Civil Service Commission, Thimphu;
5. National Women's Association of Bhutan;
6. National Museum, Paro; and
7. The Institute for Zorigchusum, Kawajangsa.

Table 1.38 : Showing the audit observations by different categories

Nature of Observation	Number	%	Amount (Nu. in million)	%
Excess payment	3	12	0.277	2
Tendering and procurement lapses/irregular purchases	6	24		
Outstanding advance	8	32	13.053	91
Outstanding revenue	8	32	1.32	7
Total	25	100	14.650	100

1. Excess payment

c) National Assembly Secretariat

Audit observed that full DSA was entertained by the National Assembly Secretariat to the members of the delegation attending the third conference of the Association of SAARC Speakers and Parliamentarians held in Dhaka instead of 20% DSA when provided with free lodge and boarding. This has resulted to an excess payment of Nu. 0.11 million.

d) National Commission for Cultural Affairs

National Commission for Cultural Affairs had made an excess payment of Nu. 0.167 million for deviations from the estimate for the Parquet flooring of National Library.

2. Outstanding advance

As the table below shows, an amount of Nu. 13.05 million remained outstanding from the employees, suppliers, and contractors in the books of accounts of the autonomous and independent agencies audited during the year 2000. Some of these outstanding advances pertain to the post financial years, which were not liquidated until date of audit.

Table 1.39 : Showing the outstanding advances by amount and status

Agency	Amount (Nu. in million)	Remarks
National Women Association of Bhutan	0.700	Advance against employees and suppliers.
National Museum, Paro	0.324	Advance against employees and suppliers.
National Commission for Cultural Affairs	11.771	Advances against employees, suppliers, contractors, and RAPA officials.
RCSC	0.148	Advances against employees
Institute of Zorigchusum	0.110	Advances against officials.
Total	13.053	

3. Outstanding revenue

e) National Women's Association of Bhutan

It was observed that sale proceeds of yarn amounting to about Nu. 0.96 million remained unrealized by the NWAB from the various Dzongkhags. Similarly proceeds worth over Nu. 4 million for the sale of finished goods by the NHDP, Khaling remained uncollected.

Chances of debts becoming bad and therefore unrealizable was warned by the Royal Audit Authority.

f) National Commission for Cultural Affairs

Audit had detected that the National Commission for Cultural Affairs did not realize about Nu. 0.26 million being the sale proceeds of Bum and Diaries to the Dzonkhags and private individuals. Audit recommended early recovery of such dues to enhance the revenue growth of the government.

4. Irregular purchases

Order for four numbers of Acer computers and its accessories including the printers for Nu. 0.611 million were placed to M/s Dhendrup Informatics, Thimphu by the National Commission for Cultural Affairs. On physical verification, it was found that the computers and its accessories were of Hewlett Packard, which was completely different from the specified brand but the payment made was of Acer computers.

The Royal Audit Authority

The NAG & ASSOCIATES, Chartered Accountants from India audited the books of Accounts and other related areas of the Royal Audit Authority for the Financial year 1999 – 2000. The audit opinion on the accounts are reproduced below:

1. The annexed Receipts & Payments Account of Royal Audit Authority's Budgetary operations for the year ended 30th June, 2000 together with Trial Balance as on that date drawn on cash basis, were in agreement with the books of accounts maintained as per provisions of Financial Manual 1988.
2. The Receipts & Payments account and related Trial Balance have been prepared on the basis of budget allocations by DBA of Royal Government of Bhutan.
3. Statutory deductions of Salary Tax, Health Contribution, GPF and GIS have been made as per the prescribed rates of RGOB.
4. It was observed that at Head Quarter of RAA there is an abnormal closing balance of (-) Nu. 0.50 as on 30th June 2000.
5. Fixed Asset Register was found not maintained in prescribed form.
6. We report that:-
 - I. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit.
 - II. Subject to our remarks in paragraph 5 above, proper books of account have been maintained by the RAA so far as appears from our examinations of the books.
 - III. In our opinion and to the best of our information and according to the explanations given to us, the Receipts & Payments Account for the year ended 30th June, 2000 and the trial Balance as on that date gives true and fair view of the budgetary fund received and expenditure incurred there from.

CHAPTER XI

Government of India Assisted Mega Projects

The Royal Audit Authority conducted the audit of the GOI assisted projects and observed the following deficiencies.

