



# ANNUAL AUDIT REPORT 2012

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(IN FULFILLING THE CONSTITUTIONAL RESPONSIBILITY)

**Royal Audit Authority**



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## *Vision*

“A Premier Audit Institution that promotes value for money in government operations and contribute towards good governance”.

## *Mission*

“To audit without fear or favour or prejudice on the prudent and effective use of public resources and report to the Parliament and Stakeholders for enhancing transparency and accountability in the government”.









## THE AUDITOR GENERAL'S PERSPECTIVE

As the Nation prepares for the Second Parliamentary Election, the RAA family prays for smooth transition of governance power to our next elected leadership and upholding the trajectory of our immemorial tradition of continued harmony, peace, prosperity and wellbeing of our people and the country.

The year 2012 had been another milestone in the history of the RAA. The RAA family had the privilege of receiving institutional award *Druk Thuksey* from His Majesty the King on the occasion of 105<sup>th</sup> National Day on 17<sup>th</sup> December 2012. The honour was bestowed in recognition of humble and dedicated service to the Nation. The RAA would like to dedicate this honour to all our audited agencies which had demonstrated their positive attitude in promoting a society that upholds transparency and accountability in the use of public resources and also all our stakeholders for supporting us in our endeavors. I would like to urge all our audited agencies for their continued support in our collective effort to attain enhanced accountability and transparency in the management of public resources. The RAA shall always bank on your support and look forward to working in tandem with all our audited agencies and stakeholders to achieve the goals. I take this opportunity to offer our gratitude to our past Auditors General and former employees who had laid strong foundation for this institution. And for my fellow auditors, while I congratulate each one of you for the success, I urge you to be more mindful of the bigger responsibilities that lie ahead and strive even harder to contribute in whatever way possible, in serving the Nation.



Under the benevolent leadership of His Majesty the King and the continued support of the Parliament, the Government and other stakeholders, the Royal Audit Authority continues to attain success and achievements in fulfilling its mandates as enshrined in the Constitution of the Kingdom of Bhutan and have been able to deliver the services to the public without fear, favour or prejudice. The RAA shall further strive and continue to fulfill its constitutional mandates with objectivity and highest level of professionalism.

The Royal Audit Authority as the Supreme Audit Institution of Bhutan has large mandate in ensuring that the public resources are accounted for and managed properly by the Executive as implementing agencies. On this account, as an independent oversight mechanism providing assurance and advisory services, the Royal Audit Authority provides independent views on the quality of public sector activities and stewardship of public funds.

The AAR 2012 is the third Annual Audit Report issued after assuming my office as the first Auditor General of Bhutan under the Constitution of the Kingdom of Bhutan. In fulfillment of my responsibilities, it is my pleasure to report to the Nation on the results of audit carried out by the Royal Audit Authority for the year 2012. The Annual Audit Report 2012 is prepared in line with Section 69 to 73 of the Audit Act of Bhutan 2006 and as required under Article 25.5 of the Constitution of the Kingdom of Bhutan. The audit findings incorporated in the Annual Audit Report are the consolidated summary of significant unresolved audit findings compiled from 760 audit reports issued during the year.

The RAA had carried out the certification audit of Annual Financial Statements of the Royal Government of Bhutan for the year ended June 2012. It was noted that the Government





## THE AUDITOR GENERAL'S PERSPECTIVE

had not utilized capital budget of Nu. 4,095.754 million against the revised budget and Nu. 1,389.51 million against the fund released. The under utilization of budget of this magnitude would indicate inadequacies in planning & prioritization and also possible lack of absorptive capacity of the implementing agencies. The Government must carry out proper analysis of non-utilization of capital budget to ascertain its causes and initiate remedial measures in future.

The new accounting system Public Expenditure Management System (PEMS) has been operationalised integrating many features and has brought in many improvements over the old BAS (Budget and Accounting System). The system was, however, not adequately tested before it was commissioned and implemented giving rise to scope for possible errors, omissions and inconsistencies which may undermine the credibility and integrity of the system.

The relevant excerpt of the Draft Annual Audit Report was circulated to all the agencies concerned in February 2013 as required under the Audit Act of Bhutan 2006. The draft report had significant issues involving Nu. 1,166.388 million. However, audit findings involving Nu. 775.381 million representing over 66.17% were either resolved fully or substantially based on the action taken and responses received from the agencies rendering it not significant for inclusion in the Annual Audit Report 2012. In accordance with Section 43 of the Audit Act of Bhutan which gives authority to RAA to settle the audit observations in the light of justifications provided, compliance made, and improvement noted, audit issues raised were settled as were deemed appropriate. The Annual Audit Report therefore contains only those significant audit findings remaining unresolved as on March 31, 2013.

The Annual Audit Report 2012 contains significant unresolved irregularities involving Nu. 391.007 million which, includes cases of fraud, corruption and embezzlement of Nu. 130.403 million representing about 33 % of irregularities brought out in the Annual Audit Report.

In our continued endeavour to augment the culture of professionalism and increase the quality of our output, the RAA has embarked upon development of 22 audit manuals on specific areas and policy documents on outsourcing of audit services and Continuing Professional Development. The fund was secured from the Austrian Development Cooperation. Different teams within the RAA are assigned with the development of these manuals and policy documents. The use of in-house resources is expected to capitalize on available experiences and enhance the relevance of the manuals for applications.

The project on Audit Resources Management System (ARMS) funded by Asian Development Bank (ADB) is nearing completion. The Data Centre is expected to be established by July 2013 with four modules on audit planning, execution, reporting and system administration to be tested and pilot run from July 2013 for the period of 6 months before actual commissioning of the system. The remaining modules are expected to be tested from December 2013. The project is being implemented by our team of IT professionals under the guidance of an external consultant. The completion of this project is expected to overhaul the auditing functions and provide leverage to enhancing economy and efficiency in the auditing process.





## THE AUDITOR GENERAL'S PERSPECTIVE

The RAA has made audit recoveries amounting to Nu. 147.641 million in 2012. It is paradoxical to note that while audit recoveries might indicate improved cost benefit ratio of audit operations which can be seen as immediate effect, it certainly is not the ultimate objective of auditing. Nor it is desirable for RAA to see upward trend in audit recoveries despite our continuous audit. As an oversight institution, the RAA looks forward to contributing towards bringing changes in system and procedures that accrue benefits to the society. The ultimate objective will be to see reduced instances of irregularities, improved compliances and probity in public operations as a result of auditing. The RAA believes that the sharp increase in audit recoveries in the recent years was because of vigorous follow-up actions initiated at various levels based on the parliamentary directives. Besides, the Audit Awareness and Review Meetings held for the local governments have had impacts of resolving many pending audit issues drastically.

The Government priorities of embracing fast paced socio economic development have brought in exponential increase in the public expenditures in various sectors. It is time that the government carries out assessment of absorptive capacity of the Government vis-à-vis incremental outlays and legislated expenditures. If there exists imbalances in the approved outlays and the absorptive capacity it may have adverse impact on the quality of developmental works envisaged in the plans and the government may not realize value of money spent beyond the optimum level. Therefore, it is imperative that such studies are carried out to assess the gap and ensure timely action to bridge the gap, if any.

The current scenario of rural-urban migration characterized by high mobility, deserted and abandoned Gungs in the villages needs attention of the government. If this trend remains unchecked, it may impact social and economic conditions of our country. It is therefore, need of the hour to study the causes of such migration and address the issues through appropriate policy interventions.

In order to promote awareness among our stakeholders on the accountability framework in the overall governance system, and also to sensitize on the common audit issues, the RAA had embarked on Audit Awareness & Sensitization Programmes for the elected leaders and public officials of the Local Governments. The team led by Auditor General has been able to complete such programmes in 15 Dzongkhags during the year. Besides, the RAA has been able to resolve many pending audit issues pertaining to the Local Governments in these Dzongkhags.

In fulfilling the advisory role of the Royal Audit Authority, specific recommendations were offered to the relevant audited agencies based on the issues and lapses noted during auditing. These suggested course of actions are intended to help the individual audited agencies in taking corrective actions to prevent lapses and deficiencies ensuing from existence of inadequate and weak control system. Besides, the recommendations are also provided in Chapter VI of the Annual Audit Report based on the synthesis of the issues that are contained in the Annual Audit Report and other pertinent issues, which can be addressed through appropriate policy changes and directives from relevant government authorities. It is hoped that audit recommendations are addressed properly by the government authorities to remedy the deficiencies and lapses occurring across the board.

I would like to acknowledge the support of the First Parliament for deliberating our reports and directing the audited agencies to appropriately deal with the issues. This had enabled RAA to resolve most of the pending issues in the recent past. We look forward to





## THE AUDITOR GENERAL'S PERSPECTIVE

receiving similar support in terms of rendering our audit reports effective through appropriate directives and follow up mechanisms and providing impetus to our efforts in promoting transparency and accountability in the public operations.

Lastly, I would like to acknowledge the support and cooperation rendered by our audited agencies for providing prompt responses to the draft Annual Audit Report 2012, which had facilitated timely compilation and preparation of the report. I sincerely commend the positive attitude of all audited agencies and facilitating us in delivering our mandates.

**(Ugen Chewang)**  
**Auditor General of Bhutan**

**May 2013**



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# CHAPTER 1

## ACCOMPLISHMENTS OF THE ROYAL AUDIT AUTHORITY

The Royal Audit Authority derives its mandates from the Article 25.1 of the Constitution of the Kingdom of Bhutan, which states that, "There shall be a Royal Audit Authority to audit and report on the economy, efficiency and effectiveness in the use of public resources." The Article 25.4 of the Constitution further provides that "The Royal Audit Authority shall, without fear, favour or prejudice, audit the accounts of all departments and offices of the Government, including all offices in the Legislature and the Judiciary, all public authorities and bodies administering public funds, the police and the defense forces as well as the revenues, public and other monies received and the advances and reserves of Bhutan.

The Royal Audit Authority was instituted as an autonomous body in 1985 and as a constitutional body in December 2005. Under the Auditor General, the Authority is at the moment



manned by 231 staff with diverse professional background. It has four regional offices strategically located across the Kingdom. In line with the provisions of the Constitution of the Kingdom of Bhutan, the Royal Audit Authority started performance audits and theme based audits, besides the routine financial, propriety and compliance audits. A brief account of the activities and initiatives as a part of the accomplishments of the Royal Audit Authority during the year is given below:

### 1. Achievements in terms of auditing

The Royal Audit Authority had completed 600 audits during the year including 98 certification audits, one performance audit and one thematic audit as shown in the table 1.1. The RAA continues to embark on the Risk Based Audit to ensure effectiveness in the use of available resources and effectiveness of auditing itself.

| Sl. No. | Types of Audit      | No. of Audits |
|---------|---------------------|---------------|
| 1       | Normal Audit        | 500           |
| 2       | Certification Audit | 98            |
| 3       | Performance Audit   | 1             |
| 4       | Thematic Audit      | 1             |
| Total   |                     | 600           |

Table 1.1: Types and number of audits conducted



## 2. Achievements in terms of reporting

In order to attain desired impact of the audit and that the essence of our audits is not jeopardized through time lags, the Royal Audit Authority ensured that the audit reports are not only addressed to appropriate authorities but also transmitted on time. During the period, the Royal Audit Authority issued 760 audit reports as shown in table 1.2.

| Sl. No. | Types of Audit             | No. of Audits |
|---------|----------------------------|---------------|
| 1       | Normal Audit Report        | 662           |
| 2       | Certification Audit Report | 96            |
| 3       | Performance Audit Report   | 1             |
| 4       | Thematic Audit Report      | 1             |
| Total   |                            | 760           |

Table 1.2: Types and number of reports issued

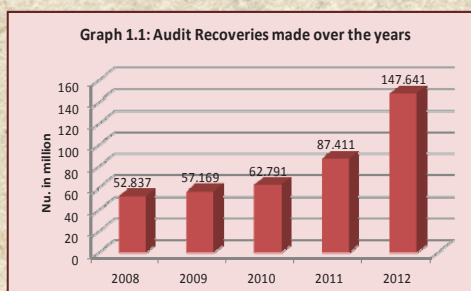
In ensuring effectiveness of auditing, the Royal Audit Authority prioritized the importance of conducting the follow up of audit reports. Therefore in 2012, besides 760 audit reports, the Royal Audit Authority also issued 515 follow up reports, which were mainly taken up along with the routine audits and 22 statutory audit reports.

In line with Section 48(b) of the Audit Act of Bhutan 2006, the Royal Audit Authority endorsed 14 audit reports containing 29 cases of significant indicators of fraud and corruption to Anti-Corruption Commission during the period. Further, the audit reports of Department of Medical Sciences, Ministry of Health and Department of Civil Aviation, Ministry of Information and Communications were also shared with Anti-Corruption Commission.

During the year, the Annual Audit Report 2011 was submitted to His Majesty the King, the Prime Minister and the Parliament. In line with the directives of the Parliament, the Review Reports on Annual Audit Reports 2006, 2007, 2008, 2009 and 2010 were submitted to the 9<sup>th</sup> Session of the First Parliament and the Review Reports on AAR 2008, 2009 and 2010 were submitted to the 10<sup>th</sup> Session of the First Parliament.

## 3. Audit Recoveries

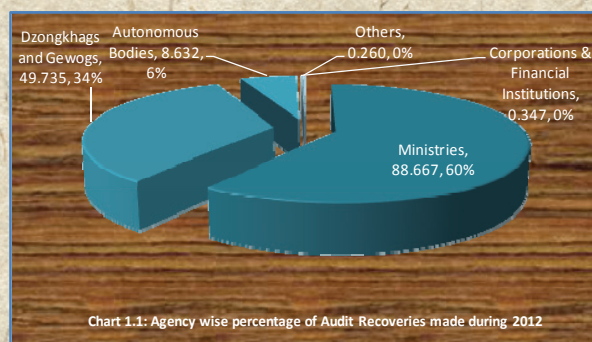
The efficacy of focused and risk based audit approach has apparently led to increased effectiveness reflected through increased amount of audit recoveries during the year. The Royal Audit Authority had recovered a record high of Nu. 147.641 million in 2012. The recoveries during 2012 had increased by 68.90% over the recoveries made in 2011. The sharp increase was mainly due to rigorous follow up done by the RAA through series of Audit Awareness and Review Meetings and also responsive actions taken by the audited agencies in resolving the pending audit issues.



Further, the Parliamentary directive to impose 24% penalty on overdue outstanding advances and recoverable amounts reflected in the audit reports prompted the audited



agencies to initiate actions in recovering and depositing the amounts into audit recoveries account.

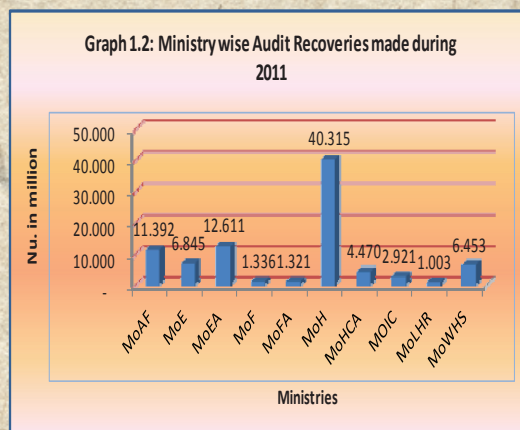


During the year audit recoveries of Nu. 88.667 million was made by Ministries accounting for over 60% of the total recoveries. The recoveries by Dzongkhags and Gewogs was Nu. 49.735 million representing about 34% and Nu. 8.632 million representing about 6% were recovered by the Autonomous Bodies. The audit recoveries by Corporation & Financial Institutions and Non

Governmental Organizations are negligible. However, it is to be noted that the recoveries that need to be made in respect of these agencies are required to be accounted for in their respective Recoveries Account. As such, the total amount of audit recoveries accounted for in the Audit Recoveries Account maintained by the Royal Audit Authority does not include recoveries made by these agencies.

Of the 10 Ministries, the Ministry of Health had the highest recovery of Nu. 40.315 million representing 45.47% of the recoveries from Ministries followed by Ministry of Economic Affairs with Nu. 12.611 million representing 14.22% and Ministry of Agriculture and Forests with Nu. 11.392 million representing 12.85% of the recoveries from Ministries as shown in the Graph 1.2.

The three Ministries had made total audit recoveries of Nu. 64.318 million which accounted for over 72% of the recoveries under Ministries and about 44% of the total audit recoveries made during the year.



#### 4. Achievements in terms of professional development

In order to enhance the quality of audit services and enhance credibility of its reports, the RAA is continuously geared towards promoting a culture of continuous learning through various forms of trainings and development of its human resources.

The Royal Audit Authority had secured fund of Nu. 16.516 million from Austrian Development Project for capacity building of Royal Audit Authority. The project was initiated under the Global Call for Proposals initiated by International Organization of Supreme Audit Institutions (INTOSAI) - Donor Secretariat, under IDI (INTOSAI Development Initiatives) which had extended invitation to submit project proposals to all its member countries in September 2011. Under this project, the RAA will be developing



22 audit manuals and policies on Outsourcing of Audit Services and Continuing Professional Development. The development of the manuals and policy documents are entrusted to the teams from within the RAA.

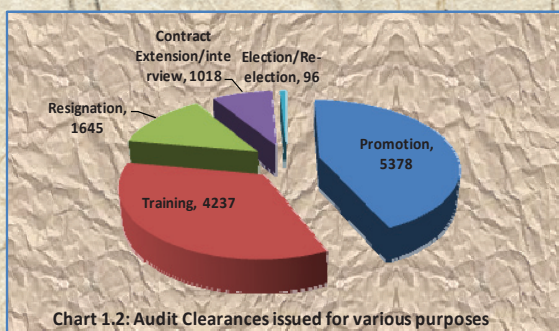
The project on Audit Resources Management System (ARMS) funded by Asian Development Bank (ADB) is nearing completion. The Data Centre is expected to be established by July 2013 with four modules on audit planning, execution, reporting and system administration to be tested and pilot run from July 2013 for the period of 6 months before actual commissioning of the system. The remaining modules are expected to be tested from December 2013. The project is being implemented by our team of IT professionals with a professional guidance of an external consultant.

In its pursuit of enhancing institutional and human capabilities of delivering the mandates, ex-country and in-house trainings are conducted on a continuous basis. During the year, 17 officials availed ex-country training including seminars, workshops and meetings, 13 officials including two for Indian Accounts & Audit Service were sent for long term studies. Besides, the RAA also facilitated 11 in-house trainings catering to 179 auditors on different topics/subjects. These in-house trainings were conducted by our in-house experts in accordance with our Continuing Professional Development Policy.

Preparatory works for the construction of Audit Training Centre at Tsirang including Drawings & Designs, Construction of approach road, Construction of site office and water supply works has been completed. The main components of work which include electrical works, construction of main complex, construction of hostel blocks and landscaping works shall commence in the next financial year. The construction of training center was endorsed by the 87<sup>th</sup> Session of the then National Assembly of Bhutan.

The Royal Audit Authority became the member of CGISC on 6<sup>th</sup> April, 2012. The National Land Commission Secretariat is the main coordinating agency of CGISC chaired by Secretary of National Land Commission of Bhutan. The CGISC will be facilitating to generate and maintain a reliable, comprehensive and up-to-date spatial information system that meets the diverse needs of the entire spatial industry in the country, the region and the global community at large. The RAA being a member of CGISC can share the resources related to spatial information of our country within and outside the organization for various purposes. It would also be helpful for gathering and analyzing the evidences especially for conducting the environmental and performance audits for the auditors during the field audit.

## 5. Achievements in terms of enhancing service delivery system



During the year, the RAA had issued 12,374 Audit Clearances for various purposes as shown in Chart 1.2. As required by the Audit Act of Bhutan 2006 and Bhutan Civil Service Rules and Regulations, the RAA is charged with the responsibility of holding the officials accountable until either the recoveries are effected or appropriate actions are taken on the accountable



official for the lapses uncovered during auditing. This process of issuing audit clearance certificate to public officials and civil servants serves as an important tool for Royal Audit Authority to strengthen accountability in the overall governance system and instill a sense of accountability and responsibility in the officials in discharging their duties.

## 6. Achievements in terms of international cooperation

In order to keep abreast of new developments taking place in auditing profession it is essential for the RAA to maintain sound professional linkages particularly with Supreme Audit Institutions around the world. In line with this objective, the RAA had further boosted its efforts in integrating itself into various international forums and organizations.

The Auditor General led a three member delegation to attend XII ASOSAI General Assembly hosted in the heritage city of Jaipur in Rajasthan, India. The Assembly was held from the February 29, to March 3, 2012. The Assembly was attended by 199 participants from 50 countries including observers from International Organization of Supreme Audit Institutions (INTOSAI), European Organization of Supreme Audit Institutions (EUROSAI) regions, World Bank and Asian Regional Association of Public Accounts Committee (ARAPAC).

Under the Transregional Capacity Building Program for Performance Audits of Environmental Issues in Forestry (2010-12), which was launched by INTOSAI Development Initiatives in collaboration with the INTOSAI Working Group on Environment (WGEA), the RAA had carried out audit of environmental issues with special focus on the National Forest Inventory, Forest Fires and Watershed Management activities relating to sustainable forest management in Bhutan. The report was issued on 20<sup>th</sup> January 2012 which was submitted to Hon'ble Minister, Ministry of Agriculture & Forests.

The RAA, as the signatory to the South African Declaration on the International Standards of Supreme Audit Institutions (ISSAIs) during the 20<sup>th</sup> INTOSAI Congress adopted a comprehensive set of ISSAIs that covers the core audit disciplines of financial, compliance and performance audits. The adoption of the ISSAIs represent a milestone in strengthening the audit profession, facilitating benchmarking of current practices against internationally recognized best practices, and ensuring increased credibility of the reports generated by the RAA. In gearing towards the same direction, the INTOSAI Development Initiatives (IDI) has initiated support for implementation of ISSAIs with a comprehensive capacity building programme called the '*ISSAI Implementation Initiative*' or '*3i Programme*' for Supreme Audit Institutions in the developing countries. The Programme would roll over a period starting from 2012 to 2014. Accordingly, the RAA has formed its own Working Group responsible for ISSAI Implementation in the organization. The Working group had actively participated in the above programme during the year.

A three member delegation of Auditor General of Republic of Maldives, His Excellency Niyas Ibrahim visited the Royal Audit Authority on June 7, 2012. A high profile visit from SAI Maldives was expected to further boost the institutional linkages between the two SAIs and further promoting professional collaborations and associations through sharing experiences in the field of auditing.



His Excellency Niyas Ibrahim, Auditor General of Republic of Maldives with Auditor General of Bhutan.



In reciprocating the Goodwill visit by Auditor General of Republic of Maldives, the Auditor General along with one senior officer visited Maldives to attend the Asian Regional Association for Public Accounts Committees (ARAPAC) held from 10<sup>th</sup> to 14<sup>th</sup> October 2012. The Auditor General participated in a public lecture to share experience on the role of SAI in promoting public accountability.

A seven member delegates headed by Mr. Coa Tan Khong, Dy. Auditor General from the Office of the State Audit of Vietnam were on good-will visit to Bhutan for five days from 18<sup>th</sup> - 22<sup>nd</sup> October 2012. The delegates called upon the Auditor General of Bhutan. Based on the INTOSAI motto "Mutual Experience Benefits All", he also proposed good-will bilateral cooperation between SAI, Bhutan and SAI, Vietnam in areas of exchanging updated information on the operation and development, sharing audit materials and documents on interested topics i.e. legal documents, initiatives on audit methodologies, procedures, results of peer review, etc, and providing Training opportunities for staff of two offices and delegating teams to visit each other to promote mutual understanding.

The RAA hosted two day South Asian Regional Seminar on **Performance Auditing: Challenges and Opportunities** from 5-6 June 2012. The seminar was funded by the World Bank. More than sixty participants from the Supreme Audit Institutions (SAIs) of Afghanistan, Bangladesh, Maldives, India, Nepal, Pakistan, Sri Lanka, Vietnam, Australia, Canada and Bhutan participated in the Seminar. The Seminar was aimed at facilitating exchange of experiences and innovations and sharing priorities and directions in the field amongst the SAIs and similar agencies in the Region. The RAA made presentations on audit of procurement and constructions.

## 7. Independent external audit of the Royal Audit Authority

In line with the Audit Act of Bhutan 2006, the accounts and operations of the Royal Audit Authority for the Fiscal Year ended 30<sup>th</sup> June 2012 was audited by M/s S. Ghose & Co. The Auditor's report along with certified Receipts & Payments Statement of the Royal Audit Authority is given in **Exhibit I**. The appointment of auditors was done based on the selection of auditors made by the Public Accounts Committee on behalf of the Parliament as required under the Audit Act.

## 8. Audit awareness and Review Meeting

In the pursuit of promoting awareness on the accountability and transparency in the public resources, the RAA had embarked on organizing Audit Awareness and Review Meeting for the elected representatives and civil servants of the local governments. During 2012, the team from RAA led by Auditor General had successfully completed the programmes in 15 Dzongkhags. The officials were briefed on the Roles and Responsibilities of the Royal Audit Authority in the overall governance system.



Audit Awareness and Review Meeting in one of the Dzongkhags.

Further, such awareness programmes were also aimed at discussing pending audit issues pertaining to the local governments at Gewog and Dzongkhag level.



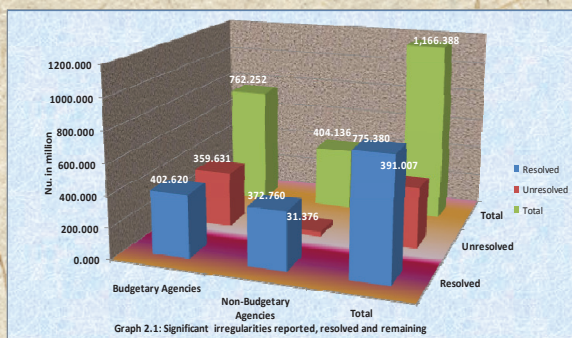
# CHAPTER 2

## SUMMARY OF AUDIT FINDINGS

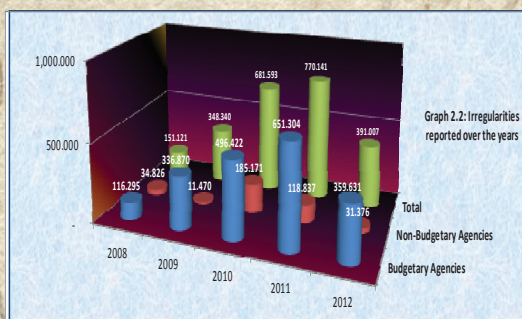
The Annual Audit Report 2012 has been compiled from 760 audit reports issued during the year. The report includes a chapter on the certification of the Annual Financial Statements of the Royal Government for the fiscal year ended June 30, 2012, significant unresolved observations of reports issued during the year and a chapter on performance and thematic audits. The Report also includes chapters on the audit of accounts and operations of the RAA and accomplishments made by it during the year.