Dungsum Cement Project

Table 1.1: Showing the audit observations by different categories

Nature of Observation	Number of observation	%	Amount (Nu. in million)	%
Outstanding Revenue	3	23	0.488	1.46
Outstanding Advance	1	8	7.415	21.19
Excess payment	2	15	0.268	1
Non-accountal of stock	1	8	0.170	1
Wasteful expenditure	5	38	24.949	75
Non-levy of liquidated damages	1	8	0.112	.33
Grand total	13	100	33.402	100

1. Outstanding revenue

Revenue amounting to Nu.0.488 million was not realised by the management of Dungsum Cement Project. The revenue was generated on hire of excavator and bulldozer Nu. 0.28 million and Nu. 0.21 million against the salary tax of the employees.

2. Outstanding advance

It was observed that advance amounting to Nu. 7.415 million remained unadjusted. These advances were against suppliers, contractors and staff of the DCP.

3. Excess payment

The Dungsum Cement Project Authority had made an excess payment of Nu. 0.268 million to the contractors. This was incurred due payment on deviations in quantities and on the differences in rates claimed by the contractors.

4. Non-accountal of stock

Computer worth Nu. 0.170 million was not accounted by the Dungsum Cement Project.

5. Wasteful expenditure

It was observed over Nu. 21 million were incurred by the Dungsum Cement Project on Consultancy services. While huge expenditures were reported, project's progress was not commensurate with the expenditure thereby leading to wasteful expenditure of precious resources of the government. Similarly, the project incurred about Nu. 2.35 million towards construction of Kalapani diversion road to Marung which is now abandoned.

6. Non-levy of liquidated damages

It was also observed that the Dungsum Cement Project had not levied over Nu. 0.1 million to the suppliers defaulting to deliver on the agreed date.

Tala Hydroelectric Project Authority

Table 1.2: Showing the audit observations by different categories

Nature of Observation	Number of observation	%	Amount (Nu. in million)	%
Irregular payment	2	15	43.331	58
Excess payment	6	46	20.518	28
Recoverable amount from contractor	2	15	9.683	13
Non-levy of liquidated damages	3	23	0.434	1
Grand total	13		73.966	100

1. Irregular payment

The Royal Audit Authority had observed that the Roads Division of the Tala Hydroelectric Project Authority (THPA) had incurred an expenditure of about Nu. 29 million without the approved technical estimates. It was also found that advances to the tune of Nu. 13 million were paid to the contractors in contravention to the clauses of the Contract Agreement, which in effect granted an undue favor to the contractors undertaking the road construction.

2. Excess payment

Excess payment to the extent of Nu. 21 million was made to the contractors beyond the stipulations in the contract. Payments were made to the contractors for deviations in the quantity of work ranging upto 4000% from the original bill of quantities. Similarly, payments were also found to have been made to the contractors for the damages to the road construction before it was handed over by the contractor. Such incidences mostly relate to the construction of project roads and the construction of executive and field hostel of the Tala Hydroelectric Project Authority.

3. Recoverable amount from contractors

The construction of approach roads from Barkey village was awarded by the THPA to M/s Welfare Construction Company. The contractor could not complete the work inspite of repeated time extensions. The work had to be awarded to a new contractor. The terms of the original contract provided that any extra liability arising from the second contract shall have to be borne by the original contractor. Audit detected that extra liability of about 7.2 million and compensation for not completing the work amounting to over Nu. 2.4 million were not recovered by the THPA from M/s Welfare Construction Company.

4. Non-levy of liquidated damages

The Tala Hydroelectric Project Authority did not levy liquidated damages amounting to over Nu. 0.4 million to the suppliers who had failed to fulfil the terms and conditions of the contract.

Conclusion

The Royal Audit Authority is happy to conclude that one-year auditing is successfully concluded. We look forward to an another challenging year. All Bhutanese must bear in mind that we can do so much to the extent that we get the collective support and cooperation. Let us endeavor to build a healthy society with your support.

Inspection Reports of audits conducted in the year 2000 used for this Annual Report.