In the process of carrying out the audit of Annual Financial Statements, the Royal Audit Authority had also reviewed the utilization of the budget approved by the National Assembly for the Fiscal Year ended June 2012. It was noted that the capital budget of Nu. 4,095.754 million was not utilized against the revised budget. As against the released budget, the unutilized budget amounted to Nu. 1,389.51 million. The Government needs to study the non-utilization of capital budget, which has been occurring repeatedly to ascertain the causes.

The relevant excerpt of the Draft Annual Audit Report was circulated to all the agencies concerned in February 2013 as required under the Audit Act of Bhutan 2006. The draft report had significant issues involving Nu. 1,166.388 million. However, audit findings involving Nu. 775.381 million representing more than 66% were either resolved fully or substantially based on the action taken and responses received from the agencies as shown in Graph 2.1.



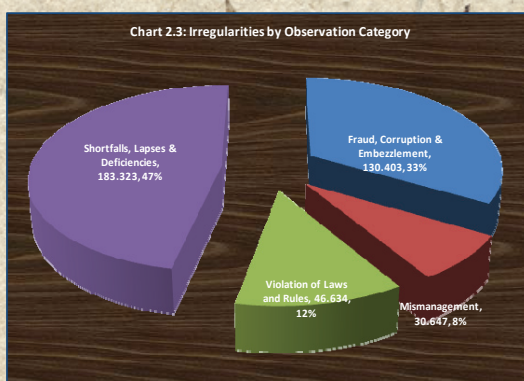
The total unresolved significant issues reflected in the Annual Audit Report 2012 amounted to Nu. 391,007 million. The report contains unresolved significant issues pertaining to all Ministries, 7 Dzongkhags, 11 Gewogs of 5 Dzongkhags, 6 Autonomous Bodies, 6 Corporations, four Non Governmental Organization and two Political Parties. As compared to the past year, the irregularities reported for 2012 has declined by 49.22%. A comparative figures of irregularities reported over the five years is given in Graph 2.2.





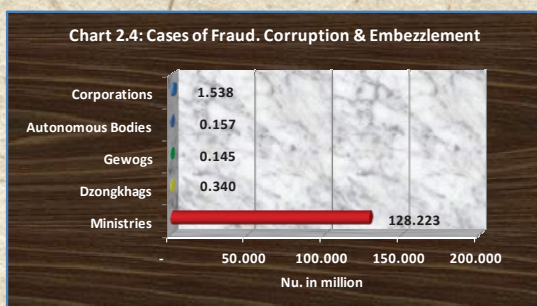
The Royal Audit Authority had reported unresolved significant irregularities of Nu. 151.121 million in 2008, Nu. 348.340 million in 2009, Nu. 681.593 million in 2010 and Nu. 770.141 million in 2011. In 2012, unresolved significant irregularities amounted to Nu. 391.007 million, which is reduced by 49.22% compared to 2011. The highest amount of irregularities was reported under Ministry of Information & Communications with Nu. 114.230 million followed by Ministry of Works and Human Settlement with Nu. 104.011 million, Ministry of Education with 42.933 million and Ministry of Home & Cultural Affairs with Nu. 26.587 million. These Ministries represented over 73 % of the total amount of irregularities reported for 2012. Under the Corporations, Penden Cement Authority Limited had the reported figure of Nu. 3.906 million followed by Food Corporation of Bhutan Limited with Nu. 0.567 million.

The observations in Annual Audit Report have been grouped into four broad categories. A summary of the irregularities by categories is given in Chart 2.3 and detailed summary is appended in Tables 2.1 & 2.2 at the end of this chapter. The highest amount of irregularities of Nu. 183.323 million is reported under the category, Shortfalls, Lapses and Deficiencies followed by Nu. 130.403 million under the category, Fraud, Corruption & Embezzlement. The amount of Nu. 46.634 million is reported under the category, Violation of Laws and Rules and Nu. 30.647 million is reported under the category, Mismanagement. A summary of the irregularities under these categories is given below:



## 1. Fraud, Corruption and Embezzlement

The Royal Audit Authority reported indicators of fraud, corruption and embezzlement cases in some of the agencies during the year. The total amount reported under this category amounted to Nu. 130.403 million with Ministries representing 98.33% of the total irregularities under this category as shown in Chart 2.4.



followed by the Ministry of Works and Human Settlements with Nu. 13.897 million, Ministry of Health with Nu. 2.693 million and Ministry of Agriculture and Forests with Nu. 0.241 million.

The lone agency under the Dzongkhags, Dzongkhag Administration, Haa had cases involving Nu. 0.340 million reported under this category.



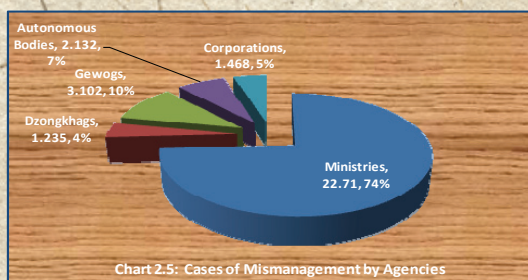
Under the Gewog Administrations, Bumdeling Gewog Administration under Trashiyangtse had a case involving Nu. 0.047 million. The Gewogs of Deorali and Khebesa under Dzongkhag Administration, Dagana had reported figure of Nu. 0.063 million & 0.035 million respectively under this category.

Under the Autonomous agencies, the Royal University of Bhutan had case involving Nu.0.157 million reported under this category which pertained to the Paro College of Education.

Under the Corporations, the Penden Cement Authority Limited had reported cases of Nu. 1.583 million under this category.

## 2. Mismanagement

The total irregularities under this category amounted to Nu. 30.647 million with ministries representing over 74% of the total as shown in the Chart 2.5. The Ministry of Finance had highest amount of Nu. 13.849 million followed by Ministry of Home and Cultural Affairs with reported figure of Nu. 7.918 million under this category. The Dzongkhag Administration, Pemagatshel is the only Dzongkhag that had reported figure of Nu. 1.235 million under this category.

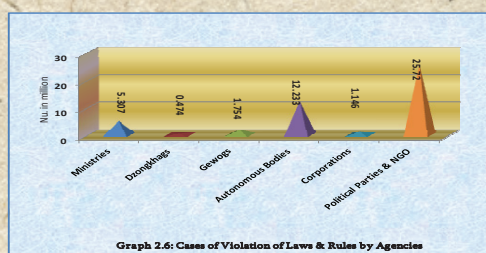


The Gewog Administrations of Tongzhang under Trashiyangtse and Bardo under Zhemgang had the reported amount of Nu. 2.599 million and Nu. 0.503 million respectively.

Under the Corporations, Penden Cement Authority Limited and Construction Development Corporation Limited had reported figure of Nu. 1.438 million and Nu. 0.030 million respectively.

## 3. Violation of Laws and Rules

The total irregularities reported under this category amounted to Nu. 46.634 million. As depicted in the Graph 2.6, The Political Parties & NGOs had the highest amount of irregularities amounting to Nu. 25.720 million under this category. The amount of Nu. 25.658 million pertained to People's Democratic Party.



The Autonomous agencies had irregularities of Nu. 12.233 million. The amount of Nu. 9.935 million reported under autonomous agency pertained to Bhutan Olympic Committee.



Under Ministries, Ministry of Labour and Human Resources had highest irregularities of Nu. 4.656 million followed by Ministry of Health with Nu. 0.352 million.

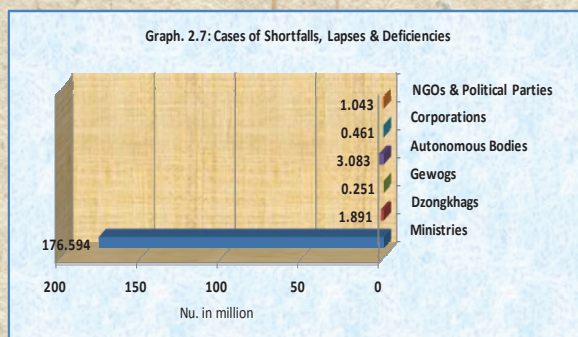
Under the Dzongkhags, the Dzongkhag Administration, Pemagatshel had amount of Nu. 0.241 million under this category followed by Dzongkhag Administration, Sarpang which had reported amount of Nu. 0.233 million.

The Gewog Administrations, Tongzhang and Ramjar under Trashiyangtse had Nu. 1.383 million and Nu. 0.038 million respectively reported cases under this category. The Gewog Administrations of Bardo, Nangkor and Goshing under Zhemgang had the sum of Nu. 0.172 million, 0.125 million and 0.036 million respectively under this category.

#### 4. Shortfalls, Lapses and Deficiencies

The irregularities under shortfalls, lapses and deficiencies amounted to Nu. 183.323 million. As depicted in the Graph 2.7, the Ministries had the highest amount of irregularities of Nu. 176.594 million representing over 96% of the irregularities reported

in this category. The Ministry of Works and Human Settlements had the highest of Nu. 89.990 million followed by Ministry of Education with Nu. 42.933 million and Ministry of Home and Cultural Affairs with Nu. 18.669 million.



Under the Dzongkhags, the Dzongkhag Administration, Pemagatshel had the highest irregularities of Nu. 0.493 million followed by the Dzongkhag

Administrations, Haa with 0.468 million.

The highest amount of irregularities from the Gewog Administrations pertained to Gewog Administration, Logchina under Chukha Dzongkhag with Nu. 0.122 million followed by Gewog Administration, Bardo and Ngangla under Zhemgang Dzongkhag with Nu. 0.085 million and 0.044 million.

Under the Corporation, Food Corporation of Bhutan Limited and Bhutan Power Corporation Limited had reported irregularities of Nu. 0.351 million and 0.110 million respectively.

The cases of shortfalls, lapses and deficiencies for the Autonomous Bodies included among others, Nu. 1.613 million pertaining to Bhutan Football Federation, Nu. 0.587 million pertaining to Bhutan Olympic Committee and Nu. 0.535 million pertaining to Royal University of Bhutan.

The irregularities under Non Governmental Organizations and Political Parties include Nu. 0.628 million pertaining to Druk Phensum Tshogpa, Nu. 0.215 million pertaining to Tarayana and Nu. 0.200 million to Loden Foundation.



**Table 2.1: Summary of Annual Audit Report 2012 with categories of irregularities and amount involved with respect of budgetary agencies.**

| Sl. No.  | Categories of irregularities                      | MoIC           | MoWHS          | MoE           | MoHCA         | MoF           | MoH           | MoLHR        | MoFA         | MoAF         | MoEA         | Dzongkhags   | Gewogs       | Autonomous    | Total          |
|----------|---|----------------|----------------|---------------|---------------|---------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|----------------|
| <b>1</b> | <b>Fraud, Corruption &amp; Embezzlement</b>       | <b>111.392</b> | <b>13.897</b>  | <b>0.000</b>  | <b>0.000</b>  | <b>0.000</b>  | <b>2.693</b>  | <b>0.000</b> | <b>0.000</b> | <b>0.241</b> | <b>0.000</b> | <b>0.340</b> | <b>0.145</b> | <b>0.157</b>  | <b>128.865</b> |
| 1.1      | Forgery & tampering of documents                  | -              | 13.024         | -             | -             | -             | -             | -            | -            | -            | -            | -            | -            | -             | 13.024         |
| 1.2      | Malpractices & abuses                             | -              | -              | -             | -             | -             | 1.487         | -            | -            | -            | -            | 0.340        | 0.047        | -             | 1.874          |
| 1.3      | Misappropriation                                  | -              | 0.588          | -             | -             | -             | 1.206         | -            | -            | 0.241        | -            | -            | 0.098        | 0.153         | 2.286          |
| 1.4      | Intentional double/irregular/unauthorized payment | 111.392        | -              | -             | -             | -             | -             | -            | -            | -            | -            | -            | -            | -             | 111.392        |
| 1.5      | Non/short accountal                               | -              | 0.285          | -             | -             | -             | -             | -            | -            | -            | -            | -            | -            | 0.004         | -              |
| <b>2</b> | <b>Mismanagement</b>                              | <b>0.273</b>   | <b>0.124</b>   | <b>0.000</b>  | <b>7.918</b>  | <b>13.849</b> | <b>0.000</b>  | <b>0.000</b> | <b>0.000</b> | <b>0.000</b> | <b>0.546</b> | <b>1.235</b> | <b>3.102</b> | <b>2.132</b>  | <b>29.179</b>  |
| 2.1      | Mismanagement of funds                            | -              | -              | -             | 7.918         | -             | -             | -            | -            | -            | -            | -            | 0.503        | 2.132         | 10.553         |
| 2.2      | Mismanagement of properties                       | -              | -              | -             | -             | -             | -             | -            | -            | -            | -            | -            | 2.599        | -             | 2.599          |
| 2.3      | Mismanagement of human resources                  | -              | -              | -             | -             | -             | -             | -            | -            | -            | -            | -            | -            | -             | 0.000          |
| 2.4      | Mismanagement of revenue and taxes                | 0.273          | 0.124          | -             | -             | 13.849        | -             | -            | -            | -            | 0.546        | 1.235        | -            | -             | 16.027         |
| <b>3</b> | <b>Violation of Laws and Rules</b>                | <b>0.000</b>   | <b>0.000</b>   | <b>0.000</b>  | <b>0.000</b>  | <b>0.000</b>  | <b>0.352</b>  | <b>4.656</b> | <b>0.000</b> | <b>0.299</b> | <b>0.000</b> | <b>0.474</b> | <b>1.754</b> | <b>12.233</b> | <b>19.768</b>  |
| 3.1      | Violation of service rules                        | -              | -              | -             | -             | -             | -             | -            | -            | -            | -            | -            | -            | -             | 0.000          |
| 3.2      | Violation of budgetary norms                      | -              | -              | -             | -             | -             | -             | -            | -            | -            | -            | -            | 1.421        | -             | 1.421          |
| 3.3      | Violation of accounting norms                     | -              | -              | -             | -             | -             | -             | -            | -            | -            | -            | -            | -            | 1.368         | 1.368          |
| 3.4      | Violation of procurement norms                    | -              | -              | -             | -             | -             | 0.352         | 4.656        | -            | 0.251        | -            | 0.420        | 0.333        | 10.785        | 16.797         |
| 3.5      | Violation of Acts, Directives and Policies        | -              | -              | -             | -             | -             | -             | -            | -            | 0.048        | -            | 0.054        | -            | 0.080         | 0.182          |
| <b>4</b> | <b>Shortfalls, lapses and deficiencies</b>        | <b>2.565</b>   | <b>89.990</b>  | <b>42.933</b> | <b>18.669</b> | <b>5.593</b>  | <b>14.716</b> | <b>0.105</b> | <b>1.730</b> | <b>0.293</b> | <b>0.000</b> | <b>1.891</b> | <b>0.251</b> | <b>3.083</b>  | <b>181.819</b> |
| 4.1      | Over/inadmissible/irregular/double payments       | 2.477          | -              | -             | 0.334         | -             | -             | 0.105        | -            | 0.293        | -            | 0.967        | 0.177        | 1.161         | 5.514          |
| 4.2      | Non maintenance of records                        | -              | -              | -             | -             | -             | -             | -            | -            | -            | -            | -            | -            | -             | 0.000          |
| 4.3      | Improper maintenance of records                   | -              | -              | -             | -             | -             | -             | -            | -            | -            | -            | -            | -            | -             | 0.000          |
| 4.4      | Non/improper recording in books                   | -              | 0.249          | -             | -             | -             | -             | -            | -            | -            | -            | -            | -            | -             | 0.249          |
| 4.5      | Non-reconciliation/certification of balances      | 0.088          | 3.515          | -             | -             | -             | -             | -            | -            | -            | -            | -            | -            | -             | 3.603          |
| 4.6      | Irregularities in advances                        | -              | 86.226         | 42.933        | 18.335        | 5.593         | 12.861        | -            | 1.494        | -            | -            | 0.732        | 0.074        | 1.346         | 169.594        |
| 4.7      | Irregularities in recoveries                      | -              | -              | -             | -             | -             | -             | -            | -            | -            | -            | -            | -            | -             | 0.000          |
| 4.8      | Irregularities in disposals & auctions            | -              | -              | -             | -             | -             | -             | -            | -            | -            | -            | -            | -            | -             | 0.000          |
| 4.9      | Irregularities in property management             | -              | -              | -             | -             | -             | -             | -            | 0.236        | -            | -            | 0.192        | -            | -             | 0.428          |
| 4.10     | Non cooperation                                   | -              | -              | -             | -             | -             | -             | -            | -            | -            | -            | -            | -            | -             | 0.000          |
| 4.11     | Non/short deduction                               | -              | -              | -             | -             | -             | -             | -            | -            | -            | -            | -            | -            | 0.316         | 0.316          |
| 4.12     | Shortfalls & uneconomical operations              | -              | -              | -             | -             | -             | 1.855         | -            | -            | -            | -            | -            | -            | 0.260         | 2.115          |
| 4.13     | Missing documents/receipts                        | -              | -              | -             | -             | -             | -             | -            | -            | -            | -            | -            | -            | -             | 0.000          |
|          |   | <b>114.230</b> | <b>104.011</b> | <b>42.933</b> | <b>26.587</b> | <b>19.442</b> | <b>17.761</b> | <b>4.761</b> | <b>1.730</b> | <b>0.833</b> | <b>0.546</b> | <b>3.940</b> | <b>5.252</b> | <b>17.605</b> | <b>359.631</b> |



Table 2.2: Summary of Annual Audit Report 2012 with categories of irregularities and amount involved with respect of non-budgetary agencies.

| Sl. No. | Categories of irregularities                      | PCAL  | FCBL  | BPCL  | CDCL  | STCBL | Bhutan Post | Tarayana | Loden Foundation | RSPN  | NWAB  | PDP    | DPT   | Total          |
|---------|---|-------|-------|-------|-------|-------|-------------|----------|------------------|-------|-------|--------|-------|----------------|
| 1       | <b>Fraud, Corruption &amp; Embezzlement</b>       | 1.538 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000       | 0.000    | 0.000            | 0.000 | 0.000 | 0.000  | 0.000 | 1.538          |
| 1.1     | Forgery & tampering of documents                  | -     | -     | -     | -     | -     | -           | -        | -                | -     | -     | -      | -     | 0.000          |
| 1.2     | Malpractices & abuses                             | -     | -     | -     | -     | -     | -           | -        | -                | -     | -     | -      | -     | 0.000          |
| 1.3     | Misappropriation                                  | 1.538 | -     | -     | -     | -     | -           | -        | -                | -     | -     | -      | -     | 1.538          |
| 1.4     | Intentional double/irregular/unauthorized payment | -     | -     | -     | -     | -     | -           | -        | -                | -     | -     | -      | -     | 0.000          |
| 1.5     | Non/short accountal                               | -     | -     | -     | -     | -     | -           | -        | -                | -     | -     | -      | -     | 0.000          |
| 2       | <b>Mismanagement</b>                              | 1.438 | 0.000 | 0.000 | 0.030 | 0.000 | 0.000       | 0.000    | 0.000            | 0.000 | 0.000 | 0.000  | 0.000 | 1.468          |
| 2.1     | Mismanagement of funds                            | 1.438 | -     | -     | -     | -     | -           | -        | -                | -     | -     | -      | -     | 1.438          |
| 2.2     | Mismanagement of properties                       | -     | -     | -     | -     | -     | -           | -        | -                | -     | -     | -      | -     | 0.000          |
| 2.3     | Mismanagement of human resources                  | -     | -     | -     | -     | -     | -           | -        | -                | -     | -     | -      | -     | 0.000          |
| 2.4     | Mismanagement of revenue and taxes                | -     | -     | -     | 0.030 | -     | -           | -        | -                | -     | -     | -      | -     | 0.030          |
| 3       | <b>Violation of Laws and Rules</b>                | 0.930 | 0.216 | 0.000 | 0.000 | 0.000 | 0.000       | 0.000    | 0.000            | 0.062 | 0.000 | 25.658 | 0.000 | 26.866         |
| 3.1     | Violation of service rules                        | -     | -     | -     | -     | -     | -           | -        | -                | -     | -     | -      | -     | 0.000          |
| 3.2     | Violation of budgetary norms                      | -     | -     | -     | -     | -     | -           | -        | -                | -     | -     | -      | -     | 0.000          |
| 3.3     | Violation of accounting norms                     | -     | -     | -     | -     | -     | -           | -        | -                | -     | -     | -      | -     | 0.000          |
| 3.4     | Violation of procurement norms                    | 0.385 | 0.216 | -     | -     | -     | -           | -        | -                | 0.062 | -     | -      | -     | 0.663          |
| 3.5     | Violation of Acts, Directives and Policies        | 0.545 | -     | -     | -     | -     | -           | -        | -                | -     | -     | 25.658 | -     | 26.203         |
| 4       | <b>Shortfalls, lapses and deficiencies</b>        | 0.000 | 0.351 | 0.110 | 0.000 | 0.000 | 0.000       | 0.215    | 0.200            | 0.000 | 0.000 | 0.000  | 0.628 | 1.504          |
| 4.1     | Over/inadmissible/irregular/double payments       | -     | -     | -     | -     | -     | -           | -        | -                | -     | -     | -      | -     | 0.000          |
| 4.2     | Non maintenance of records                        | -     | -     | -     | -     | -     | -           | -        | -                | -     | -     | -      | -     | 0.000          |
| 4.3     | Improper maintenance of records                   | -     | -     | -     | -     | -     | -           | -        | -                | -     | -     | -      | -     | 0.000          |
| 4.4     | Non/improper recording in books                   | -     | -     | -     | -     | -     | -           | 0.116    | -                | -     | -     | -      | -     | 0.116          |
| 4.5     | Non-reconciliation/certification of balances      | -     | -     | -     | -     | -     | -           | -        | -                | -     | -     | -      | -     | 0.000          |
| 4.6     | Irregularities in advances                        | -     | -     | -     | -     | -     | -           | 0.099    | -                | -     | -     | -      | -     | 0.099          |
| 4.7     | Irregularities in recoveries                      | -     | -     | -     | -     | -     | -           | -        | 0.200            | -     | -     | -      | -     | 0.200          |
| 4.8     | Irregularities in disposals & auctions            | -     | -     | -     | -     | -     | -           | -        | -                | -     | -     | -      | -     | 0.000          |
| 4.9     | Irregularities in property management             | -     | -     | 0.110 | -     | -     | -           | -        | -                | -     | -     | -      | -     | 0.110          |
| 4.10    | Non cooperation                                   | -     | -     | -     | -     | -     | -           | -        | -                | -     | -     | -      | -     | 0.000          |
| 4.11    | Non/short deduction                               | -     | -     | -     | -     | -     | -           | -        | -                | -     | -     | -      | -     | 0.000          |
| 4.12    | Shortfalls & uneconomical operations              | -     | 0.351 | -     | -     | -     | -           | -        | -                | -     | -     | -      | 0.628 | 0.979          |
| 4.13    | Missing documents/recipients                      | -     | -     | -     | -     | -     | -           | -        | -                | -     | -     | -      | -     | 0.000          |
|         |   | 3.906 | 0.567 | 0.110 | 0.030 | 0.000 | 0.000       | 0.215    | 0.200            | 0.062 | 0.000 | 25.658 | 0.628 | 31.376         |
|         |   |       |       |       |       |       |             |          |                  |       |       |        |       | Nu. in million |



# CHAPTER 3

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## **CERTIFICATION OF ANNUAL FINANCIAL STATEMENT**

The Annual Financial Statement (AFS) of the budgetary operation of the Royal Government of Bhutan for the Fiscal Year 2011-12 was audited by the Royal Audit Authority (RAA) as required under the Audit Act of Bhutan 2006 and the Public Finance Act of Bhutan 2007. The Audit was conducted in accordance with the RAA's Auditing Standards and the Generally Accepted Auditing Standards (GAAS). The RAA has issued qualified audit opinion with regard to disagreement of accounts by Nu. 0.110 million. The Ministry of Finance has subsequently reported that the difference has been brought down to Nu 0.045 million which will be conformed during the next audit.

The RAA had carried out the certification of the individual Letter of Credit (LC) accounts of the budgetary agencies in line with the Audit Act of Bhutan 2006. The budgetary agencies included those that were accorded priority based on its categorization and included in the Annual Audit Schedules 2011-12. The recommendations and observations made at the agency level are considered depending upon the materiality while certifying the consolidated statements.

The approved budget for the Fiscal Year 2011-12 of the Royal Government was Nu. 37,923.257 million against an estimated resources of Nu. 32,546.035 million with a fiscal deficit of Nu. 5,377.222 million. Given that the scheduled loan repayment of Nu. 2,353.410 was lower than the project tied borrowings of Nu. 2,403.196 million, the resource gap was estimated at Nu. 5,327.436 million. During the year, the outlay was revised to Nu. 38,716.170 million and the resources to Nu. 35,002.559 million. At the end of the Fiscal Year, the actual expenditure reported was Nu. 33,704.703 million against the realized resources of Nu. 32,192.735 million resulting into a fiscal deficit of Nu. 1,511.968 million.

As against revised capital budget of Nu. 22,232.868 million, the actual expenditure reported was Nu. 18,137.114 million with resultant underutilization of capital budget of Nu. 4095.754 million which is 18.4% of the revised capital budget.

The Government debt as on June 2012 was Nu. 62,813.105 million.

The certificate of the Auditor General and the Financial Statements are appended herewith.





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ROYAL AUDIT AUTHORITY  
Bhutan Integrity House

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



## AUDITOR GENERAL'S REPORT ON THE ANNUAL FINANCIAL STATEMENTS OF THE ROYAL GOVERNMENT OF BHUTAN FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

The Royal Audit Authority (RAA) has audited the accompanying Annual Financial Statements of the Royal Government of Bhutan (RGoB) for the Financial Year ended 30 June 2012, which comprises of:

- i. Consolidated receipts & payments statement and schedule forming part of it;
- ii. Summary of original and revised budget estimates and variations with actual outcome;
- iii. Statement of outstanding loans;
- iv. Statement of equity portfolio of the Government;
- v. Statement of the operations of Refundable Deposits Account, Revolving & Trust Funds; and
- vi. Government Consolidated Account Reconciliation Statement

The audit was conducted by the RAA as required under the Audit Act of Bhutan 2006 and the Public Finance Act of Bhutan 2007.

### Responsibility of the Ministry of Finance for the Financial Statements

The Ministry of Finance is responsible for preparation and fair presentation of these financial statements in accordance with the Public Finance Act 2007 and Financial Rules and Regulations 2001. This responsibility includes, designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Financial Statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

### RAA's responsibility

The RAA's responsibility is to express an opinion on these Financial Statements based on its audit. The RAA conducted the audit in accordance with RAA's Auditing Standards and Generally Accepted Auditing Standards. These standards require that the RAA plans and perform the audit to obtain reasonable assurance about whether the Financial Statements are free from material misstatements.

### Scope of Audit

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on auditor's judgement, including the risk of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on effectiveness of the entity's internal control.

As per the information made available by the DPA, there are 517 Letter of Credit (LC) Accounts and 170 Project Letter of Credit (PLC) Accounts. Of the total, the RAA had audited and issued report for 223 LC Accounts and 32 PLC Accounts as on March 2013 for the Fiscal Year ended 30 June 2012. The audited agencies comprise mostly of bigger agencies. For those accounts that are yet to be audited, the RAA had relied upon the year end accounts submitted by the respective agencies.

The RAA believes that the audit evidence obtained by it is sufficient and appropriate to provide a basis for its audit opinion.

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

*- His Majesty The King Jigme Khesar Namgyel Wangchuck*

P.O. Box: 191, Kawangjangsa, Thimphu : Bhutan. Tel: 322111 / 322833, Fax: 323491.

Website: [www.bhutanaudit.gov.bt](http://www.bhutanaudit.gov.bt) email: [info@bhutanaudit.gov.bt](mailto:info@bhutanaudit.gov.bt)




#### **Basis of "Qualified" Audit Opinion**

Statement of Other Receipts & Payments (Schedule – 9 of Consolidated Receipts & Payments Statement) includes errors and omissions of Nu.0.110 million representing difference in the Consolidated Receipts & Payments. Pending reconciliation of this difference, which is under progress, the impact in these accounts is currently not ascertainable.

#### **Opinion**

In RAA's opinion, *except* for the effect of the matter referred under *Basis of Qualified Audit Opinion* above, the Consolidated Receipts & Payments Statement together with the schedules attached thereto, including the Notes to Accounts present fairly, in all material respect the financial operations of the Royal Government of Bhutan for the year ended 30 June 2012 and the position of the Outstanding Loans, Equity Portfolio of the Government, Refundable Deposits, Revolving & Trust Funds as on that date as required by the Public Finance Act 2007 and the Financial Rules & Regulations 2001 in the manner so required.

  
(Ugen Chewang)  
Auditor General of Bhutan

Dated: 10 May 2013  
Place: Thimphu



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*- His Majesty The King Jigme Khesar Namgyel Wangchuck*

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དངུལ་རྩིས་ལྷན་ཁག།  
**Royal Government of Bhutan**  
**Ministry of Finance**  
**Thimphu**



25<sup>th</sup> December 2012

**STATEMENT OF RESPONSIBILITY**

The Annual Financial Statements (AFS) of the Royal Government of Bhutan (RGoB) for the Fiscal Year 2011-12 have been prepared by the Department of Public Accounts (DPA), Ministry of Finance (MoF) in accordance with the provisions of the Public Finance Act of the Kingdom of Bhutan, 2007, Public Finance (Amendment) Act, 2012 and the Financial Rules and Regulations 2001.

The financial statements are prepared based on the monthly accounts of the budgetary bodies recorded in the Public Expenditure Management System (PEMS) and information received from other relevant agencies and organizations. The AFS presents the financial position of the RGoB as at 30<sup>th</sup> June 2012.

We accept the responsibility for the reliability and completeness of the financial statements.

**[Wangdi Norbu]**  
**Finance Minister**  
Ministry of Finance

**[Choiten Wangchuk]**  
**Director**  
Department of Public Accounts





**ROYAL GOVERNMENT OF BHUTAN**  
**CONSOLIDATED RECEIPT AND PAYMENT STATEMENT FOR THE YEAR ENDED 30TH JUNE 2012**  
*(Nu. in Million)*

| Receipts                             | Schedule | 2011-12           | 2010-11           | Payments                             | Schedule | 2011-12            | 2010-11           |
|--------------------------------------|----------|-------------------|-------------------|--------------------------------------|----------|--------------------|-------------------|
| <b>Opening Balance</b>               |          |                   | <b>1,361.079</b>  | <b>Expenditure</b>                   |          | <b>34,842.762</b>  | <b>29,521.905</b> |
| i) Cash                              |          | (15.626)          | 27.744            | i) Current                           | 11       | 16,705.648         | 14,735.058        |
| ii) Bank                             |          | (15.626)          | 1,333.335         | ii) Capital                          | 12       | 18,137.114         | 14,786.847        |
| <b>Internal Revenue</b>              |          | <b>20,354.462</b> | <b>17,458.797</b> | <b>Repayment of Loans</b>            |          | <b>6,408.350</b>   | <b>2,816.042</b>  |
| i) Tax Revenue                       | 2        | 14,676.929        | 11,593.488        | i) Internal                          | 13       | 4,179.733          | 674.677           |
| ii) Non Tax Revenue                  | 3        | 5,677.533         | 5,865.309         | ii) External                         | 14       | 2,228.617          | 2,141.365         |
| <b>External Grants</b>               |          | <b>12,047.845</b> | <b>10,497.727</b> | <b>Lendings</b>                      |          | <b>891.704</b>     | <b>986.679</b>    |
| i) Cash                              | 4        | 11,780.499        | 8,901.136         | i) To individuals                    | 15       | -                  | -                 |
| ii) Kind                             | 5        | 267.346           | 1,596.591         | ii) To Corporations                  | 16       | 891.704            | 986.679           |
| <b>Borrowings</b>                    |          | <b>5,871.516</b>  | <b>3,110.010</b>  | <b>Other payments</b>                | 9        | 6,803.517          | 6,145.206         |
| i) Internal                          | 6        | 4,395.767         | 499.375           | <b>Increase in Advances/Suspense</b> | 10       | 10,934.429         | 8,332.062         |
| ii) External                         | 7        | 1,475.749         | 2,610.635         | <b>Closing Balance</b>               |          | <b>(2,064.428)</b> | <b>(15.626)</b>   |
| <b>Recovery of Loans</b>             | 8        | 1,911.583         | 1,893.285         | i) Cash                              |          |                    |                   |
| <b>Other Receipts</b>                | 9        | 6,593.945         | 6,360.441         | ii) Bank                             |          | (2,064.428)        | (15.626)          |
| <b>Decrease in advances/Suspense</b> | 10       | 11,052.609        | 7,104.929         | <b>TOTAL PAYMENTS</b>                |          | <b>57,816.334</b>  | <b>47,786.268</b> |
| <b>TOTAL RECEIPTS</b>                |          | <b>57,816.334</b> | <b>47,786.268</b> |                                      |          |                    |                   |

Summary of variance for FY 2011-2012  
Notes to Accounts

1  
17

  
**Director General**  
Department of Public Accounts  
Ministry of Finance  
Thimphu : Bhutan

  
**Chief Accounts Officer**  
Department of Public Accounts  
Ministry of Finance  
Thimphu : Bhutan

  
**Assistant Auditor General**  
Royal Audit Authority



**SUMMARY OF ORIGINAL AND REVISED BUDGET ESTIMATES AND VARIATIONS WITH ACTUAL OUTCOMES FOR THE FY 2011-2012**

|                 | Particulars           | Nu. in million  |                | % Variance      |                    |
|-----------------|-----------------------|-----------------|----------------|-----------------|--------------------|
|                 |                       | Original Budget | Revised Budget | Actual Outcomes | Original Vs Actual |
| A               | RESOURCES             |                 |                |                 |                    |
| I.              | Domestic Revenue      | 32,546.035      | 35,002.559     | 32,192.735      | 7.5%               |
| i.              | Income Tax            | 12,859.021      | 13,134.223     | 20,344.662      | -8.0%              |
| ii.             | Non-Tax               | 19,687.014      | 21,868.336     | 11,848.073      | 6.3%               |
| ii.             | Other Receipts (Net)  | 5,749.959       | 5,708.536      | 5,677.533       | -0.7%              |
| III.            | Grants                | 79.933          | 875.411        | -               | -123.9%            |
| i.              | Programme grants      | 13,859.122      | 14,972.389     | 12,047.845      | 8.0%               |
| a) GoI          |                       | 1,900.740       | 1,808.740      | 1,624.315       | -10.2%             |
| b) Other Donors |                       | 500.740         | 1,400.000      | 1,400.000       | 0.0%               |
| ii.             | Project-tied grants   | 11,958.382      | 13,163.649     | 10,423.530      | -18.4%             |
| a) GoI          |                       | 8,894.098       | 9,452.870      | 7,603.442       | -19.6%             |
| b) Other Donors |                       | 3,064.284       | 3,710.779      | 2,820.088       | -11.1%             |
| IV.             | Other Receipts        | 37,923.287      | 38,711.170     | 33,704.768      | -12.9%             |
| L.              | Total Expenditure     | 38,020.166      | 39,519.281     | 34,842.762      | -11.8%             |
| i.              | Current               | 17,185.309      | 17,286.413     | 16,705.648      | -3.4%              |
| ii.             | Capital               | 20,834.857      | 22,232.868     | 18,137.114      | -18.4%             |
| III.            | Net Lending           |                 | (803.111)      | (1,019.879)     | 27.0%              |
| III.            | Advance/Suspense(Net) | (96.909)        | -              | (118.180)       | -                  |
| C               | OVERALL BALANCE       | (5,377.222)     | (3,713.611)    | (1,511.968)     | -59.3%             |
| D               | FINANCING             | 5,377.222       | 3,713.611      | 1,511.968       | 59.3%              |
| i.              | Borrowings            | 5,377.222       | (86.834)       | (570.44)        | 129.2%             |
| ii.             | Repayments            | 2,403.196       | 5,326.984      | 5,878.530       | 10.8%              |
| iii.            | Other                 | 2,353.410       | 5,361.176      | 6,408.350       | 15.2%              |
| RESOURCE GAP    |                       | (5,327.436)     | (3,947.803)    | (2,048.802)     | -48.1%             |

*[Signature]*  
 Director General  
 Department of Public Accounts  
 Ministry of Finance  
 Thimphu : Bhutan

*[Signature]*  
 (Chief Accounts Officer)  
 Department of Public Accounts  
 Ministry of Finance  
 Thimphu : Bhutan

*[Signature]*  
 (Assistant Auditor General)  
 Royal Audit Authority



Chief Accounts Officer  
 Department of Public Accounts  
 Ministry of Finance  
 Thimphu : Bhutan

Director General  
 Department of Public Accounts  
 Ministry of Finance  
 Thimphu : Bhutan



**SUMMARY STATEMENT OF OUTSTANDING DEBT OF THE GOVERNMENT FOR THE PERIOD ENDED JUNE 30, 2012**  
(Amounts in Agreement Currencies)

| Sl.No. | LENDER AND PROJECTS                            | Loan Committed                                 |         | Operating balances as on 01/07/11 | WITHDRAWALS |            |                |  | REPAYMENTS DURING THE YEAR |                    |            |           | Closing Balances as on 30/06/12 | Closing Balances in USD |
|--------|--|--|---------|-----------------------------------|-------------|------------|----------------|--|----------------------------|--------------------|------------|-----------|---------------------------------|-------------------------|
|        |  |  |         |                                   | Principal   | Interest   | Fees & Charges | Total Liability incurred during the year | Principal                  | Interest & Charges | Total      |           |                                 |                         |
|        |  | Curr.  | Amount  |                                   |             |            |                |  |                            |                    |            |           |                                 |                         |
| A      | INTERNAL                                       |  |         | 876,513                           | 4,004,431   | 75,975     | 5,283,406      | 4,179,733                                | 75,975                     | 4,255,708          | 1,092,547  | 12,255    |                                 |                         |
|        | i  | BoDL/DBBL/TCB/DFNBL                            | Nu.     | 5,757,454                         | -           | 4,004,431  | 4,033,198      | 4,004,431                                | 27,767                     | 4,033,198          | 425,211    | 7,431     |                                 |                         |
|        | ii   | National Pension and Provident Fund            | Nu.     | 1,063,023                         | 345,000     | 29,233     | 2,767          | 29,233                                   | 27,767                     | 27,767             | 276,000    | 4,823     |                                 |                         |
|        | iii  | Bhutan Health Trust Fund                       | Nu.     | 690,000                           | -           | 18,975     | -              | 69,000                                   | 18,975                     | 18,975             | 391,336    | 566,792   |                                 |                         |
| B      | Transfer from Refundable Deposits Account      | Nu.  | 391,336 | -                                 | -           | -          | 18,975         | -  | -                          | -                  | -          | -         |                                 |                         |
| C      | EXTERNAL: Government of India                  |  |         | 24,647,540                        | 9,480,600   | 1,497,558  | 10,978,158     | 1,581,842                                | 1,497,558                  | 3,079,400          | 32,546,288 | 566,792   |                                 |                         |
|        | i  | Transfer from Refundable Deposits Account      | Nu.     | 23,095,125                        | 2,391,968   | 326,264    | 2,762,259      | 676,177                                  | 370,292                    | 1,047,062          | 29,174,560 | 509,862   |                                 |                         |
|        | ii   | International: Other than Govt                 | Nu.     | 103,437                           | 90,284      | 0,199      | 0,838          | 1,097                                    | 0,639                      | 1,736              | 89,386     | 133,490   |                                 |                         |
|        | iii  | Asian Development Bank (ADB)                   | XDR     | 140,356                           | 102,410     | 9,886      | 11,531         | 2,776                                    | 1,645                      | 4,421              | 109,520    | 163,550   |                                 |                         |
| D      | International Fund for Agriculture Dev. (IFAD) |  |         | 51,000                            | 39,096      | 0,044      | 0,044          | 0,044                                    | 0,044                      | 0,044              | 48,252     | 48,252    |                                 |                         |
|        | i  | International Fund for Agriculture Dev. (IFAD) | XDR     | 32,631                            | 20,967      | 1,252      | 0,180          | 1,937                                    | 0,500                      | 0,180              | 0,680      | 33,190    |                                 |                         |
|        | ii   | Government of Austria (GoA)                    | Euro    | 95,428                            | 63,190      | 7,237      | 0,581          | 9,272                                    | 2,940                      | 2,035              | 4,975      | 84,300    |                                 |                         |
|        | iii  | Government of Denmark (GoD)                    | Euro    | 13,009                            | 7,155       | -          | -              | 2,940                                    | 2,035                      | 4,975              | 67,487     | 84,300    |                                 |                         |
| E      | Japan International Cooperation Agency (JICA)  |  |         | 5,763                             | 2,690       | 0,471      | -              | 1,301                                    | -                          | 1,301              | 5,854      | 7,312     |                                 |                         |
|        | i  | Japan International Cooperation Agency (JICA)  | JPY     | 48,619,178                        | 15,876,999  | 1,899,797  | 0,471          | -  | -                          | -                  | 3,161      | 39,759    |                                 |                         |
|        | ii   | Exchange rate used for conversion:             | USD     | 57,2200                           | 15,876,999  | 1,899,797  | -              | -  | -                          | -                  | -          | 39,759    |                                 |                         |
|        | iii  | Exchange rate used for conversion:             | XDR     | 85,4533                           | 15,876,999  | 1,899,797  | -              | -  | -                          | -                  | -          | 39,759    |                                 |                         |
|        | GDP (Source: NSB)                              |  |         | 90,348,187                        | 71,975,260  | 90,348,187 | 19,028,823     | 6,438,345                                | 1,943,824                  | 8,382,169          | 62,813,105 | 1,090,909 |                                 |                         |

*[Signature]*  
(Chief Accounts Officer)  
Department of Public Accounts  
Ministry of Finance

**Director General**  
**Department of Public Accounts**  
**Ministry of Finance**  
**Thimphu : Bhutan**

*[Signature]*  
(Chief Accounts Officer)  
Department of Public Accounts  
Ministry of Finance

**Chief Accounts Officer**  
**Department of Public Accounts**  
**Ministry of Finance**  
**Thimphu : Bhutan**

*[Signature]*  
(Assistant Auditor General)  
Royal Audit Authority





STATEMENT OF GOVERNMENT EQUITY PORTFOLIO AS OF 30TH JUNE 2012

| Sl. No | Corporations                         | Shareholding as on 30/06/2011 |            |           | Investment |              | Divestment/Transfer |              | Shareholding as on 30/06/2012 |               |            |           |
|--------|--------------------------------------|-------------------------------|------------|-----------|------------|--------------|---------------------|--------------|-------------------------------|---------------|------------|-----------|
|        |                                      | No. of shares                 | Value (Nu) | % Holding | Face value | No of shares | Amount (Nu)         | No of shares | Amount (Nu)                   | No. of shares | Value (Nu) | % Holding |
| I      | Manufacturing                        |                               | 44,848,015 |           |            |              |                     |              |                               | 44,848,015    |            |           |
| 1      | Army Welfare Project                 | 25000                         | 25,000     | 100%      | 1,000      |              |                     |              |                               | 25,000        | 25,000     | 100%      |
| 2      | Bhutan Agro Industries Limited       | 290,636                       | 29,064     | 100%      | 100        |              |                     |              |                               | 290,636       | 29,064     | 100%      |
| 3      | Construction Development Corporation | 4,013,880                     | 401,383    | 100%      | 100        |              |                     |              |                               | 4,013,880     | 401,383    | 100%      |
| 4      | Wood Craft Centre Limited            | -                             | 98,820     | 100%      | 100        |              |                     |              |                               | 98,820        | 98,820     | 100%      |
| 5      | Kuoesed Corporation                  | 255,000                       | 25,500     | 51%       | 100        |              |                     |              |                               | 255,000       | 25,500     | 51%       |
| 6      | Drink Holding & Investments Ltd      | 442,682,486                   | 44,268,249 | 100%      | 100        |              |                     |              |                               | 442,682,486   | 44,268,249 | 100%      |
| II     | Trading                              |                               | 15,000     |           |            |              |                     |              |                               | 15,000        |            |           |
| 7      | Food Corporation of Bhutan           | 15,000                        | 15,000     | 100%      | 1,000      |              |                     |              |                               | 15,000        | 15,000     | 100%      |
| III    | Services                             |                               | 154,430    |           |            |              |                     |              |                               | 154,430       |            |           |
| 8      | Bhutan Postal Corporation            | 235,952                       | 23,595     | 100%      | 100        |              |                     |              |                               | 235,952       | 23,595     | 100%      |
| 9      | Bhutan Telecom Service Limited       | 1,308,351                     | 1,30,835   | 100%      | 100        |              |                     |              |                               | 1,308,351     | 1,30,835   | 100%      |
| IV     | Financial Institution                |                               | 187,000    |           |            |              |                     |              |                               | 187,000       |            |           |
| 10     | Bhutan Development Finance Corp      | 187,000                       | 187,000    | 93.50%    | 1,000      |              |                     |              |                               | 187,000       | 187,000    | 93.50%    |
|        | TOTAL                                |                               | 45,204,446 |           |            |              |                     |              |                               | 449,033,255   | 45,204,446 |           |

Shareholdings through DHI

| Sl. No | Corporations                        | Shareholding as on 30/06/2011 |            |           | Face value | Investment    |             | Divestment/Transfer |             | Shareholding as on 30/06/2012 |            |           |
|--------|-------------------------------------|-------------------------------|------------|-----------|------------|---------------|-------------|---------------------|-------------|-------------------------------|------------|-----------|
|        |                                     | No. of shares                 | Value (Nu) | % Holding |            | No. of shares | Amount (Nu) | No. of share        | Amount (Nu) | No. of shares                 | Value (Nu) | % Holding |
| I      | Manufacturing                       | 33,383,645                    | 30,795,827 |           |            |               |             |                     |             | 35,805,535                    | 31,038,015 |           |
| 1      | Penden Cement Authority Limited     | 1,521,074                     | 152,107    | 44.74%    | 100        |               |             |                     |             | 1,521,074                     | 152,107    | 44.74%    |
| 2      | Bhutan Board Products Limited       | 668,334                       | 66,833     | 47.74%    | 100        |               |             |                     |             | 668,334                       | 66,833     | 47.74%    |
| 3      | Bhutan Ferro Alloys Limited         | 385,946                       | 38,595     | 25.73%    | 100        |               |             |                     |             | 385,946                       | 38,595     | 25.73%    |
| 4      | Natural Resource Development Corp.  | 300,000                       | 30,000     | 100%      | 100        |               |             |                     |             | 300,000                       | 30,000     | 100%      |
| 5      | DHI Infra                           | 300,000                       | 30,000     | 100%      | 100        |               |             |                     |             | 300,000                       | 30,000     | 100%      |
| 6      | Druk Gup Power Corporation          | 30,508,291                    | 30,508,291 | 100%      | 1,000      |               |             |                     |             | 30,508,291                    | 30,508,291 | 100%      |
| 7      | Dungsum Polymers                    |                               |            |           |            |               |             |                     |             | 421,890                       | 42,189     | 100%      |
| II     | Trading                             | 306,000                       | 30,600     |           |            |               |             |                     |             | 306,000                       | 30,600     |           |
| 8      | State Trading Corporation of Bhutan | 306,000                       | 30,600     | 51%       | 100        |               |             |                     |             | 306,000                       | 30,600     | 51.00%    |
| III    | Services                            | 30,421,866                    | 10,394,966 |           |            |               |             |                     |             | 30,421,866                    | 10,394,966 |           |
| 9      | Drink Air Corporation               | 22,252,111                    | 2,225,211  | 100%      | 100        |               |             |                     |             | 22,252,111                    | 2,225,211  | 100.00%   |
| 10     | Bhutan Telecom Corporation          | 854,082                       | 85,408     | 100%      | 1,000      |               |             |                     |             | 854,082                       | 85,408     | 100.00%   |
| 11     | Bhutan Power Corporation            | 7,315,673                     | 7,315,673  | 100%      | 1,000      |               |             |                     |             | 7,315,673                     | 7,315,673  | 100.00%   |
| IV     | Financial Institutions              | 1,747,902                     | 462,702    |           |            |               |             |                     |             | 2,233,854                     | 511,385    |           |
| 12     | Bhutan National Bank <sup>1</sup>   | 485,952                       | 48,595     | 13.64%    | 100        |               |             |                     |             | 971,904                       | 97,190     | 13.64%    |
| 13     | Bank of Bhutan                      | 320,000                       | 320,000    | 80%       | 1,000      |               |             |                     |             | 320,000                       | 320,000    | 80.00%    |
| 14     | Royal Insurance Corp. of Bhutan Ltd | 941,950                       | 94,195     | 39.25%    | 100        |               |             |                     |             | 941,950                       | 94,195     | 39.25%    |

*[Signature]*  
(Director-General)  
Department of Public Accounts  
Ministry of Finance

Director General  
Department of Public Accounts  
Ministry of Finance

*[Signature]*  
(Chief Accounts Officer)  
Department of Public Accounts  
Ministry of Finance  
Thimphu : Bhutan

Chief Accounts Officer  
Department of Public Accounts  
Ministry of Finance  
Thimphu : Bhutan





# CHAPTER 4

## DETAILED AUDIT FINDINGS

### 4.1 MINISTRIES

#### 4.1.1 Ministry of Information and Communication

During the period the Royal Audit Authority had issued 18 audit reports of the Ministry of Information and Communications and its Departments, Divisions and Units including the construction of three domestic airports. There were 66 observations pointed out in the reports, involving Nu. 235.886 million, out of which observations amounting to over Nu. 13.881 million were either resolved prior to compilation of draft Annual Audit Report 2012 or did not qualify for inclusion in the draft AAR 2012. The total unresolved significant observations reflected in the draft AAR 2012 amounted to Nu. 222.005 million.

Based on the responses received after the issue of draft AAR 2012 and action taken by the Ministry and concerned agencies under it, observations amounting to Nu. 107.775 million were either resolved fully or substantially. In view of the further justifications provided by the Ministry and DCA after the issuance of Draft AAR, review meeting held between the Ministry, DCA and RAA, certain issues were resolved by the RAA. Thereafter, as required by the RAA the audit report was reviewed by the Cabinet and their comments, justifications and assurances to take appropriate action on unresolved audit issues were provided to the RAA.

The RAA noted the comments of the Cabinet that the construction of the domestic airports were carried out as a matter of urgency and national priority and that there were budgetary and time constraints which entailed changes in the scope of work, gradient and elevation of the airport and completion of work within minimum possible time at a bare minimum cost. The RAA noted that critical decisions were taken in the interest of work. The RAA took cognizance of the justifications and explanations and endorsement of the Cabinet on the decision of the Ministry and the DCA. In view of additional information, comments and justifications provided and as well as assurance given to take appropriate actions on remaining issues including recovery of over/excess payments, the RAA further resolved audit observations as were considered appropriate and justifiable.

A copy of the audit report of the DCA was forwarded to the Anti Corruption Commission for their appropriate actions.