Sl.No	Ministry of Finance	IR No. of the respective reports
1	Duty free shop, Thimphu	IR(52)D5/2000/1770 dt. 13/9/00
2	RRCO Galeyphu	IR(32)D5/RRCO/2000/1712 dt. 6/9/00
3	RRCO Phuntsholing	IR(33)D5/2000/648 dt. 11/4/00
4	RRCO Samtshu	IR935)D5/RRS/2000/683 dt. 17/4/00
5	Ministry of Finance	IR(24)D5/MoF/2001/1631 dt. 3/8/00

Sl.No	Ministry of Home Affairs	IR No. of the respective reports
1	Chukha	IR(08)D5/2001/603 dt.27/03/01
2	Haa	IR(06)D5/2001/419 dt. 12/03/01
3	Punakha	IR(04)D5/PU/2000/637 dt.11/04/01
4	Sarbhang	IR(10)D5/SP/2000/1707 dt. 06/09/00
5	Wangdue	IR(03)D5/DAW/2001/332 dt.28/02/01
6	Zhemgang	IR(20)D5/ZG/2001/1733 dt.08/09/00
7	Pema Gatsel	IR(14)D5/2001/828 dt. 20/04/01
8	Tashi Yangtshi	IR(16)D5/TY/2001/1194 dt. 07/06/01
9	MOHA	IR(21)D5/2001/930 dt.08/05/01

Sl.No	Ministry of Health & Education	IR No. of the respective reports
1	Education Division	IR.(2-D8)2000/1774 dt.14/9/2000
2	Secretariat, Ministry of Health & Education	IR.(1-D8)2000/1156 dt.29/6/2000
3	Jigme Dorji Wangchuck National Referral Hospital, Thimphu	IR(JDW-D8)2000/765 dt.12/9/2000
4	National Institute of Education, Paro	IR(77C-D8)2000/128 dt.27/3/2001

5	Public Health Engineering Unit, (PHE), Thimphu	IR(PHE-D8)2000/1098 dt.22/6/2000
6	Institute for Language & Cultural, Studies, Semtokha	IR(142-D8)2001/2624 dt.9/01/2001
7	Health Division, Thimphu	IR(3-D8)2000/1026 dt.9/6/2000
8	Sherubtse Degree College, Kanglung	IR(Shercol-D8)2000/2082 dt.31/10/2000
9	RWSS, Central Stores, Phuntsholing	IR(RWSS-D8)2000/1097 dt.22/6/2000

Sl.No	Financial Institution & corporation	IR No. of the respective reports
1	Royal Monetary Authority of Bhutan	IR(65)D1/2001/1710 dt.9/8/2001
2	STCBL, Phuentsholing	IR(75)D1/2000/752 dt.12/4/2001
3	Wood Craft Centre, Langjophaka	IR(80)D1/2001/602 dt.27/3/2001

Sl.No	Ministry of Trade and Industry	IR No. of the respective reports
1	Regional Trade and Industry, Ministry of Trade and Industries, Phuntsholing	IR(RTIO-D8)2000/954 dt.30/05/2000
2	Department of Tourism, MTI, Thimphu	IR(TAB-D8)2001/837 dt.23/04/2001
3	Electricity Supply Unit, Phuntsholing	IR(ESU-D8)2000/1030 dt.13/06/2000
4	ESU, Tashigang	IR(ESU-D8)2001/113 dt.24/05/2001
5	DOP, HQ	IR(P-Hq-D8)2001/866 dt.26/04/2001
7	Stores Unit, Division of Power, Phuentsholing	IR(SU-D8)2000/1775 dt.14/09/2000
9	Secretariat, Ministry of Trade and Industry, Thimphu	IR(MTI-D8)2000/1786 dt.14/09/2000
10	ESU, Paro	IR(ESU-D8)2001/721 dt.9/04/2001

Sl.No	GOI assisted Mega Projects	IR No. of the respective reports
1	DCP	IR(DCP-D8)2000/2476 dt.14/12/2000
2	THPA	IR(THP-D8)2000/1783 dt.14/09/2000

Sl.No	Armed forces/ Autonomous body	IR No. of the respective reports
1	Royal Body Guard, Dechencholing	IR(D6-11)2000/2108 dt.02/11/2000
2	National Assembly Secretariat (NAS), Thimphu	IR(D6-03)2000/2328 dt.29/11/2000
3	National Commission for Cultural Affairs	IR(D6-14)2001/1108 dt.23/07/2000
4	Royal Civil Service Commission, Thimphu	IR(D6-07)/2001/384 dt.07/03/2001
5	VVIP Guesthouse, P/Ling, RBA	IR(D6-12)2000/475 dt.14/03/2000
6	Cabinet Secretariat, Tashichhoe Dzong	IR(D6-17)2000/1796 dt.18/09/2000
7	National Women's Association of Bhutan	IR(D6-09)2000/1727 dt.08/09/2000
8	National Museum, Paro	IR(D6-04)2001/569 dt.22/03/2001
9	Institute for Zorigchusum, Kawajangsa	IR(D6-23)2001/480 dt.16/03/2001