The total unresolved significant irregularities amounted to Nu. 114.230 million as summarized below:



| Sl. No.      | Observation Category               | Nu. in million | Category Code |
|--------------|------------------------------------|----------------|---------------|
| 1            | Fraud, Corruption & Embezzlement   | 111.392        | 1 & 2         |
| 2            | Mismanagement                      | 0.273          | 3             |
| 3            | Violation of laws and rules        | -              | 4             |
| 4            | Shorfalls, lapses and deficiencies | 2.565          | 5             |
| <b>Total</b> |                                    | <b>114.230</b> |               |

The cases of indicators of fraud, corruption and embezzlement are as indicated below:

### **1. Fraud, Corruption and Embezzlement – Nu. 111.392 million**

There were cases of indicators of fraud, corruption and embezzlement involving Nu. 111.392 million as summarized below:

| Sl. No.      | Observation in brief  | Nu. in million |
|--------------|---|----------------|
| 1.1          | Excess Payment for earthwork excavation and transportation due to non estimation of quantum of earthwork excavation                               | 13.296         |
| 1.2          | Double payment due to inflation of quantities of work of Dense Bituminous Macadam (DBM) and Asphalt concrete (AC) works in BoQ and Pre-Final Bill | 78.278         |
| 1.3          | Excess payment in the execution of DBM and Asphalt Concrete   | 6.963          |
| 1.4          | Ambiguities and flaws in the preparation of estimates for Earth Moving Works with resultant inadmissible payment                                  | 8.039          |
| 1.5          | Unfair rejection of bid of CDCL with resultant financial implication thereof  | 4.816          |
| <b>Total</b> |   | <b>111.392</b> |

The cases of fraud, corruption and embezzlement are as indicated below:

#### **1.1 Excess Payment for earthwork excavation and transportation due to non estimation of quantum of earthwork excavation – Nu. 13.296 million**

The Department of Civil Aviation had made excess payment amounting to Nu. 13.296 million to the contractor due to excess quantification of earthwork at Gelephu Domestic Airport. The excess quantification was found upon re-verification conducted by officials from the MoWHS, the National Land Commission Secretariat and the Audit Team. *(AIN 10922; Para 1.5; Accountabilities: Direct: Gyem Dorji, Dy. Executive Engineer, EID No.200702026; Supervisory: Phala Dorji, Director General, EID No.7207011)*



### **1.2 Double payment due to inflation of quantities of work of Dense Bituminous Macadam (DBM) and Asphalt concrete (AC) works in BoQ and Pre-Final Bill - Nu. 78.278 million**

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The Department of Civil Aviation, Paro had passed pre-final bill of Nu. 126 million which included among other items of works, Dense Bituminous Macadam (DBM) and Asphalt Concrete (AC) works against the claimed and passed amount of Nu. 78.278 million in the construction of Gelephu Domestic Airport. The excess payment had occurred due to inflation of quantities of work done for Dense Bituminous Macadam (DBM) and Asphalt Concrete (AC) works in the BoQ and Pre-Final Bill. The quantities of DBM and AC for runway and runway shoulder worked out to 45,000m<sup>2</sup> and 15,000m<sup>2</sup> respectively against claimed and passed quantities of 90,000 m<sup>2</sup> and 30,000 m<sup>2</sup>. As explained by the DCA/Ministry, over payment of Nu. 54.023 million only was actually made and Nu. 24.255 million was not released to the contractor due to fund constraint. *(AIN 10922; Para 1.7; Accountabilities: Direct: Gyem Dorji, Dy. Executive Engineer, EID No.200702026; Supervisory: Phala Dorji, Director General, EID No.7207011)*

### **1.3 Excess payment in the execution of DBM and Asphalt Concrete - Nu. 6.963 million**

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The Department of Civil Aviation, Paro had made excess payment of Nu. 6.963 million in the execution of Dense Bituminous Macadam (DBM) and Asphalt Concrete (AC) in the construction of Gelephu Domestic Airport. As per the specification, the runway pavement thickness should have been 150mm (100mm DBM and 50mm AC), but upon joint physical verification by team comprising from the Royal Audit Authority, Bhutan Standards Bureau and Department of Civil Aviation, the average pavement thickness was found to be only 137.24mm resulting in reduced thickness by 12.76 mm. *(AIN 10922; Para 1.8; Accountabilities: Direct: Gyem Dorji, Dy. Executive Engineer, EID No.200702026; Supervisory: Phala Dorji, Director General, EID No.7207011)*

### **1.4 Ambiguities and flaws in the preparation of estimates for Earth Moving Works with resultant inadmissible payment of Nu. 8.039 million**

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The Department of Civil Aviation, Paro had made excess payment of Nu. 8.039 million in the removal of two hills at Yonphula Domestic Airport. The estimated quantum of earthwork for 100% removal of two Hills at Yonphula Domestic Airport was **382,490.00 m<sup>3</sup>**. The quantities of earth work excavation and removal considered for determining the number of hours for excavators and duration (in months) for hiring of trippers was **225,286.13m<sup>3</sup>**. On the basis of information subsequently provided by the DCA, the excavation and removal work was **204,276.32 m<sup>3</sup>**. However, joint physical verification of the work executed on removal of two hills revealed actual execution of work of **107,173.25m<sup>3</sup>**, thereby leading to excess payment of hiring charges for **118,112.88m<sup>3</sup>** amounting to **Nu. 7.476** million. Further, excess payment on hiring of excavators and tripper amounted to Nu. 0.563 million for the same work. *(AIN 10922; Para 2.4; Accountabilities: Direct: Gyem Dorji, Dy. Executive Engineer, EID No.200702026; Supervisory: Phala Dorji, Director General, EID No.7207011)*



## **1.5 Unfair rejection of bid of CDCL with resultant financial implication of Nu. 4.816 million**

The Department of Civil Aviation, Paro had rejected the bid submitted by Construction Development Corporation Limited (CDCL) for the earthwork at Yonphula Domestic Airport on the ground that the bidder had offered alternative bid despite being the lowest. However, upon the contention of the CDCL, DCA had sought clarification from the Public Procurement Policy Division, Ministry of Finance which had advised the DCA to rework to fit into BOQ that was provided by DCA and seek concurrence of CDCL. Subsequently on reworking, the DCA had wrongly reworked the bid of the CDCL to Nu.21.559 million against CDCL's bid of Nu.12.773 million. Thus, the work was awarded to M/s Sonam & Ugen Hiring Unit at a cost of Nu.18.790 million, which was Nu. 4.816 million (after considering 20% rebate) more than the CDCL's bid. *(AIN 10922; Para 2.7; Accountabilities: Direct: Gyem Dorji, Dy. Executive Engineer, EID No.200702026, Tshering Dekar, Assistant Finance Officer, EID No.200901044 & Ranman Pradhan, Sr. Administrative Assistant, EID No.8411012; Supervisory: Phala Dorji, Director General, EID No.7207011)*

## **2. Mismanagement – Nu. 0.273 million**

There was a case mismanagement involving Nu. 0.273 million as indicated below:

### **2.1 Vehicles due for renewal but not renewed – Nu. 0.273 million**

The Road Safety and Transport Authority (RSTA), Gelephu had cases of 42 vehicles due for renewal, some of which were overdue for 3 years. The annual renewal fee including late fee aggregated to Nu. 0.273 million. *(AIN 10492; Para 1; Accountabilities: Direct: Sherub Chezom, MVI, EID No.200711001; Supervisory: Damber Thapa, RLO, EID No.8403024)*

## **3. Violation of laws and rules**

There were cases of violation of laws and rules as summarized below:

| Sl. No. | Observation in brief   | Nu. in million |
|---------|--|----------------|
| 3.1     | Lapses in securing Bank Guarantee in lieu of retention money retained against Defect Liability Period  | -              |
| 3.2     | Technical Sanction not accorded  | -              |
| 3.3     | Improper evaluation of bids for Earth Moving Works with resultant award of work contract to technically non responsive bidder M/s Sonam & Ugen Hiring Unit | -              |
|         | <b>Total</b>   | -              |

The cases of violation of laws and rules are as indicated below:



### **3.1 Lapses in securing Bank Guarantee in lieu of retention money retained against Defect Liability Period**

The Department of Civil Aviation, Paro had refunded the retention money to the contractor upon submission of Bank Guarantee in lieu of it. However, it was noted that the validity of Bank Guarantee submitted was for a year while Defect Liability Period was 24 months, thus not covering the liability period in entirety. The case was forwarded to the Anti Corruption Commission. *(AIN 10698; Para 5; Accountabilities: Direct: Pelden Lhamo, Engineer, EID No.201101157; Supervisory: Ugyen Dorji, Executive Engineer, EID No.8908106)*

### **3.2 Technical Sanction not accorded**

The Department of Civil Aviation, Paro had not obtained the technical sanction for the construction of domestic airport at Gelephu. In the absence of it, the technical soundness of the infrastructure could not be confirmed. The project was apparently implemented without ensuring the technical feasibility and soundness of the project. The Cabinet had subsequently directed MoIC and DCA to confirm the technical soundness of the Gelephu airport through independent national or international authorities. *(AIN 10922; Para 1.2; Accountabilities: Direct: Gyem Dorji, Dy. Executive Engineer, EID No.200702026; Supervisory: Phala Dorji, Director General, EID No.7207011)*

### **3.3 Improper evaluation of bids for Earth Moving Works with resultant award of work contract to technically non responsive bidder, M/s Sonam & Ugen Hiring Unit**

The Tender Evaluation Committee of the Department of Civil Aviation, Paro had failed to carry out fair evaluation of the tender for earth moving works at Yonphula Domestic Airport. It was found that the winning bidder had been evaluated as complying with almost all the criteria despite failing to comply most of the criteria. *(AIN 10922; Para 2.6; Accountabilities: Direct: Gyem Dorji, Dy. Executive Engineer, EID No.200702026, Tshering Dekar, Assistant Finance Officer, EID No.200901044 & Ranman Pradhan, Sr. Administrative Assistant, EID No.8411012; Supervisory: Phala Dorji, Director General, EID No.7207011)*

## **4. Shortfalls, Lapses and Deficiencies – Nu. 2.565 million**

There were cases of shortfalls, lapses and deficiencies involving Nu. 2.565 million as summarized below:



| Sl. No. | Observation in brief  | Nu. in million |
|---------|---|----------------|
| 4.1     | Non-reconciliation of revenue collection                        | 0.088          |
| 4.2     | Unjustified payment on transportation of spoil materials        | 2.477          |
| 4.3     | Lapses noted during handing/taking over of 30 community centers | -              |
|         | <b>Total</b>  | <b>2.565</b>   |

The cases of shortfalls, lapses and deficiencies are as indicated below:

#### **4.1 Non-reconciliation of revenue collection – Nu. 0.088 million**

The RSTA, Regional Office, Thimphu had unreconciled amount of Nu. 0.088 million in the motor vehicle conversion cost and Blue Book cost as reflected in the eRaLIS and RMS. *(AIN 10642; Para 1.3; Accountabilities: Direct: Dhan Bdr. Gurung, MVI, EID No.200507002; Supervisory: Dophu Dukpa, RTO, EID No.7806007)*

#### **4.2 Unjustified payment on transportation of spoil materials – Nu. 2.477 million**

The Department of Civil Aviation, Paro had made excess payment of Nu. 2.477 million for transportation of excavated quantity of spoil material in the construction of Gelephu Domestic Airport. As per the specification the payment should be made for transportation beyond 500m lead only. However, subsequent re-computation of removal and refilled quantities indicated that 36,103.27 m<sup>3</sup> of spoil materials were disposed within 500m lead. *(AIN 10922; Para 1.6; Accountabilities: Direct: Gyem Dorji, Dy. Executive Engineer, EID No.200702026; Supervisory: Phala Dorji, Director General, EID No.7207011)*

#### **4.3 Lapses noted during the handing/taking over of 30 Community Centers**

The Department of Information Technology & Telecom, Ministry of Information and Communications had handed over 30 Community Centers to Bhutan Postal Corporation Limited. The review of the records of handing/taking revealed that there were several items missing in many Community Centers and many have not received furniture and equipment in complete set. *(AIN 10796; Para 2; Accountabilities: Direct: Pema Dhendup, ICT Officer, EID No.200801096; Supervisory: Karma Wangdi, Deputy Director, DITT, EID No.2101067)*



#### 4.1.2 Ministry of Works and Human Settlements

During the period the Royal Audit Authority had issued 23 audit reports of the Ministry of Works and Human Settlements and its Departments, Divisions and Units. There were 64 observations pointed out in the reports, involving Nu. 155.070 million, out of which observations amounting to over Nu. 20.145 million were either resolved prior to compilation of draft Annual Audit Report 2012 or did not qualify for inclusion in the draft AAR 2012. The total unresolved significant observations reflected in the draft AAR 2012 amounted to Nu. 134.925 million.

Based on the responses received after the issue of draft AAR 2012 and action taken by the Ministry and concerned agencies under it, observations amounting to Nu. 30.914 million were either resolved fully or substantially. The total unresolved significant irregularities amounted to Nu. 104.011 million as summarized below:

| Sl. No. | Observation Category               | Nu. in million | Category Code |
|---------|------------------------------------|----------------|---------------|
| 1       | Fraud, Corruption & Embezzlement   | 13.897         | 1 & 2         |
| 2       | Mismanagement                      | 0.124          | 3             |
| 3       | Shorfalls, lapses and deficiencies | 89.990         | 5             |
| Total   |                                    | 104.011        |               |

#### 1. Fraud, Corruption and Embezzlement – Nu. 13.897 million

There were cases of indicators of fraud, corruption and embezzlement involving Nu. 13.897 million as summarized below:

| Sl. No. | Observation in brief                     | Nu. in million |
|---------|--|----------------|
| 1.1     | Teeming and Lading of revenue collection | 13.024         |
| 1.2     | Misuse of revenue                        | 0.588          |
| 1.3     | Cheques deposited but not credited       | 0.285          |
| Total   |  | 13.897         |

The cases of indicators of fraud, corruption and embezzlement are as indicated below:

#### 1.1 Teeming and Lading of revenue collection – Nu.13.024 million

- a) The Thimphu Thromde had unauthorized retention of revenue collection in cash without depositing into RGR account on a daily basis or on the next working day as required by Revenue Accounting Manual 2004. This had resulted in temporary misuse and mismanagement of revenue amounting to Nu. 6.162 million. The case was forwarded to the Anti Corruption Commission. *(AIN 10552; Para 1.1.1; Accountabilities: Direct: Gyeltshen Dorji, Account Assistant III, EID No.2107088; Supervisory: Gyeltshen Dorji, Account Assistant III, EID No.2107088)*



- b) The Thimphu Thromde had not realized the late penalty of Nu. 0.305 million from the dealing official for non-deposit of revenue collection as stipulated in the Revenue Accounting Manual 2004. *(AIN 10552; Para 1.1.2; Accountabilities: Direct: Gyeltshen Dorji, Account Assistant III, EID No.2107088; Supervisory: Gyeltshen Dorji, Account Assistant III, EID No.2107088)*
- c) The Thimphu Thromde had deposited private cheques amounting to Nu. 6.508 million which apparently resulted from entertaining encashment of private cheques from the government revenue collections. The case was forwarded to Anti Corruption Commission. *(AIN 10552; Para 1.1.3; Accountabilities: Direct: Gyeltshen Dorji, Account Assistant III, EID No.2107088; Supervisory: Gyeltshen Dorji, Account Assistant III, EID No.2107088)*
- d) The Thimphu Thromde had several instances of mismatch between the dates of deposit shown on the Deposit Invoices and Deposit Statement, indicating the manipulation of dates on the Deposit Invoices to cover up the delays. The case was forwarded to the Anti Corruption Commission. *(AIN 10552; Para 1.1.4; Accountabilities: Direct: Gyeltshen Dorji, Account Assistant III, EID No.2107088; Supervisory: Gyeltshen Dorji, Account Assistant III, EID No.2107088)*
- e) The Thimphu Thromde had several instances of mismatch between daily revenue collections and deposits indicating revenue mismanagement and possible temporary misuse of revenue. The case was forwarded to the Anti Corruption Commission. *(AIN 10552; Para 1.1.5; Accountabilities: Direct: Gyeltshen Dorji, Account Assistant III, EID No.2107088; Supervisory: Gyeltshen Dorji, Account Assistant III, EID No.2107088)*
- f) The Thimphu Thromde had not deposited cheques amounting to Nu.0.049 million into the RGR account. The case was forwarded to the Anti Corruption Commission. *(AIN 10552; Para 1.1.6; Accountabilities: Direct: Gyeltshen Dorji, Account Assistant III, EID No.2107088; Supervisory: Gyeltshen Dorji, Account Assistant III, EID No.2107088)*

## **1.2 Misuse of revenue – Nu.0.588 million**

The Thimphu Thromde had a case of misuse of revenue amounting to Nu. 0.588 million due to short deposit of revenue into RGR account. This had occurred due to failure of the management to carry out periodic reconciliations of revenue collections and deposits. The amount was deposited into Audit Recoveries Account and the penalty is yet to be deposited. The case was forwarded to Anti Corruption Commission. *(AIN 10552; Para 1.2; Accountabilities: Direct: Kado, Account Assistant III, EID No.8511047 & Gyeltshen Dorji, Account Assistant III, EID No.2107088; Supervisory: Gyeltshen Dorji, Account Assistant III, EID No.2107088)*

## **1.3 Cheques deposited but not credited – Nu.0.285 million**

The revenue collected and deposited in cheques amounting to Nu. 0.285 million by the Thimphu Thromde were not credited by the bank as evident from the bank statement.



This had apparently occurred due to failure of the management to carry out periodic reconciliations of revenue collections and deposits. The amount was deposited into Audit Recoveries Account and the penalty is yet to be deposited. The case was forwarded to Anti Corruption Commission. *(AIN 10552; Para 1.3; Accountabilities: Direct: Gyeltshen Dorji, Account Assistant III, EID No.2107088; Supervisory: Gyeltshen Dorji, Account Assistant III, EID No.2107088)*

## **2. Mismanagement – Nu. 0.124 million**

There was a case of mismanagement involving Nu. 0.124 million as indicated below:

### **2.1 Short collection of revenue – Nu.0.124 million**

The Thimphu Thromde had not collected the revenue of Nu. 0.124 million on account of land tax. The short collection was computed on the basis of actual collections made vis-à-vis record of registered land maintained by the Land Record Section. *(AIN 10552; Para 1.4; Accountabilities: Direct: Gyeltshen Dorji, Account Assistant III, EID No.2107088; Supervisory: Gyeltshen Dorji, Account Assistant III, EID No.2107088)*

## **3. Shortfalls, Lapses and Deficiencies – Nu. 89.990 million**

There were cases of shortfalls, lapses and deficiencies involving Nu. 89.990 million as summarized below:

| Sl. No. | Observation in brief  | Nu. in million |
|---------|---|----------------|
| 3.1     | Outstanding Advances  | 86.226         |
| 3.2     | Non implementation of budgeted activities   | -              |
| 3.3     | Non-reconciliation of accounts  | 3.515          |
| 3.4     | Wrong booking of expenditure  | 0.249          |
| 3.5     | Anomaly in allotment of Government Quarters and incomplete information of registered applicants | -              |
|         | <b>Total</b>  | <b>89.990</b>  |

The cases of shortfalls, lapses and deficiencies are as indicated below:

### **3.1 Outstanding advances – Nu. 86.226 million**

- a) The Field Division, Department of Roads, Zhemgang had outstanding advances of Nu. 86.110 million lying against various contractors. *(AIN 10633; Para 1; Accountabilities: Direct: Dhan Bhadur Rai, Accounts Assistant -IV, EID No.8712041; Supervisory: Pravat Rai, Executive Engineer, EID No.2101066)*
- b) The Project Management Unit under Department of Engineering Services, MoWSHS had outstanding advances of Nu.0.116 million against various



employees and contractors. (AIN 10534; Para 3; Accountabilities: Direct: Krishna Chhetri, Project Accountant, EID No.9709054; Supervisory: R.B.Ghallay, AAO, EID No.8801083)

### **3.2 Non implementation of budgeted activities**

The Project Management of Urban Infrastructure Development Project implemented by Department of Engineering Services had discrepancies in carrying forward of the outstanding advances to the subsequent year's Memorandum Register amounting to Nu.1.246 million. It was noted that the closing balance of advances were not carried forward to the next financial year as opening balance. (AIN 10534; Para 5; Accountabilities: Direct: Meera Devi Darjee, Project Accountant, EID No.9705003 & Krishna Chhetri, Project Accountant, EID No.9709054; Supervisory: K.K.Thapa, DCAO, TT, EID No.7709016 & R.B.Ghallay, AAO, EID No.8801083)

### **3.3 Non-reconciliation of accounts – Nu.3.515 million**

The Phuentsholing Thromde had understated the closing balance by Nu. 3.515 million in bank column of the cash book. This was apparently resulted from failure of management to carry out periodic reconciliations. (AIN 10644; Para 1.2; Accountabilities: Direct: Sonam Tshewang, AAO, EID No.9110023; Supervisory: R.B.Ghallay, AAO, EID No.8801083)

### **3.4 Wrong booking of expenditure – Nu.0.249 million**

The Phuentsholing Thromde had wrongly booked the amount of Nu.0.249 million paid to College of Science and Technology on account of deposit work for the financial year 2009-10 as payment made to DPA during the financial year 2010-2011. (AIN 10644; Para 1.2; Accountabilities: Direct: Sonam Tshewang, AAO, EID No.9110023; Supervisory: R.B.Ghallay, AAO, EID No.8801083)

### **3.5 Anomaly in allotment of Government Quarters and incomplete information of registered applicants**

The National Housing Development Corporation Limited, Thimphu had not allotted all Government Quarters based on the order of list of applicants maintained by it. Further, the list does not contain complete information of the applicants and there is no proper system of allotment being followed. (AIN 10853; Para 3; Accountabilities: Direct: Sangay Dorji, RO, REM, EID No.9301051; Supervisory: Dechen Wangdi, AE, D&PD, EID No.9807052)



### 4.1.3 Ministry of Education

During the period the Royal Audit Authority had issued 11 audit reports of the Ministry of Education and its Departments, Divisions and Units. There were 55 observations pointed out in the reports, involving Nu. 158.196 million, out of which observations amounting to over Nu. 9.912 million were either resolved prior to compilation of draft Annual Audit Report 2012 or did not qualify for inclusion in the draft AAR 2012. The total unresolved significant observations reflected in the draft AAR 2012 amounted to Nu. 148.284 million.

Based on the responses received after the issue of draft AAR 2012 and action taken by the Ministry and concerned agencies under it, observations amounting to Nu. 105.351 million were either resolved fully or substantially. The total unresolved significant irregularities amounted to Nu. 42.933 million as summarized below:

| Sl. No. | Observation Category               | Nu. In million | Category Code |
|---------|------------------------------------|----------------|---------------|
| 1       | Violation of laws and rules        | -              | 4             |
| 2       | Shorfalls, lapses and deficiencies | 42.933         | 5             |
| Total   |                                    | 42.933         |               |

#### 1. Violation of laws and rules

There was a case of violation of laws and rules as indicated below:

##### 1.1 Un-justified suspension of construction work and irregularities thereof

The SPBD, under the Ministry of Education, had suspended the construction of school at Tsirang Toed resulting in claims of compensations amounting to Nu.15.021 million by the contractor. The construction was suspended after nine months following the breakdown of the bridge at Changchey en-route to construction site. The contractor was also paid the insurance cost of Nu.1.500 million against 1<sup>st</sup> Running Account bill while the physical progress of the construction was 0% (zero percent). Further, it was noted that while the letter of acceptance was signed on 28<sup>th</sup> April 2010, the work order was issued on 29<sup>th</sup> June 2010, three days after the Changchey bridge was damaged by flash flood. The mobilization advance was paid on 2<sup>nd</sup> August 2010 despite of the fact that the bridge was damaged and no work could be carried out.

The decisions taken either by the tender committee or appropriate authority, compelling suspension of the contract works on the ground of the breakdown of bridge was not made available to audit for verification and validation. The case was forwarded to the Anti Corruption Commission. *(AIN 10670; Para 1; Accountabilities: Direct: Pasang Dorji, Engineer, EID No.90090002; Supervisory: Karma Sonam, Chief Engineer, SPBD, EID No.9107112)*



## 2. Shortfalls, Lapses and Deficiencies – Nu. 42.933 million

There were case of shortfalls, lapses and deficiencies involving Nu. 42.933 million as indicated below:

### 2.1 Outstanding advances – Nu. 42.933 million

- a) The Education Development Project had outstanding advances of Nu. 14.521 million against various officials, contractors and suppliers. *(AIN 10664; Para 4; Accountabilities: Direct: Individuals Concerned; Supervisory: Karma Sonam, Chief Engineer, SPBD, EID No.9107112)*
- b) The SPBD, under Ministry of Education had outstanding advances of Nu. 28.277 million against various officials, contractors and suppliers. *(AIN 10670; Para 2; Accountabilities: Direct: Individuals Concerned; Supervisory: Individuals Concerned)*
- c) The UNICEF Project, Ministry of Education had outstanding advances of Nu. 0.135 million against an official. *(AIN 10522; Para 1; Accountabilities: Direct: Deki Tshering, EID No.8907015; Supervisory: Tashi Tobgye, CAO, EID No.8903101)*



#### 4.1.4 Ministry of Home and Cultural Affairs

During the period the Royal Audit Authority had issued 26 audit reports of the Ministry of Home and Cultural Affairs and its Departments, Divisions and Units. There were 22 observations pointed out in the reports, involving Nu. 29.181 million, out of which observations amounting to over Nu. 2.475 million were either resolved prior to compilation of draft Annual Audit Report 2012 or did not qualify for inclusion in the draft AAR 2012.

The total unresolved significant observations reflected in the AAR 2012 amounted to Nu. 26.587 million as summarized below:

| Sl. No. | Observation Category               | Nu. in Million | Category Code |
|---------|------------------------------------|----------------|---------------|
| 1       | Mismanagement                      | 7.918          | 3             |
| 2       | Violation of laws and rules        | -              | 4             |
| 3       | Shorfalls, lapses and deficiencies | 18.669         | 5             |
|         | <b>Total</b>                       | <b>26.587</b>  |               |

#### 1. Mismanagement – Nu. 7.918 million

There was a case of mismanagement involving Nu. 7.918 million as indicated below:

##### 1.1 Non-surrender of CD Account balance – Nu.7.918 million

The Folk Heritage Museum which was formerly under the Department of Culture had retained the CD Account balance of Nu. 7.918 million when it was taken over by the Tarayana Foundation. The fund was not surrendered to the Ministry of Finance. (AIN 10544; Para 1; Accountabilities: Direct: Dorji Wangchuk, Programme Director, EID No.7609004; Supervisory: Dorjee Tshering, Director General, EID No.7601008)

#### 2. Violation of laws and rules

There was a case of violation of laws and rules as indicated below:

##### 2.1 Delay and poor progress in construction of semi-permanent residential unit

The construction of 10 semi-permanent residential buildings (21 units) at the Royal Academy of Performing Arts (RAPA) under the Department of Culture was not completed even after the lapse of 14 months from the stipulated completion date and in-spite of the time extension granted twice. (AIN 10624; Para 4; Accountabilities: Direct: Ugyen Tenzin, Principal, EID No.7602026; Supervisory: Dorjee Tshering, Director General, EID No.7601008)



### 3. Shortfalls, Lapses and Deficiencies – Nu. 18.669 million

There were cases of shortfalls, lapses and deficiencies involving Nu. 18.669 million as summarized below:

| Sl. No. | Observation in brief                             | Nu. in million |
|---------|--|----------------|
| 3.1     | Inadmissible payment of mobile voucher allowance | 0.334          |
| 3.2     | Outstanding advances                             | 18.335         |
|         | <b>Total</b>                                     | <b>18.669</b>  |

The cases of shortfalls, lapses and deficiencies are as indicated below:

#### 3.1 Inadmissible payment of mobile voucher allowance – Nu.0.334 million

The Royal Bhutan Police, HQ had made inadmissible payment of Nu. 0.334 million on account of mobile voucher allowances to officers and RBP personnel. The approval for the payment was accorded by the Chief of Police in deviation to the financial power defined in the Financial Rules and Regulations. *(AIN 10732; Para 3; Accountabilities: Direct: Major Wangdi Norbu, Accounts Officer, PIN No. 91; Supervisory: Colonel Tshewang Dhendup, Additional Chief of Police, PIN No.601)*

#### 3.2 Outstanding advances – Nu.18.335 million

The Royal Bhutan Police, HQ, Thimphu had outstanding advances of Nu.18.335 million against various contractors and employees. *(AIN 10732; Para 6; Accountabilities: Direct: Major Wangdi Norbu, Accounts Officer, PIN No.91; Supervisory: Colonel Tshewang Dhendup, Additional Chief of Police, PIN No.601)*



#### 4.1.5 Ministry of Finance

During the period the Royal Audit Authority had issued 15 audit reports of the Ministry of Finance and its Departments, Divisions and Units. There were 28 observations pointed out in the reports, involving Nu.49.900 million, out of which observations amounting to over Nu.12.715 million were either resolved prior to compilation of draft Annual Audit Report 2012 or did not qualify for inclusion in the draft AAR 2012. The total unresolved significant observations reflected in the draft AAR 2012 amounted to Nu. 37.185 million.

Based on the responses received after the issue of draft AAR 2012 and action taken by the Ministry and concerned agencies under it, observations amounting to Nu. 17.743 million were either resolved fully or substantially. The total unresolved significant irregularities amounted to Nu. 19.442 million as summarized below:

| Sl. No. | Observation Category               | Nu. in million | Category Code |
|---------|------------------------------------|----------------|---------------|
| 1       | Mismanagement                      | 13.849         | 3             |
| 2       | Shorfalls, lapses and deficiencies | 5.593          | 4             |
| Total   |                                    | 19.442         |               |

#### 1. Mismanagement – Nu. 13.849 million

There were cases of mismanagement involving Nu. 13.849 million as indicated below:

##### 1.1 Outstanding revenue - Nu. 13.849 million

- a) The Regional Revenue and Customs Office, Thimphu had outstanding BST of Nu. 0.164 million against various hoteliers for the income years 2008, 2009 and 2010 despite serving the demand notices. (AIN: 10112, Para 3; Accountabilities: Direct: Sherab Chojay, Deputy Collector, EID No. 200201005; Supervisory: Karma Loday, Regional Director, EID No. 8905058)
- b) The Regional Revenue and Customs Office, Thimphu had outstanding BIT, CIT and PIT amounting to Nu. 10.651 million against various business units and employees. (AIN: 10112, Para 4; Accountabilities: Direct: Wangdi Drugyel, Joint Collector, EID No. 9610059; Supervisory: Karma Loday, Regional Director, EID No. 8905058)
- c) The Regional Revenue and Customs Office, Thimphu had outstanding BST of Nu. 2.628 million against various hoteliers pertaining to the income year 2011. (AIN: 10782, Para 1; Accountabilities: Direct: Sherab Chojay, Deputy Collector, EID No. 200201005; Supervisory: Tenzin Norbu, Regional Director, EID No. 8607064)
- d) The Regional Revenue and Customs Office, Thimphu had outstanding BIT and PIT of Nu. 0.406 million against various business units and employees. (AIN: 10782, Para 2; Accountabilities: Direct: Wangdi Drugyel, Joint Collector, EID No. 9610059; Supervisory: Tenzin Norbu, Regional Director, EID No. 8607064)



## **2. Shortfalls, Lapses and Deficiencies – Nu. 5.593 million**

There were cases of shortfalls, lapses and deficiencies involving Nu. 5.593 million as indicated below:

### **2.1 Outstanding advance – Nu. 5.593 million**

- a) The Secretariat, Ministry of Finance had outstanding advances of Nu. 5.374 million against various officials and parties. *(AIN: 10627, Para 1; Accountabilities: Direct: Individuals concerned; Supervisory: Sonam Wangdi, Chief Administrative Officer, EID No. 8607100)*
- b) The Department of Revenue and Customs, Ministry of Finance had outstanding advances of Nu. 0.219 million against various officials. *(AIN: 10749, Para 1; Accountabilities: Direct: Individuals concerned; Supervisory: Sonam Wangdi, Chief Administrative Officer, EID No. 8607100)*



#### 4.1.6 Ministry of Health

During the period the Royal Audit Authority had issued 26 audit reports of the Ministry of Health and its Departments, Divisions and Units. There were 47 observations pointed out in the reports, involving Nu. 164.364 million, out of which observations amounting to over Nu. 114.859 million were either resolved prior to compilation of draft Annual Audit Report 2012 or did not qualify for inclusion in the draft AAR 2012. The total unresolved significant observations reflected in the draft AAR 2012 amounted to Nu. 49.505 million.

Based on the responses received after the issue of draft AAR 2012 and action taken by the Ministry and concerned agencies under it, observations amounting to Nu. 31.744 million were either resolved fully or substantially. The total unresolved significant irregularities amounted to Nu. 17.761 million as summarized below:

| Sl. No. | Observation Category               | Nu. In Million | Category Code |
|---------|------------------------------------|----------------|---------------|
| 1       | Fraud, Corruption & Embezzlement   | 2.693          | 1 & 2         |
| 2       | Mismanagement                      | -              | 3             |
| 3       | Violation of laws and rules        | 0.352          | 4             |
| 4       | Shorfalls, lapses and deficiencies | 14.716         | 5             |
| Total   |                                    | 17.761         |               |

#### 1. Fraud, Corruption and Embezzlement – Nu. 2.693 million

There were cases of indicators of fraud, corruption and embezzlement involving Nu. 2.693 million as summarized below:

| Sl. No. | Observation in brief                        | Nu. in million |
|---------|---|----------------|
| 1.1     | Shortage of revenue                         | 1.206          |
| 1.2     | Goods not received against advance payments | 1.487          |
| Total   |   | 2.693          |

The cases of indicator of fraud, corruption and embezzlement are as indicated below:

#### 1.1 Shortage of revenue – Nu. 1.206 million

The General Hospital, Phuentsholing had shortage of revenue amounting to Nu. 1.206 million for the financial years 2010-11 and 2011-12. The shortage represented the difference in the amount reflected in the revenue receipts and the deposits made into RGR account. The case was forwarded to the Anti Corruption Commission. (AIN: 10769, Para 1.1; Accountabilities: Direct: Individuals concerned; Supervisory: Namgay Dorji, Adm. Officer, EID No. 7603032 and Uma Pradhan, Assistant Accounts Officer, EID No. 201101060)



## 1.2 Goods not received against advance payments – Nu.1.487 million

The Department of Medical Services (DMS), Ministry of Health had not received goods worth Nu. 1.487 million though the payments were made in advance. *(AIN 10514; Para 5; Accountabilities: Direct: Dechen Wangmo, Chief Administrative Officer, EID No.8901019; Supervisory: Dr.Dorji Wangchuk, Director General, EID No.8503033)*

## 2. Mismanagement

There were cases of mismanagement as summarized below:

| Sl. No. | Observation in brief                            | Nu. in million |
|---------|---|----------------|
| 2.1     | Machineries kept idle                           | -              |
| 2.2     | Delay in deposit of revenue and penalty thereof | -              |
|         | <b>Total</b>                                    | <b>-</b>       |

The cases of mismanagement are as indicated below:

### 2.1 Machineries kept idle

The Central Regional Referral Hospital, Gelephu had not utilized one unit of Arterial Blood Gas (ABG) machine which was supplied by MSD, Phuentsholing in 2008. It was noted that the machine could not be put into use as no accessories and user's manual were supplied along with the machinery. Thus, the ministry did not derive any value from the resources spent on its acquisition. *(AIN: 10489, Para 1.5; Accountabilities: Direct: Chakchu Tshering, Sr. Procurement Office, EID No. 8803095; Supervisory: Tandin, Chief Procurement Officer, EID No. 200501119)*

### 2.2 Delay in deposit of revenue and penalty thereof

The General Hospital, Phuentsholing had not made prompt deposits of revenue collections done in the financial years 2010-11 and 2011-12 in contravention to the Revenue Accounting Manual 2004. The instances were noted where the entire revenue collections for the month were not deposited in the RGR account. The amount needs to be recovered along with penalty. The case is under review by the Anti Corruption Commission. *(AIN: 10769, Para 1.2; Accountabilities: Direct: Individuals concerned; Supervisory: Namgay Dorji, Adm. Officer, EID No. 7603032 and Uma Pradhan, Assistant Accounts Officer, EID No. 201101060)*



### 3. Violation of Laws and Rules – Nu. 0.352 million

There were cases of violation of laws and rules involving Nu. 0.352 million as summarized below:

| Sl. No. | Observation in brief   | Nu. in million |
|---------|--|----------------|
| 3.1     | Non levy of liquidated damage                                  | 0.352          |
| 3.2     | Discrepancies in deposit into Non Revenue Account and releases | -              |
| 3.3     | Deficiency in accounts   | -              |
|         | <b>Total</b>   | <b>0.352</b>   |

The cases of violation of laws and rules are as indicated below:

#### 3.1 Non levy of liquidated damages – Nu. 0.352 million

The Department of Medical Services, Ministry of Health had not deducted liquidated damages amounting to Nu. 0.352 million from various suppliers for delay in the supply of drug items. The case was forwarded to the Anti Corruption Commission. *(AIN 10514; Para 6; Accountabilities: Direct: Dechen Wangmo, Chief Administrative Officer, EID No.8901019; Supervisory: Dr. Dorji Wangchuk, Director General, EID No.8503033)*

#### 3.2 Discrepancies in deposit into Non-Revenue Account and releases

The Department of Medical Services, Ministry of Health had discrepancies in deposits made and releases sought from and into Non-Revenue Account. It was found that deposits made were either more or less than the releases sought. Further, depositing the fund balance into Non-Revenue Account instead of surrendering into Budget Fund Account and utilizing it by seeking releases in addition to normal budget is in violation to budgetary norms. The case was forwarded to the Anti Corruption Commission. *(AIN 10514; Para 10; Accountabilities: Direct: L.B.Subba, Accountant, EID No.9410039; Supervisory: L.B.Subba, Accountant, EID No.9410039)*

#### 3.3 Deficiency in accounts

Instances of deficiencies were noted in the deposits and payments under Refundable Deposits of Department of Medical Services. It was found that the Refundable Deposit Account was debited for adjusting prior year advances instead of seeking Budget line for adjusting prior year advances. The funds were found retained without depositing it into Refundable Deposit Account and the refunds were made without obtaining releases. The case was forwarded to the Anti Corruption Commission. *(AIN 10514; Para 11; Accountabilities: Direct: L.B.Subba, Accountant, EID No.9410039; Supervisory: L.B.Subba, Accountant, EID No.9410039)*



#### 4. Shortfalls, Lapses and Deficiencies – Nu. 14.716 million

There were cases of shortfalls, lapses and deficiencies involving Nu. 14.716 million as summarized below:

| Sl. No. | Observation in brief  | Nu. in million |
|---------|---|----------------|
| 4.1     | Outstanding advance   | 12.861         |
| 4.2     | Goods supplied against advance payment were either short/rejected/mismatch with specifications and incomplete accessories | 1.855          |
|         | <b>Total</b>  | <b>14.716</b>  |

The cases of shortfalls, lapses and deficiencies are as indicated below:

##### 4.1 Outstanding advance – Nu. 12.861 million

- a) The Secretariat, Ministry of Health had outstanding advances of Nu. 0.467 million against various officials. *(AIN: 10405, Para 3.1; Accountabilities: Direct: Individuals concerned; Supervisory: Wangchuk Dorji, Dy. Chief Accountant, EID No. 9709044)*
- b) The Department of Medical Services, Ministry of Health had outstanding advances of Nu.12.394 million against various suppliers. *(AIN 10514; Para 9; Accountabilities: Direct: Individual Concerned; Supervisory: Individual Concerned)*

##### 4.2 Goods supplied against the advance payment were either short/rejected/mismatch with the specifications and incomplete accessories – Nu.1.855 million

The Department of Medical Services (DMS), Ministry of Health had cases of short supply of drugs, rejected or mismatch of drugs amounting to Nu.1.855 million supplied from the third countries. It was found that against the advance payment, the third country suppliers had either short supplied or the supplied drugs were rejected or the drugs did not conform to the specifications provided in the supply order. The case was forwarded to the Anti Corruption Commission. *(AIN 10514; Para 4; Accountabilities: Direct: Dechen Wangmo, Chief Administrative Officer, EID No.8901019; Supervisory: Dr.Dorji Wangchuk, Director General, EID No.8503033)*



#### 4.1.7 Ministry of Labour & Human Resources

During the period the Royal Audit Authority had issued 13 audit reports of the Ministry of Labour & Human Resources and its Departments, Divisions and Units. There were 13 observations pointed out in the reports, involving Nu.7.096 million, out of which 2 observations amounting to over Nu. 0.241 million were either resolved prior to compilation of draft Annual Audit Report 2012 or did not qualify for inclusion in the draft AAR 2012. The total unresolved significant observations reflected in the draft AAR 2012 amounted to Nu.6.855 million.

Based on the responses received after the issue of draft AAR 2012 and action taken by the Ministry and concerned agencies under it, observations amounting to Nu. 2.094 million were either resolved fully or substantially. The total unresolved significant irregularities amounted to Nu. 4.761 million as summarized below:

| Sl. No. | Observation Category               | Nu. in million | Category Code |
|---------|------------------------------------|----------------|---------------|
| 1       | Violation of laws and rules        | 4.656          | 4             |
| 2       | Shorfalls, lapses and deficiencies | 0.105          | 5             |
| Total   |                                    | 4.761          |               |

##### 1. Violation of laws and rules – Nu. 4.656 million

There were cases of violation of laws and rules involving Nu. 4.656 million as summarized below:

| Sl. No. | Observation in brief  | Nu. in million |
|---------|---|----------------|
| 1.1     | Flaws in Tendering process  | 3.295          |
| 1.2     | Excess quantification of item of work resulting into incorrect estimate | 1.361          |
| Total   |   | 4.656          |

The cases of violation of laws and rules are as indicated below:

##### 1.1 Flaws in tendering process – Nu.3.295 million

The Department of Human Resources had several flaws in the award and construction of Vocational Training Institute at Dolungang, Jigmling entailing financial benefit of Nu. 3.295 million to the supervising firm. The flaws included the award of work on lumpsum price as against the unit price contract floated in the NIT, non maintenance of Measurement Book, unreasonable grant of time extension and engagement of two additional engineers with resultant extra financial implications. (AIN 10490; Para 1; Accountabilities: Direct: Sonam Tshering, Dy. Executive Engineer, EID No.200501182; Supervisory: Sonam Rinchen, Director, EID No.8404001)



## **1.2 Excess quantification of item of work resulting into incorrect estimate – Nu.1.361 million**

The Department of Human Resources had quantified certain item of work in excess in the BOQ as compared to the Drawings & Designs for the construction work of Vocational Training Institute at Dolungang, Jigmeling, Sarpang. The excess quantification to the tune of Nu. 1.361 million was found done for the works of Doors and Windows. (AIN 10490; Para 2; Accountabilities: Direct: Sonam Tshering, Dy. Executive Engineer, EID No. 200501182; Supervisory: Sonam Rinchen, Director, EID No.8404001)

## **2. Shortfalls, Lapses and Deficiencies – Nu. 0.105 million**

There were cases of shortfalls, lapses and deficiencies involving Nu. 0.105 million as summarized below:

| Sl. No. | Observation in brief                | Nu. in million |
|---------|-------------------------------------|----------------|
| 2.1     | Payment of DSA at inadmissible rate | 0.049          |
| 2.2     | Over payment made to the contractor | 0.056          |
|         | <b>Total</b>                        | <b>0.105</b>   |

The cases of shortfalls, lapses and deficiencies are as indicated below:

### **2.1 Payment of DSA at inadmissible rate – Nu.0.049 million**

The Department of Employment had made inadmissible payment of Nu. 0.049 million on account of training of in-service officials from the budget allocated by GOI for Apprenticeship Training Programme – Human Resource Development (Vocational Training) to support unemployed youth. Further, it was observed that the rate paid at Nationally Executed Program (NEX) rate which was not covered under the BCSRR. (AIN 10484; Para 1; Accountabilities: Direct: Individual Concerned; Supervisory: Jamyang Galley, Director, EID No.8901085)

### **2.2 Over Payment made to the Contractor – Nu.0.056 million**

The Rangjung Institute of Electrical Engineering, Trashigang had made over payment of Nu. 0.056 million in the construction of staff quarter. The over payment had occurred due to payment made for work less/not executed at site. (AIN 10228; Para 1; Accountabilities: Direct: Yeshey Wangdi, Principal, EID No.9502028; Supervisory: Yeshey Wangdi, Principal, EID No.9502028)



#### 4.1.8 Ministry of Foreign Affairs

During the period the Royal Audit Authority had issued 5 audit reports of the Ministry of Foreign Affairs and its Departments, Divisions and Units. There were 11 observations pointed out in the reports, involving Nu. 9.457 million, out of which 2 observations amounting to over Nu. 7.727 million were resolved prior to compilation of draft Annual Audit Report 2012. The total unresolved significant observations reflected in the AAR 2012 amounted to Nu. 1.730 million.

| Sl. No. | Observation Category                | Nu. in million | Category Code |
|---------|-------------------------------------|----------------|---------------|
| 1       | Shortfalls, lapses and deficiencies | 1.730          | 5             |
|         | <b>Total</b>                        | <b>1.730</b>   |               |

##### 1. Shortfalls, Lapses and Deficiencies – Nu. 1.730 million

There were cases of shortfalls, lapses and deficiencies involving Nu. 1.730 million as summarized below:

| Sl. No. | Observation in brief                        | Nu. in million |
|---------|---|----------------|
| 1.1     | Outstanding Advances                        | 1.494          |
| 1.2     | Goods not received by the State Guest House | 0.095          |
| 1.3     | Missing of interior furnishing items        | 0.141          |
|         | <b>Total</b>                                | <b>1.730</b>   |

The cases shortfalls, lapses and deficiencies are as indicated below:

##### 1.1 Outstanding Advances – Nu. 1.494 million

- a) The Ministry of Foreign Affairs had outstanding advances of Nu. 0.160 million against various suppliers and employees. *(AIN 10525; Para 2; Accountabilities: Direct: Individual Concerned; Supervisory: Individual Concerned)*
- b) The Ministry of Foreign Affairs had outstanding advances of Nu. 0.581 million (USD 10,834.74) against an official. *(AIN 10563; Para 1; Accountabilities: Direct: Chenda Topgay, Former HOC, RBE, Bangkok, EID No.2009054; Supervisory: H.E.Lyonpo Ugyen Tshering, Foreign Minister & Chenda Topgay, Former-HOC, RBE, Bangkok, EID No.2009054)*
- c) The Permanent Mission of Bhutan to UN, New York, USA had outstanding advances of Nu. 0.664 million (USD 12,386.00) against various officials and others. *(AIN 10403; Para 2; Accountabilities: Direct: Individual Concerned; Supervisory: Lhatu Wangchuk, Kutshab, EID No.6801002)*
- d) The Permanent Mission of Bhutan to UN, Geneva, Switzerland had outstanding advances of Nu. 0.089 million against various officials. *(AIN*



*10461; Para 2; Accountabilities: Direct: Yeshey Dorji, Kutshab, EID No.8202015; Supervisory: Yeshey Dorji, Kutshab, EID No.8202015)*

## **1.2 Goods not received by the State Guest House – Nu. 0.095 million**

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The Ministry of Foreign Affairs had not received goods worth Nu. 0.095 million (USD 1,775.00) for 16<sup>th</sup> SAARC Summit from Bangkok. However, it was found that the adjustments were already made in the books of accounts. The case was forwarded to the Anti Corruption Commission. *(AIN 10563; Para 2; Accountabilities: Direct: Chenda Topgay, Former HOC, RBE, Bangkok, EID No.2009054; Supervisory: H.E.Lyonpo Ugyen Tshering, Foreign Minister & Chenda Topgay, Former HOC, RBE, Bangkok, EID No.2009054)*

## **1.3 Missing of interior furnishing items worth Nu. 0.141 million**

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The physical verification of interior furnishing items at the State Guest House procured during 16<sup>th</sup> SAARC Summit revealed missing items worth Nu. 0.141 million (USD 2,035.48 & Bhat 17,430.00). *(AIN 10563; Para 3; Accountabilities: Direct: Individual Concerned; Supervisory: Kinley Dorji, Manager, State Guest House, EID No.200706002)*



#### 4.1.9 Ministry of Agriculture & Forests

During the period the Royal Audit Authority had issued 86 audit reports of the Ministry of Agriculture and Forests and its Departments, Divisions and Units. There were 121 observations pointed out in the reports, involving Nu.14.468 million, out of which observations amounting to over Nu. 8.934 million were either resolved prior to compilation of draft Annual Audit Report 2012 or did not qualify for inclusion in the draft AAR 2012. The total unresolved significant observations reflected in the draft AAR 2012 amounted to Nu.5.534 million.

Based on the responses received after the issue of draft AAR 2012 and action taken by the Ministry and concerned agencies under it, observations amounting to Nu. 4.701 million were either resolved fully or substantially. The total unresolved significant irregularities amounted to Nu. 0.833 million as summarized below:

| Sl. No. | Observation Category               | Nu. in million | Category Code |
|---------|------------------------------------|----------------|---------------|
| 1       | Fraud, Corruption & Embezzlement   | 0.241          | 1 & 2         |
| 2       | Violation of laws and rules        | 0.299          | 4             |
| 3       | Shorfalls, lapses and deficiencies | 0.293          | 5             |
| Total   |                                    | 0.833          |               |

#### 1. Fraud, Corruption and Embezzlement – Nu. 0.241 million

There were cases of indicators of fraud, corruption and embezzlement involving Nu. 0.241 million as summarized below:

| Sl. No. | Observation in brief                                    | Nu. in million |
|---------|---|----------------|
| 1.1     | Shortage of sale proceeds of machineries and spareparts | -              |
| 1.2     | Misuse of cash  | 0.241          |
| Total   |   | 0.241          |

The cases of indicators of fraud, corruption and embezzlement are as indicated below:

#### 1.1 Shortage of sale proceeds of machineries and spare parts

The Regional Agriculture Machinery Centre (RAMC), Bajo had shortage of sale proceeds amounting to Nu. 3.474 million. It was found that the RAMC had short deposited/remitted the sale proceeds of machineries and spare parts. Although the amount was recovered, administrative action taken was not found appropriate. The case was forwarded to the Anti Corruption Commission. *(AIN 10578; Para 1; Accountabilities: Direct: Gyeltshen Wangchuk, Regional Manager, EID No.8311019; Supervisory: Sangay Lhendup, Offtg. Program Director, EID No.200401162)*



## **1.2 Misuse of cash – Nu.0.241 million**

The Wangchuk Centenary Park, Bumthang had a case of misuse of cash amounting to Nu.0.241 million. It was found that the employees of Divisional Forest Office, Bumthang were paid TA/DA for monitoring and patrolling of cordeyceps collection from the Division's LC account. However, the Wangchuk Centenary Park had reimbursed the expenditure but was not accounted for in the LC account of the Division. The case was forwarded to the Anti Corruption Commission. *(AIN 10757; Para 1; Accountabilities: Direct: Ratu Wangchuk, Chief Forestry Officer, EID No.8311023; Supervisory: Ratu Wangchuk, Chief Forestry Officer, EID No.8311023)*

## **2. Violation of Laws and Rules – Nu. 0.299 million**

There were cases of violation of laws and rules involving Nu. 0.299 million as summarized below:

| Sl. No. | Observation in brief   | Nu. in million |
|---------|--|----------------|
| 2.1     | Acceptance of 10% cost index and 5% contingencies on contractor bids | 0.048          |
| 2.2     | Abnormal deviation in muster roll payment                            | 0.038          |
| 2.3     | Non imposition of 20% deduction                                      | 0.213          |
|         | <b>Total</b>   | <b>0.299</b>   |

The cases of violation of laws and rules are as indicated below:

### **2.1 Acceptance of 10% cost index & 5% contingencies on contractor bids – Nu. 0.048 million**

The Divisional Forest Office, Gedu had accepted the bid prepared based on BSR 2007 and allowed addition of cost index and contingencies amounting to Nu. 0.048 million for the maintenance of Gharial Farm at Phuentsholing and external water supply works at Pasakha Beat Office. *(AIN: 10607, Para 3.1; Accountabilities: Direct: Nima Dorji, Site Engineer, EID No. 200801074; Supervisory: Sonam Tshering, Chief Forestry Officer, EID No. 7204001)*

### **2.2 Abnormal deviation in muster roll payment – Nu. 0.038 million**

The Divisional Forest Office, Gedu had made extra payment of Nu. 0.038 million in the maintenance of plantation under THPA funding. The extra payment was observed on comparison of payment made on the basis of man days estimated and actually paid for. *(AIN: 10607, Para 3.2; Accountabilities: Direct: Lhap Tshering, Beat Officer, EID No. 200204043; Supervisory: Sonam Tshering, Chief Forestry Officer, EID No. 7204001)*



### **2.3 Non imposition of 20% deduction – Nu. 0.213 million**

The National Poultry Development Centre, Sarpang had not imposed 20% deduction amounting to Nu. 0.213 million on the contractor on termination of the contract for the construction of Four Unit Attendants' Quarter. The deduction was to be made on account of value of work not completed as per the Special Condition of Contract. (AIN: 10543, Para 1.1; Accountabilities: Direct: Individuals concerned; Supervisory: Individuals concerned)

### **3. Shortfalls, Lapses and Deficiencies – Nu. 0.293 million**

There were cases of shortfalls, lapses and deficiencies involving Nu. 0.293 million as indicated below:

#### **3.1 Excess/over payment – Nu. 0.293 million**

- a) The Jigme Dorji National Park, Damji had made excess payment of Nu. 0.118 million in the construction of store house at Park Head Office. The excess payment had occurred due to differences in quantity claimed and actually executed at site. (AIN: 10693, Para 1.1; Accountabilities: Direct: Ugyen Dukpa, Engineer, EID No. 8612045; Supervisory: Tashi Phuntsho, Adm. Asstt., EID No. 200912029)
- b) The Sakteng Wildlife Sanctuary, Phonmey had made overpayment of Nu. 0.063 million in the construction of Range Office cum Transit Camp at Sakteng Range. The overpayment had occurred due to differences in the quantity claimed and actually executed at site. (AIN: 10227, Para 1; Accountabilities: Direct: Kezang Dorji, Executive Engineer, EID No. 8708026; Supervisory: Sonam Tobgay, Chief Forestry Officer, EID No. 20041058)
- c) The Divisional Forest Office, Paro had made excess payment of Nu. 0.054 million in the construction of new Range Office at Haa. The excess payment had occurred due to entertainment of extra measurement in some items of works. (AIN: 10439, Para 3; Accountabilities: Direct: Kuenzang Choden, Engineer, EID No. 200607200; Supervisory: Sithor Dorji, CFO, EID No. 8410023)
- d) The Divisional Forest Office, Mongar had made excess payment of Nu. 0.058 million in the renovation of Toilet/Bathroom and Repair of Range Office cum Residence at Gyelpozhing and maintenance of Check Post & Staff Quarter at Kurizampa. The excess payment had occurred due to erroneous calculations. (AIN: 10671, Para 3; Accountabilities: Direct: Individuals concerned; Supervisory: Thinley Dorji, CFO, EID No. 7407019)



#### 4.1.10 Ministry of Economic Affairs

During the period the Royal Audit Authority had issued 18 audit reports of the Ministry of Economic Affairs and its Departments, Divisions and Units. There were 15 observations pointed out in the reports, involving Nu. 3.994 million, out of which observations amounting to over Nu. 3.448 million were either resolved prior to compilation of draft Annual Audit Report 2012 or did not qualify for inclusion in the draft AAR 2012. The total unresolved significant observations reflected in the AAR 2012 amounted to Nu. 0.546 million as summarized below:

| Sl. No. | Observation Category | Nu. in million | Category Code |
|---------|----------------------|----------------|---------------|
| 1       | Mismanagement        | 0.546          | 2             |
|         | <b>Total</b>         | <b>0.546</b>   |               |

##### 1. Mismanagement – Nu. 0.546 million

There were cases of mismanagement involving Nu. 0.546 million as summarized below:

| Sl. No. | Observation in brief | Nu. in million |
|---------|----------------------|----------------|
| 1.1     | Outstanding revenue  | 0.513          |
| 1.2     | Non levy of penalty  | 0.033          |
|         | <b>Total</b>         | <b>0.546</b>   |

The cases of mismanagement are as indicated below:

##### 1.1 Outstanding revenue – Nu. 0.513 million

The Regional Trade and Industry Office, Phuentsholing had outstanding revenue of Nu. 0.513-million on account of plot and shed lease rent from various parties. (AIN: 10765, Para 1; Accountabilities: Direct: Dhakal, Estate Manager, EID No. 200207171; Supervisory: Rachana Gurung, Assistant Accounts Officer, EID No. 9709067)

##### 1.2 Non levy of penalty – Nu. 0.033 million

The Regional Trade and Industry Office, Phuentsholing had not levied penalty of Nu. 0.033 million for the late payment of plot/lease rent by various parties. (AIN: 10765, Para 2; Accountabilities: Direct: Dhakal, Estate Manager, EID No. 200207171; Supervisory: Rachana Gurung, Assistant Accounts Officer, EID No. 9709067)



## 4.2 DZONGKHAGS

### 4.2.1 Pemagatshel Dzongkhag

During the period the Royal Audit Authority had issued two audit reports of the Dzongkhag Administration, Pemagatshel. There were 23 observations pointed out in the reports, involving Nu. 3.172 million, out of which observations amounting to over Nu. 0.114 million were either resolved prior to compilation of draft Annual Audit Report 2012 or did not qualify for inclusion in the draft AAR 2012. The total unresolved significant observations reflected in the draft AAR 2012 amounted to Nu. 3.058 million.