Sl.No	Ministry of Communication	IR No. of the respective reports
1	Telecom	IR/D4/C-03/01/1070 dt. 22/05/2001
2	City Corp	IR 71(3)2001/165 dt.02/02/2001
3	PWD, HQ	
4	DUDH	IR/D4/C-10/01/595 dt. 26/03/2001
5	MOC, Secretariat	IR/D4/C-01/01/244 dt. 15/02/2001
6	Hydromet	RAA/Cat-108/2000/1033 dt.13/06/2000
7	Central Stores	IR/C-25/2000/1636 dt. 30/08/2001
8	Civil Aviation	IR/D4/C-06/2000/352 dt. 28/02/2001
9	RMD, Thimphu	

Sl.No	Ministry of Agriculture	IR No. of the respective reports
1	Royal Veterinary Epidemiology , Centre, Serbithang	IR(55)D1/2000/310 dt.23/02/2001
2	Central Store, Phuentsholing, MoA	
3	Divisional Manager, Forestry Development Corporation, Zhemgang	IR(128)D1/2001/587 dt.26/03/2001
4	RNR-RC, Jakar.	IR(34)D1/2000/1538 dt.21/08/2000
5	Ministry of Agriculture Secretariat	IR(1)D1/2000/1383 dt.02/08/2000
6	Conifer Research & Technical Co-operation	IR(126)D1/2000/1484 dt.10/08/2000
7	Department of Research and Development Services, Ministry of Agriculture	IR(3)D1/2000/1382 dt.02/08/2000
8	National Nublang Breeding Farm, Trashiyangphu	IR(64)D1/2000/2493 dt.15/12/2000
9	Regional Veterinary Laboratory, RVL Khaling	IR(124)D1/2000/2492 dt.15/12/2000
10	RNRRC- West, Yusipang	IR(127)D1/2000/214 dt.13/02/2001
11	CLSD	IR(4)D1/2000/1384 dt.02/08/2000
12	Regional Mithun Breeding Farm, Arong, Samdrupjongkhar	IR(100)D1/2000/2186 dt.08/11/2000
13	Regional Veterinary Laboratory, Gedu	
14	National Artificial Insemination Prog. & Semen Processing Centre, Wangchutaba	IR(54)D1/2000/2265 dt.02/11/2000
15	National Pig Breeding Centre	IR(56)D1/2000/1327 dt.27/07/2000
16	DFO, Tsirang	IR(107)D1/2000/2026 dt.27/10/2000
17	Bhutan Forestry Institute, Taba	IR(16)D1/2000/1308 dt.25/07/2000

Sl.No	Judiciary and Rabdeys	IR No. of the respective reports
1	Thimphu District Court	IR(85)D-3/2001/433 dt.13/03/2001
2	Punakha Court.	IR(87)D-3/2001/78 dt.26/01/2001
3	Paro Court.	IR(86)d-3/2001/1372 dt.12/07/2001
4	Tsirang Court.	IR(92)D-3/2000/2448 dt.08/12/2000
5	Dagana Court.	IR(93)D-3/2001/77 dt. 26/01/2001
6	Trongsa Court.	IR(94)D-3/2001/75 dt. 26/01/2001
7	Bumthang Court.	IR(96)D-3/2000/1943 dt.06/10/2000
8	Zhemgang Court.	IR(95)D-3/2001/72 dt. 26/01/2001
9	Sarpang Court.	IR(102)D-3/2000/1942 dt.06/10/2000
10	High Court.	IR(42)D-3/2000/1939 dt.06/10/2000
11	Samdrup Jongkhar Court.	IR(101)D-3/2000/2450 dt.08/12/2000
12	Trashigang Court	IR(99)D-3/2001/80 dt.26/01/2001
13	Pungthimgydhen	IR(110)D-3/2001/76 dt.26/01/2001
14	Trashigang Rabdey	IR(121)D-3/2001/79 dt.26/01/2001
15	Dratshang Lhentshog.	IR(133)D-3/2001/81 dt.01/02/2001
16	Gasa Court	IR(90)D-3/2000/926 dt.10/05/2000