Based on the responses received after the issue of draft AAR 2012 and action taken by the Dzongkhag Administration, observations amounting to Nu. 1.089 million were either resolved fully or substantially. The total unresolved significant irregularities amounted to Nu. 1.969 million as summarized below:

| Sl. No. | Observation Category               | Nu. in million | Category Code |
|---------|------------------------------------|----------------|---------------|
| 1       | Mismanagement                      | 1.235          | 3             |
| 2       | Violation of laws and rules        | 0.241          | 4             |
| 3       | Shorfalls, lapses and deficiencies | 0.493          | 5             |
| Total   |                                    | 1.969          |               |

#### 1. Mismanagement – Nu. 1.235 million

There were cases of mismanagement involving Nu.1.235 million as summarized below:

| Sl. No. | Observation in brief                                 | Nu. in million |
|---------|--|----------------|
| 1.1     | Non-receipt of forfeited 10% security deposit        | 0.285          |
| 1.2     | Non-collection of fees from the abandoned households | 0.950          |
| Total   |  | 1.235          |

The cases of mismanagement are as indicated below:

#### 1.1 Non-receipt of forfeited 10% security deposit – Nu.0.285 million

The Dzongkhag Administration had terminated the contract work of construction of Woongchilu Community Lhakhang awarded to M/s Ugyen Dorji Construction, Samdrup Jongkhar. However, it was found that the 10% Security Deposit amounting to Nu.0.285 million submitted in the form of Bank Guarantee from RICBL was forfeited but the amount was not yet received by the Dzongkhag Administration. (AIN 10874; Para 1.2; Accountabilities: Direct: Drukthop Wangchuk, AAO, EID No.201001040; Supervisory: Drukthop Wangchuk, AAO, EID No.201001040)



## **1.2 Non-collection of fees from the abandoned households – Nu.0.950 million**

The Dzongkhag Tshogdu of Pemagatshel Dzongkhag had resolved to collect a fee @ Nu.1,500.00 per year from each abandoned households and deposit in the concerned CD account of respective Gewogs. However, it was found that the Dzongkhag had not collected fee amounting to Nu. 0.950 million from 633 abandoned households in various Gewogs. *(AIN 10874; Para 3.2; Accountabilities: Direct: Concerned Gups; Supervisory: Concerned Gups)*

## **2. Violation of laws and rules – Nu. 0.241 million**

There were cases of violation of laws and rules involving Nu. 0.241 million as summarized below:

| Sl. No. | Observation in brief   | Nu. in million |
|---------|--|----------------|
| 2.1     | Non-rectification of collapsed wall/defective works                        | 0.187          |
| 2.2     | Non-compliance to Government directives on procurement of office equipment | 0.054          |
| 2.3     | Supply of books at inflated rates  | -              |
|         | <b>Total</b>   | <b>0.241</b>   |

The cases of violation of laws and rules are as indicated below:

### **2.1 Non-rectification of collapsed wall/defective works – Nu.0.187 million**

The Dzongkhag Administration had not rectified the damaged breast wall valuing Nu. 0.187 million constructed at Pemagatshel Hospital. *(AIN 10874; Para 1.5; Accountabilities: Direct: Tshewang Rinzin, Engineer, EID No.9301052; Supervisory: Ugyen Norbu, D.E., EID No.200701037)*

### **2.2 Non-compliance to Government directives on procurement of office equipment – Nu. 0.054 million**

The Dzongkhag Administration had procured 2 Dell Laptops costing in excess of prescribed ceiling with resulting excess expenditure of Nu. 0.054 million. *(AIN 10874; Para 2.5; Accountabilities: Direct: Ugyen Norbu, D.E., EID No.200701037 & Kelzang Jigme, Assistant Procurement Officer, EID No.200701037; Supervisory: Ugyen Norbu, D.E., EID No.200701037)*

### **2.3 Supply of books at inflated rates**

The Dzongkhag Administration had purchased Library Books during the 5<sup>th</sup> National Book Fair held at Mongar for various schools within the Dzongkhag. It was observed upon verification of purchases made by couple of schools that the price paid were



higher than the MRP. (AIN 10874; Para 3.7; Accountabilities: Direct: Nima Damdrul, DEO, EID No.9607169; Supervisory: Nima Damdrul, DEO, EID No.9607169)

### 3. Shortfalls, Lapses and Deficiencies – Nu. 0.493 million

There were cases of shortfalls, lapses and deficiencies involving Nu. 0.493 million as summarized below:

| Sl. No. | Observation in brief  | Nu. in million |
|---------|---|----------------|
| 3.1     | Over/Excess payment   | 0.367          |
| 3.2     | Undue delay in construction of Multi Purpose Hall (MPH) at Woongchiloo Community Primary School | -              |
| 3.3     | Excess payment of personal emoluments   | 0.126          |
|         | <b>Total</b>  | <b>0.493</b>   |

The cases of shortfalls, lapses and deficiencies are as indicated below:

#### 3.1 Over/Excess payments – Nu. 0.367 million

The Dzongkhag Administration had made excess payment of Nu. 0.367 million in the construction of Woongchiloo Lhakhang. The excess payment had occurred due to payment for various items of work not executed at site. (AIN 10874; Para 1.3; Accountabilities: Direct: Lobzang Tshering, J.E., EID No.200901074; Supervisory: Ugyen Norbu, D.E., EID No.200701037)

#### 3.2 Undue delay in construction of Multi Purpose Hall (MPH) at Woongchiloo Community Primary School

The Dzongkhag Administration had made 70% payment for the construction of Multi Purpose Hall at Woongchiloo Community Primary School while the physical progress was only 40%. The Dzongkhag Administration decided to terminate the contract and award it to the 2<sup>nd</sup> lowest bidder in June 2011, however, the contractor submitted a petition, based on which the Committee allowed to continue the work. The contractor abandoned the work by November 2011 despite providing him with additional material advance of Nu.0.759 million and did not heed to any of the reminders served to him. (AIN 10874; Para 1.4; Accountabilities: Direct: Lobzang Tshering, J.E., EID No.200901074; Supervisory: Ugyen Norbu, D.E., EID No.200701037)

#### 3.3 Excess payment of personal emoluments – Nu.0.126 million

The Dzongkhag Administration had made excess payment of Nu. 0.126 million on account of full salary to an official who was on long term study in India in contravention to BCSR 2010. (AIN 10874; Para 3.1; Accountabilities: Direct: Kinzang Wangchuk, Engineer, EID No.9807035; Supervisory: Drupthop Wangchuk, AAO, EID No.201001040)



#### 4.2.2 Haa Dzongkhag

During the period the Royal Audit Authority had issued one audit report of the Dzongkhag Administration, Haa. There were 15 observations pointed out in the report, involving Nu. 21.072 million, none of which were resolved prior to compilation of draft Annual Audit Report 2012. Therefore, the total unresolved significant observations reflected in the draft AAR 2012 amounted to Nu. 21.072 million.

Based on the responses received after the issue of draft AAR 2012 and action taken by the Dzongkhag Administration, observations amounting to Nu. 20.264 million were either resolved fully or substantially. The total unresolved significant irregularities amounted to Nu. 0.808 million as summarized below:

| Sl. No. | Observation Category               | Nu. in million | Category Code |
|---------|------------------------------------|----------------|---------------|
| 1       | Fraud, Corruption & Embezzlement   | 0.340          | 1 & 2         |
| 2       | Violation of laws and rules        | -              | 4             |
| 3       | Shorfalls, lapses and deficiencies | 0.468          | 5             |
| Total   |                                    | 0.808          |               |

##### 1. Fraud, Corruption and Embezzlement – Nu. 0.340 million

There were cases of indicators of fraud, corruption and embezzlement involving Nu. 0.340 million as summarized below:

| Sl. No. | Observation in brief                                  | Nu. in million |
|---------|---|----------------|
| 1.1     | Excess claim for the purchase of cardamom seedlings   | 0.234          |
| 1.2     | Fictitious booking of expenditure on farmers training | 0.106          |
| Total   |   | 0.340          |

The cases of indicators of fraud, corruption and embezzlement are as indicated below:

##### 1.1 Excess claim for the purchase of cardamom seedlings – Nu.0.234 million

The Dzongkhag Administration, Haa had made excess payment of Nu. 0.234 million in the purchase of cardamom seedlings from farmers for distribution to beneficiaries under the rehabilitation project in Bebji. On enquiry of the sellers, it was confirmed that amount was claimed at higher rates than the actual cost. The case was forwarded to the Anti Corruption Commission. *(AIN 10961; Para 1.1; Accountabilities: Direct: Gem Dorji, Project Coordinator, EID No.200705076 & Kinley Wangdi, Project Coordinator, EID No.200705013; Supervisory: Rinzin Dorji, Dzongdag, EID No.8901017)*

##### 1.2 Fictitious booking of expenditure on farmers training – Nu.0.106 million

The Dzongkhag Administration, Haa had made fictitious booking of expenditure amounting to Nu. 0.106 million on account of training of farmers from Bebji. It was found that adjustment bills were submitted and accepted. However, on enquiry of the



resource persons indicated in the supporting documents, it was confirmed that the training was never conducted. Instead, the fund was reportedly utilized for performing *Rimdo*. The case was forwarded to the Anti Corruption Commission. (AIN 10961; Para 1.2; Accountabilities: Direct: Gem Dorji, Project Coordinator, EID No.200705076 & Kinley Wangdi, Project Coordinator, EID No.200705013; Supervisory: Rinzin Dorji, Dzongdag, EID No.8901017)

## 2. Violation of laws and rules

There were cases of violation of laws and rules as summarized below:

| Sl. No.          | Observation in brief              | Nu. in million |
|------------------|-----------------------------------|----------------|
| 2.1              | Delay in completion of works      | -              |
| 2.2 <sup>a</sup> | Non-production of documents       | -              |
| 2.3              | Use of items other than specified | -              |
|                  | <b>Total</b>                      | -              |

The cases of violation of laws and rules are as indicated below:

### 2.1 Delay in completion of works

- a) The Dzongkhag Administration had not completed the construction of houses executed through community contractors under the Bebji Rehabilitation Project within the stipulated time thereby impeding timely delivery of services to the beneficiaries. (AIN 10961; Para 1.6; Accountabilities: Direct: Gopal Rana, J.E., EID No.9807101; Supervisory: Thinley, D.E., EID No.8501065)
- b) The contractor M/s Gado Construction had not completed the construction of Rangtse Primary School awarded by Dzongkhag Administration impeding the timely use of infrastructure for the school. (AIN 10961; Para 6; Accountabilities: Direct: Kesang Tshering, A.E., EID No.200705076; Supervisory: Thinley, D.E., EID No.8501065)

### 2.2 Non-production of documents

The Dzongkhag Administration failed to produce documents relating to the expenditure of Nu. 5.054 million incurred on the re-construction of Lhaxhang Karpo. (AIN 10961; Para 2.2; Accountabilities: Direct: Tashi Gyeltshen, Project Engineer, EID No.200307009; Supervisory: Rinzin Dorji, Dzongdag, EID No.8901017)

### 2.3 Use of items other than specified

The construction of Drungkhag office, two staff quarters with 3 units each and Drungpa's residence at Sebjithang, Gakiling Drungkhag under Dzongkhag Administration was completed in 2010. It was found that the roofs of all these structures had leakages due to usage of poor quality CGI sheets. (AIN 10961; Para 4.2;



*Accountabilities: Direct: Kesang Tshering, AE, EID No.200705076; Supervisory: Thinley, DE, EID No.8501065)*

### **3. Shortfalls, Lapses and Deficiencies – Nu. 0.468 million**

There was a case of shortfalls, lapses and deficiencies involving Nu. 0.468 million as indicated below:

#### **3.1 Outstanding Advances – Nu.0.468 million**

The Dzongkhag Administration had outstanding advances of Nu.0.468 million against employees. *(AIN 10961; Para 7; Accountabilities: Direct: Individual Concerned; Supervisory: Sonam Wangmo, AAO, EID No.201001056)*

#### **4.2.3 Samtse Dzongkhag**

During the period the Royal Audit Authority had issued three audit reports of the Dzongkhag Administration, Samtse. There were 16 observations pointed out in the reports, involving Nu. 1.733 million, out of which observations amounting to over Nu. 1.365 million were either resolved prior to compilation of draft Annual Audit Report 2012 or did not qualify for inclusion in the draft AAR 2012. The total unresolved significant observations reflected in the AAR 2012 amounted to Nu. 0.264 million as summarized below:

| Sl. No. | Observation Category                | Nu. in million | Category Code |
|---------|-------------------------------------|----------------|---------------|
| 1       | Shortfalls, lapses and deficiencies | 0.264          | 5             |
|         | <b>Total</b>                        | <b>0.264</b>   |               |

### **1. Shortfalls, Lapses and Deficiencies – Nu. 0.264 million**

There was case a case of shortfalls, lapses and deficiencies involving Nu. 0.264 million as indicated below:

#### **1.1 Outstanding Advances – Nu. 0.264 million**

The Dzongkhag Administration had outstanding advances of Nu.0.264 million against various employees and suppliers. *(AIN 10255; Para 2.3; Accountabilities: Direct: Individual Concerned; Supervisory: Paras Moktan, AO, EID No.9411005)*



#### 4.2.4 Tsirang Dzongkhag

During the period the Royal Audit Authority had issued one audit report of the Dzongkhag Administration, Tsirang. There were 23 observations pointed out in the reports, involving Nu. 0.582 million, out of which observations amounting to over Nu. 0.169 million were either resolved prior to compilation of draft Annual Audit Report 2012 or did not qualify for inclusion in the draft AAR 2012. The total unresolved significant observations reflected in the draft AAR 2012 amounted to Nu. 0.413 million.

Based on the responses received after the issue of draft AAR 2012 and action taken by the Dzongkhag Administration, observations amounting to Nu. 0.079 million were either resolved fully or substantially. The total unresolved significant irregularities amounted to Nu. 0.334 million as summarized below:

| Sl. No. | Observation Category                | Nu. in million | Category Code |
|---------|-------------------------------------|----------------|---------------|
| 1       | Shortfalls, lapses and deficiencies | 0.334          | 5             |
|         | <b>Total</b>                        | <b>0.334</b>   |               |

#### 1. Shortfall, Lapses and Deficiencies – Nu. 0.334 million

There was a case of shortfalls, lapses and deficiencies involving Nu. 0.334 million as indicated below:

##### 1.1 Excess payment – Nu. 0.334 million

The Dzongkhag Administration had made excess payment of Nu.0.334 million in the construction of Lhakhang in Dunglagang Gewog. The excess payment had occurred due to difference in the quantities paid for and quantities actually executed at site. *(AIN 10432; Para 1.1; Accountabilities: Direct: Birendra Giri, Engineer, EID No.9907152; Supervisory: Kharka Bdr. Pradhan, CID No.11803001103)*

#### 4.2.5 Sarpang Dzongkhag

During the period the Royal Audit Authority had issued two audit reports of the Dzongkhag Administration, Sarpang. There were 8 observations pointed out in the reports, involving Nu. 0.462 million, out of which observations amounting to over Nu. 0.229 million were either resolved prior to compilation of draft Annual Audit Report 2012 or did not qualify for inclusion in the draft AAR 2012. The total unresolved significant observations reflected in the AAR 2012 amounted to Nu. 0.233 million as summarized below:



| Sl. No. | Observation Category        | Nu. in million | Category Code |
|---------|-----------------------------|----------------|---------------|
| 1       | Violation of laws and rules | 0.233          | 4             |
|         | <b>Total</b>                | <b>0.233</b>   |               |

## 1. Violation of laws and rules – Nu. 0.233 million

There was a case of violation of laws and rules involving Nu. 0.233 million as indicated below:

### 1.1 Execution of sub-standard work – Nu.0.233 million

The Dzongkhag Administration had accepted sub-standard work valuing Nu.0.233 million in the construction of two units staff quarter at Tarathang Community Primary School. *(AIN 10440; Para 1.1; Accountabilities: Direct: Dechen Singye, Site Engineer, EID No.9301055; Supervisory: Sangay Dorji, D.E., EID No.8212024)*

#### 4.2.6 Trashigang Dzongkhag

During the period the Royal Audit Authority had issued three audit reports of the Dzongkhag Administration, Trashigang. There were 12 observations pointed out in the reports, involving Nu. 3.193 million, out of which observations amounting to over Nu. 3.001 million were either resolved prior to compilation of draft Annual Audit Report 2012 or did not qualify for inclusion in the draft AAR 2012. The total unresolved significant observations reflected in the AAR 2012 amounted to Nu. 0.192 million as summarized below:

| Sl. No. | Observation Category               | Nu. in million | Category Code |
|---------|------------------------------------|----------------|---------------|
| 1       | Violation of laws and rules        | -              | 4             |
| 2       | Shorfalls, lapses and deficiencies | 0.192          | 5             |
|         | <b>Total</b>                       | <b>0.192</b>   |               |

## 1. Violation of laws and rules

There was a case of violation of laws and rules as indicated below:

### 1.1 Irregularities in the construction of Khelam Poktor-Bredungma Farm Road

The Dzongkhag Administration had several irregularities in the construction of Khelam Poktor-Bredungma Farm Road. It was found that the gradient of road was not maintained, permanent structures on the roads were not planned and had not carried out proper survey and feasibility studies. There had also been delays in construction. *(AIN 10115; Para 2; Accountabilities: Direct: Tshewang Samdrup, JE, EID No.200311004; Supervisory: Penden Norgay, DE, EID No.8312023)*



## 2. Shortfalls, Lapses and Deficiencies – Nu. 0.192 million

There was a case of shortfalls, lapses and deficiencies involving Nu. 0.192 million as indicated below:

### 2.1 Shortage of timber in the renovation of Dzong – Nu.0.192 million

The Dzongkhag Administration had a shortage of timber valuing Nu. 0.192 million in the renovation of the Dzong. The shortage was revealed during the joint physical verification of works carried out. *(AIN 10115; Para 1.11; Accountabilities: Direct: Dawa, AE, EID No.9807048; Supervisory: Penden Norgay, DE, EID No.8312023)*

#### 4.2.7 Dagana Dzongkhag

During the period the Royal Audit Authority had issued one audit report of the Dzongkhag Administration, Dagana. There were 22 observations pointed out in the reports, involving Nu. 1.622 million, out of which observations amounting to over Nu. 1.482 million were either resolved prior to compilation of draft Annual Audit Report 2012 or did not qualify for inclusion in the draft AAR 2012. The total unresolved significant observations reflected in the AAR 2012 amounted to Nu. 0.140 million as summarized below:

| Sl. No. | Observation Category                | Nu. in million | Category Code |
|---------|-------------------------------------|----------------|---------------|
| 1       | Shortfalls, lapses and deficiencies | 0.140          | 5             |
|         | <b>Total</b>                        | <b>0.140</b>   |               |

### 1. Shortfall, Lapses and Deficiencies – Nu. 0.140 million

There was a case of shortfalls, lapses and deficiencies involving Nu. 0.140 million as indicated below:

#### 1.1 Excess payment – Nu. 0.140 million

The Dzongkhag Administration had made excess payment of Nu. 0.140 million in the construction of 6 unit classroom at Dagapela LSS. The excess payment had occurred due to difference in the quantities paid for and quantities actually executed at site. *(AIN 10341; Para 3; Accountabilities: Direct: Tshering Yangzom, JE, EID No.200307014; Supervisory: Pema Rinzin, Officiating DE, EID No.9607015)*



## 4.3 GEWOGS

### 4.3.1 Gewogs under Chukha Dzongkhag

#### I. Logchina Gewog

During the period, the Royal Audit Authority had issued one audit report of the Gewog Administration, Logchina. There were 3 observations pointed out in the report involving over Nu. 0.641 million, out of which observations amounting to over Nu. 0.519 million were either resolved prior to compilation of draft Annual Audit Report 2012 or did not qualify for inclusion in the draft AAR 2012. The total unresolved significant irregularities amounted to Nu. 0.122 million as summarized below:

| Sl. No. | Observation Category                | Nu. in million | Category Code |
|---------|-------------------------------------|----------------|---------------|
| 1       | Shortfalls, lapses and deficiencies | 0.122          | 5             |
|         | <b>Total</b>                        | <b>0.122</b>   |               |

#### 1. Shortfalls, Lapses and Deficiencies – Nu. 0.122 million

There was a case of shortfalls, lapses and deficiencies involving Nu. 0.122 million as indicated below:

##### 1.1 Inadmissible/excess payment to contractor-Nu. 0.122 million

The Gewog Administration had made excess payment of Nu. 0.122 million in the construction of Out Reach Clinic (ORC) at Dolepchen. The excess payment had occurred due to payment made for items not provided and executed. *[AIN: 10085; Para: 3, Accountabilities: Direct:Yonten Norbu,JE,EID No.200507210; Supervisory: Jamyang Dorji, District Engineer, EID No.9207043]*

### 4.3.2 Gewogs under Dagana Dzongkhag

#### I. Deorali Gewog

During the period, the Royal Audit Authority had issued two audit reports of the Gewog Administration, Deorali. There was one observation pointed out in the reports involving over Nu.0.063 million, which was not resolved prior to compilation of the draft AAR 2012. The total unresolved significant irregularities amounted to Nu. 0.063 million as summarized below:

| Sl. No. | Observation Category             | Nu. In Million | Category Code |
|---------|----------------------------------|----------------|---------------|
| 1       | Fraud, Corruption & Embezzlement | 0.063          | 1 & 2         |
|         | <b>Total</b>                     | <b>0.063</b>   |               |



## **1. Fraud, Corruption and Embezzlement – Nu. 0.063 million**

There was a case of indicators of fraud, corruption and embezzlement involving Nu. 0.063 million as indicated below:

### **1.1 Misuse of Revenue- Nu.0.063 million**

The Gewog Administration had a case of misuse of revenue amounting to Nu. 0.063 million. It was found that the cash balance was not physically available during verification. The new Gup stated that the former Gup had not handed over the cash balance when he assumed the office. *[AIN: 10331; Para: 1, Accountabilities: Direct: Pasang Sherpa, Ex-Gup, CID No. 11304001729; Supervisory: Pasang Sherpa, Ex-Gup, CID No. 11304001729]*

## **II. Khebisa Gewog**

During the period, the Royal Audit Authority had issued two audit reports of the Gewog Administration, Khebisa. There was one observation pointed out in the report involving over Nu.0.035 million which was not resolved prior to compilation of draft AAR 2012. The total unresolved significant irregularities amounted to Nu. 0.035 million as summarized below:

| Sl. No. | Observation Category             | Nu. in million | Category Code |
|---------|----------------------------------|----------------|---------------|
| 1       | Fraud, Corruption & Embezzlement | 0.035          | 1 & 2         |
|         | <b>Total</b>                     | <b>0.035</b>   |               |

## **1. Fraud, Corruption and Embezzlement – Nu. 0.035 million**

There was a case of indicators of fraud, corruption and embezzlement involving Nu. 0.035 million as indicated below:

### **1.1 Shortage of Revenue- Nu.0.035 million**

The Gewog Administration had shortage of revenue amounting to Nu. 0.035 million pertaining to the rural taxes for the year 2010. *[AIN: 10334; Para: 1, Accountabilities: Direct: Karma Tshering, EX-Gup, CID No. 10302002322; Supervisory: Karma Tshering, EX-Gup, CID No. 10302002322]*



### 4.3.3 Gewogs under Gasar Dzongkhag

#### I. Lunana Gewog

During the period, the Royal Audit Authority had issued one audit report of the Gewog Administration, Lunana. There were 7 observations pointed out in the report involving over Nu. 0.398 million, out of which observations amounting to over Nu. 0.262 million were either resolved prior to compilation of draft Annual Audit Report 2012 or did not qualify for inclusion in the draft AAR 2012. The total unresolved significant observations reflected in the draft AAR 2012 amounted to Nu. 0.136 million.

Based on the responses received after the issue of draft AAR 2012 and action taken by the Gewog Administration, observations amounting to Nu. 0.136 million were either resolved fully or substantially. The total unresolved significant irregularity is as summarized below:

| Sl. No. | Observation Category                | Nu. In Million | Category Code |
|---------|-------------------------------------|----------------|---------------|
| 1       | Shortfalls, lapses and deficiencies | -              | 5             |
| Total   |                                     | -              |               |

#### 1. Shortfalls, Lapses and Deficiencies

There was a case of shortfalls, lapses and deficiencies as indicated below:

##### 1.1 Non-Production of Documents

The Gewog Administration had received a sum amount of Nu. 0.246 million from Ministry of Health to construct toilets to improve health and sanitation of the communities of Lunana. However, during the field verification only two toilets were found constructed and documentary evidences regarding the execution of the work were not made available and the actual expenditure could not be ascertained. *[AIN: 10832; Para: 4, Accountabilities: Direct:LB Chettri,JE,EID No.200607212; Supervisory: Gyembo Tshering, Gup,CID No.10404000122]*

### 4.3.4 Gewogs under Trashiyangtse Dzongkhag

#### I. Bumdeling Gewog

During the period, the Royal Audit Authority had issued two audit reports of the Gewog Administration, Bumdeling. There were 3 observations pointed out in the report involving over Nu.0.576 million, none of which were resolved prior to compilation of draft AAR 2012. The total unresolved significant irregularities amounted to more than Nu.0.574 million.



Based on the responses received after the issue of draft AAR 2012 and action taken by the Gewog Administration, observations amounting to Nu. 0.527 million were either resolved fully or substantially. The total unresolved significant irregularities amounted to Nu. 0.047 million as summarized below:

| Sl. No. | Observation Category             | Nu. In Million | Category Code |
|---------|----------------------------------|----------------|---------------|
| 1       | Fraud, Corruption & Embezzlement | 0.047          | 1 & 2         |
|         | <b>Total</b>                     | <b>0.047</b>   |               |

### 1. Fraud, Corruption and Embezzlement – Nu. 0.047 million

There was a case of indicators of fraud, corruption and embezzlement involving Nu.0.047 million as indicated below:

#### 1.1 Payment made without receiving the goods- Nu. 0.047 million

The Gewog Administration had made payment of Nu. 0.047 million for the purchase of Photocopy machine. However, it was found that the equipment was not supplied. *[AIN: 9812; Para: 1, Accountabilities: Direct: Sangay, Accountant, EID No. 200907176; Supervisory: Tshering Gyeltshen, Gup, CID No. 11601001976]*

## II. Ramjar Gewog

During the period, the Royal Audit Authority had issued one audit report of the Gewog Administration, Ramjar. There was one observation pointed out in the report involving over Nu. 0.038 million, which was not resolved prior to compilation of draft AAR 2012. The total unresolved significant irregularities amounted to Nu. 0.038 million as summarized below:

| Sl. No. | Observation Category        | Nu. in million | Category Code |
|---------|-----------------------------|----------------|---------------|
| 1       | Violation of laws and rules | 0.038          | 4             |
|         | <b>Total</b>                | <b>0.038</b>   |               |

### 1. Violation of Laws and Rules – Nu. 0.038 million

There was a case of violation of laws and rules involving Nu. 0.038 million as summarized below:

| Sl. No. | Observation Category        | Nu. In Million | Category Code |
|---------|-----------------------------|----------------|---------------|
| 1       | Violation of laws and rules | 0.038          | 4             |
|         | <b>Total</b>                | <b>0.038</b>   |               |

The case of violation of laws and rules is as indicated below:



### 1.1 Closed work payment-Nu.0.038 million

The Gewog Administration had booked a sum of Nu. 0.038 million as final expenditure for the construction of Water Source Protection without actual execution of the works and the same amount was found deposited into refundable deposit account for future payments. [AIN: 9807; Para: 1, Accountabilities: Direct: Prakash Rai, Engineer, EID No. 850804; Supervisory: Wangdi Duba, Gup, CID No. 11604001072]

### III. Tongzhang Gewog

During the period, the Royal Audit Authority had issued one audit report of the Gewog Administration, Tongzhang. There were 8 observations pointed out in the report involving over Nu. 5.358 million, out of which observations amounting to over Nu. 0.787 million were either resolved prior to compilation of draft Annual Audit Report 2012 or did not qualify for inclusion in the draft AAR 2012. The total unresolved significant observations reflected in the AAR 2012 amounted to Nu. 3.982 million as summarized below:

| Sl. No. | Observation Category        | Nu. In Million | Category Code |
|---------|-----------------------------|----------------|---------------|
| 1       | Mismanagement               | 2.599          | 3             |
| 2       | Violation of laws and rules | 1.383          | 4             |
| Total   |                             | 3.982          |               |

#### 1. Mismanagement – Nu. 2.599 million

There were cases of mismanagement involving Nu. 2.599 million as summarized below:

| Sl. No. | Observation in brief            | Nu. in million |
|---------|---------------------------------|----------------|
| 1.1     | Machinery kept idle             | -              |
| 1.2     | Wastage of Government resources | 2.599          |
| Total   |                                 | 2.599          |

The cases of mismanagement are as indicated below:

#### 1.1 Machinery kept idle

The Gewog Administration had kept the Backhoe Loader idle for a considerable period of time except for maintenance of Tokaphu and Kalikhar Farm Road. Further, the detailed records/ log book and measurement book on the use of machinery for recording daily work executed by the machinery were not maintained by the Gewog Administration. [AIN: 9803; Para: 2(ii), Accountabilities: Direct: Neten Dorji, Ex-Gup, CID No. 116000285; Supervisory: Neten Dorji, Ex-Gup, CID No. 116000285]



## 1.2 Wastage of Government resources – Nu. 2.599 million

The Gewog Administration had made an expenditure of Nu.2.599 million in the construction of Lungdirichu irrigation channel. It was found that irrigation channel was not functional and did not benefit the public. [AIN: 9803; Para: 1 (d), Accountabilities: Direct: Neten Dorji, Ex-Gup, CID No. 116000285; Supervisory: Neten Dorji, Ex-Gup, CID No. 116000285]

## 2. Violation of laws and rules – Nu. 1.383 million

There was a case of violation of laws and rules involving Nu. 1.383 million as indicated below:

### 2.1 Closed work payment- Nu. 1.383 million

The Gewog Administration had booked a sum of Nu. 1.383 million as final expenditure for the reconstruction of Bianangkhar Lhakhang and the same amount was found deposited into refundable deposit account for future payments. [AIN: 9803; Para: 4, Accountabilities: Direct: Tashi Dorji, Gup, CID No. 11606003096; Supervisory: Tashi Dorji, Gup, CID No. 11606003096]

## 4.3.5 Gewogs under Zhemgang Dzongkhag

### I. Ngangla Gewog

During the period, the Royal Audit Authority had issued two audit reports of the Gewog Administration, Ngangla. There was one observations pointed out in the report involving over Nu. 0.044 million, which was not resolved prior to compilation of the draft AAR 2012. The total unresolved significant observations reflected in the AAR 2012 amounted to Nu. 0.044 million as summarized below:

| Sl. No. | Observation Category                | Nu. In Million | Category Code |
|---------|-------------------------------------|----------------|---------------|
| 1       | Shortfalls, lapses and deficiencies | 0.044          | 5             |
|         | Total                               | 0.044          |               |

### 1. Shortfalls, Lapses and Deficiencies – Nu. 0.044 million

There was a case of shortfalls, lapses and deficiencies involving Nu. 0.044 million as indicated below:

#### 1.1 Non-adjustment of advances- Nu.0.044 million

The Gewog Administration had outstanding advances of Nu. 0.044 million against the officials. [AIN: 10208; Para: 1, Accountabilities: Direct: Rinchen Wangdi, Gup, CID No. 12005002779; Supervisory: Rinchen Wangdi, Gup, CID No. 12005002779]



## II. Bardo Gewog

During the period, the Royal Audit Authority had issued two audit reports of the Gewog Administration, Bardo. There were 4 observations pointed out in the report involving over Nu. 0.760 million, which was not resolved prior to compilation of draft AAR 2012. The total unresolved significant observations reflected in the AAR 2012 amounted to Nu. 0.760 million as summarized below:

| Sl. No. | Observation Category                | Nu. in million | Category Code |
|---------|-------------------------------------|----------------|---------------|
| 1       | Mismanagement                       | 0.503          | 3             |
| 2       | Violation of laws and rules         | 0.172          | 4             |
| 3       | Shortfalls, lapses and deficiencies | 0.085          | 5             |
| Total   |                                     | 0.760          |               |

### 1. Mismanagement – Nu. 0.503 million

There was a case of mismanagement involving Nu. 0.503 million as indicated below:

#### 1.1 Expenditure booked without execution of work-Nu. 0.503 million

The Gewog Administration had booked an expenditure of Nu. 0.503 million for the construction of Chercherla Suspension Bridge at Khomshar during the financial year 2010-2011. It was found that works were not executed at site. *[AIN: 10199; Para: 3, Accountabilities: Direct: G.S Khatiwara, Junior Engineer, EID No. 8908073; Supervisory: Cheten Gyeltshen, Gewog Administrative Officer, EID No. 200705036]*

### 2. Violation of laws and rules – Nu. 0.172 million

There was a case of violation of laws and rules involving Nu. 0.172 million as indicated below:

#### 2.1 Payment of muster roll without recipient's Signature/ Thumb impression- Nu.0.172 million

The Gewog Administration had made payment of Nu. 0.172 million on account of muster roll payment in the renovation of Khomshar Irrigation Channel. It was found that the payments made were not supported by thumb impression or signature of the payees. *[AIN: 10199; Para: 1, Accountabilities: Direct: Binod Kumar Subba, Junior Engineer, EID No. 200507213; Supervisory: Kunzang Jurmey, Gup, CID No. 12001004072]*

### 3. Shortfalls, lapses and deficiencies – Nu. 0.085 million

There were cases of shortfalls, lapses and deficiencies involving Nu. 0.085 million as summarized below:



| Sl. No. | Observation in brief          | Nu. in million |
|---------|-------------------------------|----------------|
| 3.1     | Excess payment of muster roll | 0.055          |
| 3.2     | Non-adjustment of advances    | 0.030          |
|         | <b>Total</b>                  | <b>0.085</b>   |

The cases of shortfall, lapses and deficiencies are as indicated below:

### **3.1 Excess payment of muster roll- Nu. 0.055 million**

The Gewog Administration had made excess payment of Nu. 0.055 million on account of muster roll payment for the renovation of Khomsar Irrigation channel. The excess payment had occurred due to payment made without observing the category of labourers engaged and rates applicable. *[AIN: 10199; Para: 2, Accountabilities: Direct: Binod Kumar Subba, Junior Engineer, EID No. 200507213 and Kinley Namgyel, Accountant, EID No. 201007233; Supervisory: Kunzang Jurmey, Gup, CID No. 12001004072]*

### **3.2. Non-adjustment of advances-Nu.0.030 million**

The Gewog Administration had outstanding advances of Nu. 0.030 million against the official. *[AIN: 10199; Para: 4, Accountabilities: Direct: Tashi Daray, Principal, Khomshar CPS, EID No. Supervisory: Kunzang Jurmey, Gup, CID No. 12001004072]*

## **III. Nangkor Gewog**

During the period, the Royal Audit Authority had issued one audit report of the Gewog Administration, Nangkor. There was one observation pointed out in the report involving over Nu. 0.125 million, which was not resolved prior to compilation of draft AAR 2012. The total unresolved significant observations reflected in the AAR 2012 amounted to Nu 0.125 million as summarized below:

| Sl. No. | Observation Category        | Nu. in million | Category Code |
|---------|-----------------------------|----------------|---------------|
| 1       | Violation of laws and rules | 0.125          | 4             |
|         | <b>Total</b>                | <b>0.125</b>   |               |

### **1. Violation of laws and rules – Nu. 0.125 million**

There was a case of violation of laws and rules involving Nu. 0.125 million as indicated below:

#### **1.1 Payment made without receipt of materials- Nu.0.125 million**

The Gewog Administration had made payment of Nu. 0.125 million towards the procurement of farm machineries for distribution to the public. However, it was found that the machineries were not received by the Gewog Administration. *[AIN: 10206; Para: 1, Accountabilities: Direct: D.B Gurung, Agriculture Extension Officer, EID No.*



7604020; Supervisory: Karma Tenzin, DAO, EID No. 201001158 and Rinchen Drakpa, Ex-Gup, CID No. 12004001452]

#### **IV. Goshing Gewog**

During the period, the Royal Audit Authority had issued two audit reports of the Gewog Administration, Goshing. There was one observation pointed out in the report involving over Nu. 0.036 million, which was not resolved prior to compilation of draft AAR 2012. The total unresolved significant observations reflected in the AAR 2012 amounted to Nu 0.036 million as summarized below:

| Sl. No. | Observation Category        | Nu. In Million | Category Code |
|---------|-----------------------------|----------------|---------------|
| 1       | Violation of laws and rules | 0.036          | 4             |
| Total   |                             | 0.036          |               |

##### **1. Violation of laws and rules – Nu. 0.036 million**

There was a case of violation of laws and rules involving Nu. 0.036 million as indicated below:

##### **1.1 Excess payment due to adoption of incorrect rate- Nu. 0.036 million**

The Gewog Administration had made excess payment of Nu. 0.036 million in the purchase of materials for construction of public toilet at Lamtang. The excess payment had occurred due to payment made at the rates higher than the quoted rates. [AIN: 10204; Para: 1, Accountabilities: Direct: Sangay Lethro, Gup, CID No. 12003000422; Supervisory: Sangay Lethro, Gup, CID No. 12003000422]



## 4.4 AUTONOMOUS BODIES

### 4.4.1 Royal University of Bhutan

During the period the Royal Audit Authority had issued 11 audit reports of institutes under the Royal University of Bhutan. There were 44 observations pointed out in the reports, involving Nu. 16.066 million, out of which observations amounting to over Nu. 14.463 million were either resolved prior to compilation of draft Annual Audit Report 2012 or did not qualify for inclusion in the draft AAR 2012. The total unresolved significant observations reflected in the draft AAR 2012 amounted to Nu. 1.603 million.

Based on the responses received after the issue of draft AAR 2012 and action taken by the management, observations amounting to over Nu. 0.831 million were either resolved fully or substantially. The total unresolved significant irregularities amounted to Nu. 0.772 million as summarized below:

| Sl. No. | Observation Category               | Nu. in million | Category Code |
|---------|------------------------------------|----------------|---------------|
| 1       | Fraud, Corruption & Embezzlement   | 0.157          | 1 & 2         |
| 2       | Violation of laws and rules        | 0.080          | 4             |
| 3       | Shorfalls, lapses and deficiencies | 0.535          | 5             |
| Total   |                                    | 0.772          |               |

#### 1. Fraud, Corruption and Embezzlement – Nu. 0.157 million

There were cases of indicator of fraud, corruption and embezzlement involving Nu.0.157 million as summarized below:

| Sl. No. | Observation in brief     | Nu. in million |
|---------|--------------------------|----------------|
| 1.1     | Shortage of cash         | 0.153          |
| 1.2     | Non accountal of revenue | 0.004          |
| Total   |                          | 0.157          |

The cases of indicators of fraud, corruption and embezzlement are as indicated below:

#### 1.1 Shortage of cash – Nu. 0.153 million

The Paro College of Education had short deposit of revenue amounting to Nu. 0.153 million realized on account of rent, sale of tender documents and refund of stipends. Against the total collection of Nu. 324,626.00, only Nu. 172,070.00 was found deposited. The amount was recovered and the case was forwarded to the Anti Corruption Commission. *(AIN: 10788, Para 1; Accountabilities: Direct: Darick Dorji, Accountant, EID No. 9907178; Supervisory: Thubten Gyatsho, Director, EID No. 8404029)*



## 1.2 Non accountal of revenue – Nu. 0.004 million

The Paro College of Education had not accounted the revenue of Nu. 0.004 million. The amount was collected through issue of money receipt but was neither accounted for in the cash book nor in the Revenue Accounting System. The case was forwarded to the Anti Corruption Commission. (AIN: 10788, Para 2; Accountabilities: Direct: Darick Dorji, Accountant, EID No. 9907178; Supervisory: Thubten Gyatsho, Director, EID No. 8404029)

## 2. Violation of Laws and Rules – Nu. 0.080 million

There was a case of violation of laws and rules involving Nu. 0.080 million as indicated below:

### 2.1 Non reflection of amount in the duplicate copy of money receipts – Nu. 0.080 million

The Paro College of Education had not recorded the revenue amount aggregating to Nu. 0.080 million in the duplicate copy of the receipt. As such the correctness of the amount realized could not be ascertained. (AIN: 10788, Para 3; Accountabilities: Direct: Darick Dorji, Accountant, EID No. 9907178; Supervisory: Thubten Gyatsho, Director, EID No. 8404029)

## 3. Shortfalls, Lapses and Deficiencies – Nu. 0.535 million

There were cases of shortfalls, lapses and deficiencies involving Nu. 0.535 million as summarized below:

| Sl. No. | Observation in brief | Nu. in million |
|---------|----------------------|----------------|
| 3.1     | Outstanding revenue  | 0.260          |
| 3.2     | Outstanding Advance  | 0.049          |
| 3.3     | Inadmissible payment | 0.226          |
|         | <b>Total</b>         | <b>0.535</b>   |

### 3.1 Outstanding revenue – Nu. 0.260 million

- The Paro College of Education had outstanding revenue of Nu. 0.200 million on account of lease rent of book shop within the college campus. The late payment of rent attracts penalty as per the terms of the contract. (AIN: 10788, Para 4; Accountabilities: Direct: Darick Dorji, Accountant, EID No. 9907178; Supervisory: Thubten Gyatsho, Director, EID No. 8404029)
- The Paro College of Education had outstanding revenue of Nu. 0.060 million on account of canteen rent. The late payment of rent attracts penalty as per the terms of the contract. (AIN: 10788, Para 5; Accountabilities: Direct:



*Thubten Gyatsho, Director, EID No. 8404029; Supervisory: Thubten Gyatsho, Director, EID No. 8404029)*

### **3.2 Outstanding advances – Nu. 0.049 million**

The Sherubtse College, Kanglung had outstanding advance of Nu. 0.049 million from its Alumni Account. It was found that the advance was taken for restoration of clock tower during the financial year 2009-10. Further, it was noted that neither the clock tower was restored nor the amount reimbursed. *(AIN: 10774, Para 3.1; Accountabilities: Direct: Kezang Namgyel, Adm. Officer, EID No. 200211041; Supervisory: Dr. Singye Namgyel, Director, EID No. 8002011)*

### **3.3 Inadmissible payment – Nu. 0.226 million**

- a) The Sherubtse College, Kanglung had made inadmissible payment of Nu. 0.174 million on account of salary during the study period exceeding one year. The payment of full salary for the study period exceeding 12 months is in contravention to the BCSRR 2010. *(AIN: 10774, Para 1.1; Accountabilities: Direct: Jigme Namgyel, Acctt. Asstt., EID No. 200907018; Supervisory: Dr. Singye Namgyel, Director, EID No. 8002011)*
- b) The Sherubtse College, Kanglung had made inadmissible payment of Nu. 0.052 million on account of salary during the study period exceeding one year. The payment of full salary for the study period exceeding 12 months is in contravention to the BCSRR 2010. *(AIN: 10510, Para 1; Accountabilities: Direct: Individuals concerned; Supervisory: Dr. Singye Namgyel, Director, EID No. 8002011)*

## **4.4.2 Royal Education Council**

During the period the Royal Audit Authority had issued 1 audit report of the Royal Education Council. There were 2 observations pointed out in the report, involving Nu. 1.388 million, out of which an observation amounting to over Nu. 0.002 million did not qualify for inclusion in the draft AAR 2012. The unresolved significant observation reflected in the AAR 2012 amounted to Nu. 1.368 million as summarized below:

| Sl. No. | Observation Category        | Nu. in million | Category Code |
|---------|-----------------------------|----------------|---------------|
| 1       | Violation of laws and rules | 1.368          | 4             |
|         | <b>Total</b>                | <b>1.368</b>   |               |

### **1. Violation of Laws and Rules – Nu. 1.368 million**

There was a case of violation of laws and rules involving Nu. 1.368 million as indicated below:



## 1.1 Payment without bills – Nu. 1.368 million

The Royal Education Council had made payment of Nu. 1.368 million towards the tuition fees and overseas student health cover of officials who were undergoing long term studies. However, the payment was not supported with requisite bills. (AIN: 10635, Para 2; Accountabilities: Direct: Tandin Tshewang, Accounts Officer, Asstt. Accounts Officer, EID No. 201001001; Supervisory: Dr. Sonam Wangyel Wang, Director, EID No. 20111205)

### 4.4.3 Bhutan Olympic Committee

During the period the Royal Audit Authority had issued 13 audit reports of the Bhutan Olympic Committee. There were 9 observations pointed out in the reports, involving Nu. 12.965 million, out of which an observation without financial implication was resolved prior to compilation of draft Annual Audit Report 2012. The total unresolved significant observations reflected in the Draft AAR 2012 amounted to Nu. 12.965 million.

Based on the responses received after the issue of draft AAR 2012 and action taken by the management, observations amounting to Nu. 0.311 million were either resolved fully or substantially. The total unresolved significant irregularities amounted to Nu. 12.654 million as summarized below:

| Sl. No. | Observation Category               | Nu. in million | Category Code |
|---------|------------------------------------|----------------|---------------|
| 1       | Mismanagement                      | 2.132          | 3             |
| 2       | Violation of laws and rules        | 9.935          | 4             |
| 3       | Shorfalls, lapses and deficiencies | 0.587          | 5             |
| Total   |                                    | 12.654         |               |

### 1. Mismanagement – Nu. 2.132 million

There was a case of mismanagement involving Nu. 2.132 million as indicated below:

#### 1.1 Wasteful Expenditure – Nu. 2.132 million

The Bhutan Olympic Committee had made expenditure of Nu. 2.132 million in the construction of basketball court in the synthetic track facilities at the Citizen Initiative Centenary Celebration ground which was completed in 2010. The basket ball court has not been brought to use so far. Unless the basket ball court is put to proper use, the expenditure incurred may prove to be wasteful. (AIN: 10711, Para 3; Accountabilities: Direct: Dorji Tenzin, General Secretary, Bhutan Amateur Athletics Federation, EID No. 9108041 & Kinzang Wangdi, Consultant, Wazer Associates, CID No. 1151300117; Supervisory: Dorji Tenzin, General Secretary, Bhutan Amateur Athletics Federation, EID No. 9108041 & Sonam Karma Tshering, Secretary General, BOC, EID No. 9610047)



## 2. Violation of Laws and Rules – Nu. 9.935 million

There were cases of violation of laws and rules involving Nu. 9.935 million as indicated below:

### 2.1 Direct award of work – Nu. 9.935 million

- a) The Bhutan Olympic Committee had directly awarded the work of construction of basketball court in the Synthetic Track Facilities at the Citizen Initiative Centenary Celebration ground to M/s Master Construction at the quoted amount of Nu. 1.989 million. *(AIN: 10711, Para 2; Accountabilities: Direct: Dorji Tenzin, General Secretary, Bhutan Amateur Athletics Federation, EID No. 9108041 & Kinzang Wangdi, Consultant, Wazer Associates, CID No. 1151300117; Supervisory: Dorji Tenzin, General Secretary, Bhutan Amateur Athletics Federation, EID No. 9108041 & Sonam Karma Tshering, Secretary General, BOC, EID No. 9610047)*
- b) The Bhutan Olympic Committee had directly awarded the Consultancy Services of engineering design and supervision work of the construction of shooting shed cum office and 50 bedded hostel to a non Bhutanese individual at Nu. 2.352 million. It was found that the direct award was made as no other firms came forward when the tenders were floated in the media. Further, the said consultant was not registered with the Construction Development Board (CDB). *(AIN: 10711, Para 4.1; Accountabilities: Direct: Individuals concerned; Supervisory: Lyonpo Dr. Kinzang Dorji, President, BAAF & Sonam Karma Tshering, Secretary General, BOC, EID No. 9610047)*
- c) The Bhutan Olympic Committee had directly awarded the work of construction of prefab office cum shooting shed and walk way to M/s Green Wood Manufacturing Corporation, Phuentsholing at Nu. 5.594 million without calling quotations. *(AIN: 10711, Para 5.1; Accountabilities: Direct: Individuals concerned; Supervisory: Lyonpo Dr. Kinzang Dorji, President, BAAF & Sonam Karma Tshering, Secretary General, BOC, EID No. 9610047)*

## 3. Shortfalls, Lapses and Deficiencies – Nu. 0.587 million

There was a case of shortfalls, lapses and deficiencies involving Nu. 0.587 million as summarized below:

| Sl. No. | Observation in brief | Nu. in million |
|---------|----------------------|----------------|
| 3.1     | Irregular payment    | 0.587          |
|         | <b>Total</b>         | <b>0.587</b>   |

The case of shortfalls, lapses and deficiencies is as indicated below:



### 3.1 Irregular payment – Nu. 0.587 million

The Bhutan Olympic Committee had made irregular payment of advances amounting to Nu. 0.587 million in the work of drawing, designing, preparing estimates, getting approval and supervision of construction of office cum archery shed and 50 bedded hostel. It was found that the works which were supposed to be completed by 30<sup>th</sup> May 2011 have not been started at the time of audit (April 2012). As such the admissibility of payment made to the consultant was found irregular. (AIN: 10711, Para 4.2; Accountabilities: Direct: Individuals concerned; Supervisory: Lyonpo Dr. Kinzang Dorji, President, BAAF & Sonam Karma Tshering, Secretary General, BOC, EID No. 9610047)

#### 4.4.4 Bhutan Football Federation

During the period the Royal Audit Authority had issued 2 audit reports of the Bhutan Football Federation. There were 3 observations pointed out in the reports, involving Nu. 1.621 million, out of which an observation amounting to over Nu. 0.008 million was partially resolved prior to compilation of draft Annual Audit Report 2012. The total unresolved significant observations reflected in the AAR 2012 amounted to Nu. 1.613 million as summarized below:

| Sl. No. | Observation Category                | Nu. in million | Category Code |
|---------|-------------------------------------|----------------|---------------|
| 1       | Shortfalls, lapses and deficiencies | 1.613          | 5             |
|         | <b>Total</b>                        | <b>1.613</b>   |               |

#### 1. Shortfalls, Lapses and Deficiencies – Nu. 1.613 million

There were cases of shortfalls, lapses and deficiencies involving Nu. 1.613 million as summarized below:

| Sl. No. | Observation in brief       |              |
|---------|----------------------------|--------------|
| 1.1     | Irregularities in advances | 0.040        |
| 1.2     | Non deduction of TDS       | 0.316        |
| 1.3     | Outstanding Advances       | 1.257        |
|         | <b>Total</b>               | <b>1.613</b> |

The cases of shortfalls, lapses and deficiencies are as indicated below:

#### 1.1 Irregularities in advances – Nu. 0.040 million

The Bhutan Football Federation had made inadmissible payment of advance amounting to Nu. 0.040 million to M/s Rang Lug Consultant for the consultancy services for the Goal Project II. It was noted that the project was fully funded by FIFA and the consultant was to be paid directly by the FIFA and not by the BFF. (AIN: 10697,



*Para 1; Accountabilities: Direct: Ugyen Wangchuk, General Secretary, CID No. 11411002674; Supervisory: Ugyen Wangchuk, General Secretary, CID No. 11411002674)*

## **1.2 Non deduction of TDS – Nu. 0.316 million**

The Bhutan Football Federation had not deducted 2% TDS amounting to Nu 0.316 million (US \$ 5,892.40) in the consultancy services provided by various consultants. *(AIN: 10705, Para 1; Accountabilities: Direct: Tara Bir Rai, Accounts Officer, CID No. BHA (dcrc-23) 2011/318; Supervisory: Ugyen Wangchuk, General Secretary, CID No. 11411002674)*

## **1.3 Outstanding Advances – Nu. 1.257 million**

The Bhutan Football Federation had outstanding advances of Nu. 1.257 million against various officials *(AIN: 10697, Para 2; Accountabilities: Direct: Ugyen Wangchuk, General Secretary, CID No. 11411002674; Supervisory: Ugyen Wangchuk, General Secretary, CID No. 11411002674)*

### **4.4.5 Tourism Council of Bhutan**

During the period the Royal Audit Authority had issued two audit reports of the Tourism Council of Bhutan. There were two observations pointed out in the reports, involving Nu. 33.205 million, out of which an observation amounting to over Nu. 32.057 million were either resolved or not considered for inclusion in the Annual Audit Report 2012. The total unresolved significant observations reflected in the AAR 2012 amounted to Nu. 0.348 million as summarized below:

| Sl. No. | Observation Category                | Nu. in million | Category Code |
|---------|-------------------------------------|----------------|---------------|
| 1       | Shortfalls, lapses and deficiencies | 0.348          | 5             |
|         | <b>Total</b>                        | <b>0.348</b>   |               |

### **1. Shortfalls, Lapses and Deficiencies – Nu. 0.348 million**

There was a case of shortfalls, lapses and deficiencies involving Nu. 0.348 million as indicated below:

#### **1.1 Irregular Payment – Nu. 0.348 million**

The Tourism Council of Bhutan had made irregular payment of Nu. 0.348 million on account of penalty for delay in the payment for the procurement of tractor. It was found that the penalty was not covered by the terms and conditions of the supply. *(AIN: 10781, Para 4; Accountabilities: Direct: Individuals concerned; Supervisory: Karma Wangdi, Project Manager, EID No. 7504016)*



#### 4.4.6 Judiciary

During the period the Royal Audit Authority had issued 27 audit reports of the Judiciary. There were 18 observations pointed out in the reports, involving Nu. 5.558 million, out of which observations amounting to over Nu. 4.388 million were either resolved prior to compilation of draft Annual Audit Report 2012 or did not qualify for inclusion in the draft AAR 2012. The total unresolved significant observations reflected in the draft AAR 2012 amounted to Nu. 1.170 million.

Based on the responses received after the issue of draft AAR 2012 and action taken by the Royal Court of Justice, observations amounting to Nu. 0.320 million were either resolved fully or substantially. The total unresolved significant irregularities amounted to Nu. 0.850 million as summarized below:

| Sl. No. | Observation Category        | Nu. in million | Category Code |
|---------|-----------------------------|----------------|---------------|
| 1       | Violation of laws and rules | 0.850          | 4             |
|         | <b>Total</b>                | <b>0.850</b>   |               |

##### 1. Violation of Laws and Rules – Nu. 0.850 million

There were cases of violation of laws and rules involving Nu. 0.850 million as summarized below:

| Sl. No. | Observation in brief           | Nu. in million |
|---------|--------------------------------|----------------|
| 1.1     | Non levy of liquidated damages | 0.615          |
| 1.2     | Non realization of fines       | 0.235          |
|         | <b>Total</b>                   | <b>0.850</b>   |

The cases of violation of laws and rules are as indicated below:

##### 1.1 Non levy of liquidated damages – Nu. 0.615 million

The DANIDA project, “Institutional Strengthening of Mongar District Court and Access to Justice” implemented by Supreme Court had not levied liquidated damage of Nu. 0.615 million for delay in the completion of construction. (AIN: 10626, Para 1; Accountabilities: Direct: Dechen Wangmo, Junior Engineer, CID No. 11512001621; Supervory: Gyeltshen Wangdi, Project Architect, CID No. 11512004618)

##### 1.2 Non realization of fines – Nu. 0.235 million

The Royal Court of Justice, Dagana had not realized the fine of Nu. 0.235 million from the contractor who was imposed fine for submission of falsified documents that facilitated and enabled him to achieve higher bid capacity at the time of evaluation. (AIN: 10658, Para 1; Accountabilities: Direct: Taran Gurung, Bench Clerk, CID No. 10309000094; Supervisory: P.L Gurung, Drangpon, EID No. 7903027)



## 4.5 CORPORATIONS

### 4.5.1 Penden Cement Authority Limited

During the period the Royal Audit Authority had issued one audit report of the Penden Cement Authority Limited. There were 24 observations pointed out in the report involving Nu. 17.105 million, out of which observations amounting to over Nu. 5.457 million were either resolved prior to compilation of draft Annual Audit Report 2012 or did not qualify for inclusion in the draft AAR 2012. The total unresolved significant observations reflected in the draft AAR 2012 amounted to Nu. 11.648 million.

Based on the responses received after the issue of draft AAR 2012 and action taken by the management, observations amounting to Nu. 7.742 million were either resolved fully or substantially. The total unresolved significant irregularities amounted to Nu. 3.906 million as summarized below:

| Sl. No. | Observation Category             | Nu. In Million | Category Code |
|---------|----------------------------------|----------------|---------------|
| 1       | Fraud, Corruption & Embezzlement | 1.538          | 1 & 2         |
| 2       | Mismanagement                    | 1.438          | 3             |
| 3       | Violation of laws and rules      | 0.930          | 4             |
| Total   |                                  | 3.906          |               |

#### 1. Fraud, Corruption and Embezzlement – Nu. 1.538 million

There were cases of indicators of fraud, corruption and embezzlement involving Nu. 1.538 million as summarized below:

| Sl. No. | Observation in brief  | Nu. in million |
|---------|---|----------------|
| 1.1     | Possible deflection of cement en-route and recoverable amount | -              |
| 1.2     | Shortage of cement  | 1.538          |
| 1.3     | Irregularities in engagement of transporters                  | -              |
| 1.4     | Non monitoring of sales made by cement agents                 | -              |
| Total   |   | 1.538          |

The cases of fraud, corruption and embezzlement are as indicated below:

#### 1.1 Possible deflection of cement en-route and recoverable amount

There were possible indications of deflection of cement en-route to Depot at Phuentsholing from PCAL factory. It was noted that 245 MT of cement valuing Nu. 1.265 million had not reached the Phuntsholing Depot even as of date of audit ( June



2012) after it was dispatched from the factory in March and April 2012. It also revealed that there was a lack of monitoring on the movement and delivery of cement consignments by the Sales and Marketing Division of the PCAL, the Phuentsholing Depot Incharge and the Customs Officials of the RRCO, Phuentsholing as numerous cases of delays ranging from 4 to as high as 75 days were noted in the delivery of consignments at the Phuentsholing Depot.

Further, physical verifications of stock balance at the end of the year was not confirmed independently by a team from the Head Office or internal auditors to validate the verification reports. *(AIN: 10787, Para 2.1; Accountabilities: Direct: Sonam Dorji, Depot Incharge, Phuentsholing, CID No. 11512002440 and Sherab Tenzin, Manager, (S&M), CID No. 11604000647; Supervisory: Tashi Tshering, former Managing Director, CID No. 11502000643)*

## **1.2 Shortage of cement – Nu. 1.538 million**

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The Phuentsholing Depot had a shortage of 288.68 MT of cement valuing Nu. 1.538 million detected during physical verification carried out by a team of four officials from PCAL during change of depot managers. *(AIN: 10787, Para 2.2; Accountabilities: Direct: Sonam Dorji, Depot Incharge, Phuentsholing, CID No. 11512002440; Supervisory: Sherab Tenzin, Manager, (S&M), CID No. 11604000647)*

## **1.3 Irregularities in engagement of transporters**

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The PCAL had awarded the additional transportation contract to M/s Dupwang Transport at the lowest rate of Nu. 272.00 per MT quoted by Tshewang Transport without any basis of selecting among 8 other bidders who had also responded to the NIQ. On expiry of the contract with two transporters, new tenders were floated. However, it was cancelled and transportation contract was directly awarded to eleven transporters at Nu. 220.00 per MT through issue of work order. It was also found that the copies of vehicle documents were not available which was required under Terms and Conditions of the Contract. In further deviation to the Terms and Conditions of the Contract, numerous instances were noted where same vehicles were used by as many as six transporters. *(AIN: 10787, Para 2.3; Accountabilities: Direct: Sonam Dorji, Depot Incharge, Phuentsholing, CID No. 11512002440 and Sherab Tenzin, Manager (S&M), CID No. 11604000647; Supervisory: Tashi Tshering, former Managing Director, CID No. 11502000643)*

## **1.4 Non monitoring of sales made by cement agents**

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Review of the records maintained by two select agents revealed that neither the Depot in-charge nor the officials from the Sales and Marketing Division had visited these agents to monitor the sales made thereof and to ensure that sales made were to the domestic customers. There were discrepancies in the figures of sales reported to the Sales and Marketing Division and the actual sales made during the year pertaining to these agents. *(AIN: 10787, Para 2.4; Accountabilities: Direct: Sonam Dorji, Depot Incharge, Phuentsholing, CID No. 11512002440 and Sherab Tenzin, Manager (S&M), CID No. 11604000647; Supervisory: Tashi Tshering, former Managing Director, CID No. 11502000643)*



## 2. Mismanagement – Nu. 1.438 million

There were cases of mismanagement involving Nu. 1.438 million as summarized below:

| Sl. No. | Observation in brief   | Nu. in million |
|---------|--|----------------|
| 2.1     | Irregular purchase of land belonging to the spouse of Board Director | -              |
| 2.2     | Wasteful expenditure   | 1.438          |
| 2.3     | Engagement of vehicles owned by the PCAL staff                       | -              |
|         | <b>Total</b>   | <b>1.438</b>   |

The cases of mismanagement are as indicated below:

### 2.1 Irregular purchase of land belonging to the spouse of a Board Director

The Penden Cement Authority Limited had purchased one acre of land directly from Mrs. Rinzin Rabgay in 2011 for construction of cement depot at Gelephu with a view to avoid deflection of cement meant for domestic use to the Indian market en-route from Indian territory and make cement available at all times in the domestic market. It was found that the seller is a spouse of Karima Tenzin, Board Director at that time. It was noted that PCAL had acquired one acre of land intended for the purpose from different party in 2007 but cement depot was not constructed. The management had looked for alternative land for the purpose. The invitation for the offers was made and of the five respondents, Rinzin Chophel offered the lowest rates of Nu. 53,500.00 per decimal. The Purchasing Committee decided to accept the lowest offer but was found overruled and went for a direct purchase at the same rate offered by Mrs. Rinzin Rabgay.

It was a clear case of conflict of interest in the purchase of land from a wife of Board Director, who was present in the Board Meeting in violation of the Companies Act of the Kingdom of Bhutan 2000. Further, the land fell within Sarpang-Gelephu highway in the south and the boundary wall of the newly constructed domestic airport in the north which had rendered its usage very restrictive. The PCAL had made the payment without receiving clearance from the Department of Civil Aviation. The decision was apparently not in the interest of the company as the land could not be put into intended use. *(AIN: 10787, Para 1.1; Accountabilities: Direct: Tashi Tshering, former Managing Director, CID No. 11502000643; Supervisory: Tashi Tshering, former Managing Director, CID No. 11502000643)*

### 2.2 Wasteful expenditure – Nu. 1.438 million

- a) The PCAL had engaged one Board Director as a consultant on remuneration basis to identify the land for depot construction in the Thimphu region against which he was paid a total remuneration of Nu.0.038 million. Since the said Board Director was still a serving Director at the time of taking up such remunerative service, it was not known whether it was proper for him to take



up such assignment, although the same was approved by the Board. Moreover, the need for engaging a consultant for the purpose was also questionable as the PCAL had acquired the land on lease which was identified by itself and not the one recommended by the Consultant. It also transpired that as of date, the land acquired on lease could not be put into use, although the PCAL had already started incurring expenses on account of rent. (AIN: 10787, Para 1.2; Accountabilities: Direct: Tashi Tshering, former Managing Director, CID No. 11502000643; Supervisory: Tashi Tshering, former Managing Director, CID No. 11502000643)

- b) The consultancy works of “Studying planning the organizational Restructuring, Human Resource and functional set-ups towards combination through merger, amalgamation or in any other form of PCAL and Dungsam Cement Corporation Limited (DCCL)” was awarded to Druk Holding & Investment (DHI) at the fee of Nu. 1.800 million. The expenditure was to be shared equally between Penden Cement Authority Limited and Dungsam Cement Corporation Limited. The PCAL had paid its share of cost amounting to Nu. 0.900 million after the completion of work. However, the proposal to merge PCAL and DCCL was not approved by the Ministry of Finance resulting in wasteful expenditure to that extent.

The Consultancy work of “Commercial and Performance Management of PCAL” was awarded to Mr. Debrabata Chatterjee as per the approval accorded during the 130<sup>th</sup> PCAL Board Meeting at the lumpsum fee of Nu. 0.500 million. It was noted that the consultancy work was awarded directly without inviting competitive rates. A review of its implementation revealed that the management had hardly implemented the recommendations. Further, it was found that the consultant was provided free accommodation during his field visit to PCAL, Gomtu, which was not covered in the contract agreement. (AIN: 10787, Para 3.2(i&ii); Accountabilities: Direct: Tashi Tshering, former Managing Director, CID No. 11502000643; Supervisory: former Tashi Tshering, Managing Director, CID No. 11502000643)

### **2.3 Engagement of vehicles owned by the PCAL staff**

The PCAL had engaged vehicles belonging to its employees for transportation contracts in contravention to the directives of its 76<sup>th</sup> Board Meeting prohibiting engagement of vehicles owned by the employees for transportation contracts. It was found that the vehicles engaged were registered either in their names or in the names of their relatives. (AIN: 10787, Para 1.3; Accountabilities: Direct: Tashi Tshering, Managing Director, CID No. 11502000643; Supervisory: Tashi Tshering, former Managing Director, CID No. 11502000643)

### **3. Violation of Laws and Rules – Nu. 0.930 million**

There were cases of violation of laws and rules involving Nu. 0.930 million as summarized below:



| Sl. No. | Observation in brief                       | Nu. in million |
|---------|--|----------------|
| 3.1     | Direct award of work                       | -              |
| 3.2     | Irregular purchase of gift                 | 0.032          |
| 3.3     | Non levy of liquidated damage              | 0.385          |
| 3.4     | Irregular waiver/non imposition of penalty | 0.513          |
|         | <b>Total</b>                               | <b>0.930</b>   |

The cases of violation of laws and rules are as indicated below:

### 3.1 Direct award of work

The Penden Cement Authority Limited had made direct award of consultancy work in carrying out detailed feasibility study on Gomtu-Dorokha/Denchukha Ropeway project to M/s Conveyor & Ropeway Services Pvt. Limited, Kolkata at the lump sum amount of Nu. 1.600 million. From the review of documents relating to the progress of the work, it was observed that out of sixteen components of work and services that were to be delivered, two critical components of work were yet to be done. There were also delays in submitting the report for which liquidated damages of Nu. 0.080 million was not levied by the management. Further, it was noted that the bank guarantee submitted by the consultant had expired which may result in risk of recovery in the event of failure to complete the work. (AIN: 10787, Para 3.1; Accountabilities: Direct: Tashi Tshering, Managing Director, CID No. 11502000643; Supervisory: Tashi Tshering, former Managing Director, CID No. 11502000643)

### 3.2 Irregular purchase of gifts – Nu. 0.032 million

The amount of Nu. 0.032 million was incurred on purchase of Apple I-pad as an gift item for outgoing Chairman of PCAL. However, the value of the gift was over and above the ceiling prescribed in the Gift Rule issued by the Anti-Corruption Commission. Further, it was noted that the expenditure was booked under travel expenses which was not proper. (AIN: 10787, Para 4.2; Accountabilities: Direct: Tashi Tshering, Managing Director, CID No. 11502000643; Supervisory: Tashi Tshering, former Managing Director, CID No. 11502000643)

### 3.3 Non levy of liquidated damages – Nu. 0.385 million

- a) The Penden Cement Authority had not levied liquidated damages of Nu. 0.140 million on various suppliers for failure to supply the materials within the stipulated time. (AIN: 10787, Para 4.4; Accountabilities: Direct: Sangay Dorji, Head, Purchase, CID No. 11102003517; Supervisory: T.B. Gurung, GM, Procurement, CID No. 11201001626)
- b) The Penden Cement Authority had not levied liquidated damages of Nu. 0.245 million for the delay in supply of S7 200H Hot Redundant PLC system for Raw Mill and Phyro-Processing Plant by M/s Fox Solutions, Kolkata. (AIN: 10787, Para 4.5; Accountabilities: Direct: Kumar Darjee, Account Assistant, CID No.



### 3.4 Irregular waiver/non imposition of penalty – Nu. 0.513 million

- a) There was a case of irregular waiver of penalty amounting to Nu. 0.051 million on account of failure to raise the required quantity of limestone by the contractor. It was found that the penalty was waived off by the Senior General Manager (Mines) without the concurrence of the Management Committee. The waiver was not within the power of the General Manager. (AIN: 10787, Para 4.7; Accountabilities: Direct: Chumbi, ALO, CID No. 10802000343; Supervisory: Jigme Dorji, Dy. Manager, HRMD, CID No. 11102000400)
- b) The Penden Cement Authority Limited had not levied penalty of Nu. 0.462 million on account of failure of supplier to raise required quantity of limestone at Penden Quarry Mines for the year 2011. (AIN: 10787, Para 4.8; Accountabilities: Direct: N.B. Pokhrel, Sr. GM, Mines, CID No. 111080000671; Supervisory: Tashi Tshering, former Managing Director, CID No. 11502000643)

#### 4.5.2 State Trading Corporation of Bhutan Limited

During the period the Royal Audit Authority had issued one audit report of the State Trading Corporation of Bhutan Limited. There were 6 observations pointed out in the reports, involving Nu. 23.210 million, none of which were resolved prior to compilation of draft Annual Audit Report 2012. The total unresolved significant observations reflected in the draft AAR 2012 amounted to Nu. 23.210 million.

Based on the responses received after the issue of draft AAR 2012 and action taken by the management, observations amounting to Nu. 23.210 million were either resolved fully or substantially. The total unresolved significant irregularity is as summarized below:

| Sl. No. | Observation Category                | Nu. in million | Category Code |
|---------|-------------------------------------|----------------|---------------|
| 1       | Shortfalls, lapses and deficiencies | -              | 5             |
| Total   |                                     | -              |               |

#### 1. Shortfalls, Lapses and Deficiencies

There were cases of shortfalls, lapses and deficiencies as indicated below:

##### 1.1 Non/Improper reconciliation of accounts

- a) The State Trading Corporation of Bhutan Limited had unreconciled difference of Nu. 0.485 million in the Part wise summary ledger and Toyota Spare Parts stock not moved ledger. There were also cases of non reflection of stock balance of non-moving Toyota spare parts in ledgers. (AIN: 10548, Para 3 & 4;



*Accountabilities: Direct: Tshering Wangdi, Manager, EID No. 1206; Supervisory: Karma Gyeltshen, General Manager, EID No. 1055)*

- b) There were variations in the closing stock balance of Toyota Spare Parts for the year 2009 vis-à-vis opening stock balances of the financial year 2010. *(AIN: 10548, Para 6; Accountabilities: Direct: Tshering Wangdi, Manager, EID No. 1206; Supervisory: Karma Gyeltshen, General Manager, EID No. 1055)*

#### 4.5.3 Bhutan Postal Corporation Limited

During the period the Royal Audit Authority had issued one audit report of the Bhutan Postal Corporation Limited. There was one observation pointed out in the report, which was not resolved prior to compilation of draft Annual Audit Report 2012. The total unresolved irregularity is as summarized below:

| Sl. No. | Observation Category        | Nu. in million | Category Code |
|---------|-----------------------------|----------------|---------------|
| 1       | Violation of laws and rules | -              | 4             |
|         | <b>Total</b>                | <b>-</b>       |               |

#### 1. Violation of Laws and Rules

There was a case of violation of laws and rules as summarized below:

| Sl. No. | Observation in brief                           | Nu. in million |
|---------|--|----------------|
| 1.1     | Leasing of building without tender formalities | -              |
|         | <b>Total</b>                                   | <b>-</b>       |

The case of violation of laws and rules is as indicated below:

#### 1.1 Leasing of building without tender formalities

The Bhutan Postal Corporation Limited, Phuentsholing had leased out a building located in Phuentsholing town to a private individual without observing proper tender formalities. It was found that the lessee had further rented the building to other individuals at higher rates. *(AIN: 10746, Para 1; Accountabilities: Direct: Jigme Tenzin, Manager Corporate, EID No. 2011229; Supervisory: Damcho Tshering, General Manager, EID No. 9610031)*

#### 4.5.4 Bhutan Power Corporation Limited

During the period the Royal Audit Authority had issued 21 audit reports of the Bhutan Power Corporation Limited. There were 30 observations pointed out in the reports, involving Nu. 94.566 million, out of which observations amounting to over Nu. 25.954 million were either resolved prior to compilation of draft Annual Audit Report 2012 or



did not qualify for inclusion in the draft AAR 2012. The total unresolved significant observations reflected in the draft AAR 2012 amounted to Nu. 68.612 million.

Based on the responses received after the issue of draft AAR 2012 and action taken by the management, observations amounting to Nu. 68.502 million were either resolved fully or substantially. The total unresolved significant irregularities amounted to Nu. 0.110 million as summarized below:

| Sl. No. | Observation Category                 | Nu. in million | Category Code |
|---------|--------------------------------------|----------------|---------------|
| 1       | Shortfalls, Lapses and Mismanagement | 0.110          | 5             |
|         | <b>Total</b>                         | <b>0.110</b>   |               |

## 1. Shortfalls, Lapses and Deficiencies – Nu. 0.110 million

There was a case of shortfalls, lapses and deficiencies involving Nu. 0.110 million as indicated below:

### 1.1 Non realization of material cost – Nu. 0.110 million

The Electricity Services Division, Trongsa had not realized the cost of Nu. 0.110 million incurred on substation items procured and supplied to the contractor by ESD in the construction of base substation for the extension of 33KV line from Jeepam village till Viewpoint. *(AIN: 10582, Para 4; Accountabilities: Direct: Sherab Jamtsho, Manager, EID No. 30000348; Supervisory: Sherab Jamtsho, Manager, EID No. 30000348)*

## 4.5.5 Food Corporation of Bhutan Limited

During the period the Royal Audit Authority had issued 7 audit reports of the Food Corporation of Bhutan Limited. There were 9 observations pointed out in the reports, involving Nu. 40.947 million, out of which observations amounting to over Nu. 0.158 million were either resolved prior to compilation of draft Annual Audit Report 2012 or did not qualify for inclusion in the draft AAR 2012. The total unresolved significant observations reflected in the draft AAR 2012 amounted to Nu. 40.789 million as summarized below:

Based on the responses received after the issue of draft AAR 2012 and action taken by the management, observations amounting to Nu. 40.222 million were either resolved fully or substantially. The total unresolved significant irregularities amounted to Nu. 0.567 million as summarized below:

| Sl. No. | Observation Category               | Nu. in million | Category Code |
|---------|------------------------------------|----------------|---------------|
| 1       | Violation of laws and rules        | 0.216          | 4             |
| 2       | Shorfalls, lapses and deficiencies | 0.351          | 5             |
|         | <b>Total</b>                       | <b>0.567</b>   |               |



## 1. Violation of Laws and Rules – Nu. 0.216 million

There was a case of violation of laws and rules involving Nu. 0.216 million as indicated below:

### 1.1 Acceptance of items beyond ordered quantity – Nu. 0.216 million

The Food Corporation of Bhutan Limited had made excess payment of Nu. 0.216 million for the purchase made beyond the quantities specified in the purchase orders. It was found that rates charged for the excess quantity were higher. *(AIN: 10759, Para 1.2; Accountabilities: Direct: Singay Dukpa, JMD, CID No. 10203000011; Supervisory: Kunzang Namgyel, Managing Director, CID No. 10808001323)*

## 2. Shortfalls, Lapses and Deficiencies – Nu. 0.351 million

There was a case of shortfalls, lapses and deficiencies involving Nu. 0.351 million as summarized below:

### 2.1 Grant of credit facility without liquidating earlier dues – Nu. 0.351 million

The Food Corporation of Bhutan Limited, Paro Depot had sold goods worth Nu. 0.351 million on credit to the Planters Commercial without liquidating previous dues in contravention to the Guidelines of the Credit Policy on the sale of Food Grain and Agency items. *(AIN: 10197, Para 1; Accountabilities: Direct: Singay Dukpa, JMD, CID No. 10203000011; Supervisory: Singay Dukpa, JMD, CID No. 10203000011)*

## 4.5.6 Construction Development Corporation Limited

During the period the Royal Audit Authority had issued 3 audit reports of the Construction Development Corporation Limited. There were 3 observations pointed out in the reports, involving Nu. 17.082 million, out of which observation amounting to Nu. 17.052 million were either resolved or not considered for inclusion in the Annual Audit Report 2012. The total unresolved significant observations reflected in the AAR 2012 amounted to Nu. 0.030 million.

| Sl. No. | Observation Category | Nu. In Million | Category Code |
|---------|----------------------|----------------|---------------|
| 1       | Mismanagement        | 0.030          | 3             |
| Total   |                      | 0.030          |               |

### 1. Mismanagement – Nu. 0.030 million

There was a case of mismanagement involving Nu. 0.030 million as indicated below:



## 1.1 Short collection of hiring charges – Nu. 0.030 million

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The Construction Development Corporation Limited, Hesothangkha had made short collection of hiring charges amounting to Nu. 0.030 million. The short collection had occurred due to over writings on the log book which had reduced the number of hours recorded earlier. *(AIN: 10629, Para 1; Accountabilities: Direct: Kinza Norbu, EID No. 9001130; Supervisory: Tshewang Phuntsho, General Manager, EID No. 7812005)*



## 4.7 NON GOVERNMENTAL ORGANIZATIONS

### 4.7.1 Royal Society for Protection of Nature, Thimphu

During the period the Royal Audit Authority had issued one audit report of the Royal Society for the Protection of Nature, Thimphu. There were 5 observations pointed out in the reports, involving Nu. 2.063 million, out of which observations amounting to over Nu. 2.001 million were either resolved or not considered for inclusion in the AAR 2012. The total unresolved significant observations reflected in the AAR 2012 amounted to Nu. 0.062 million as summarized below:

| Sl. No. | Observation Category                | Nu. in million | Category Code |
|---------|-------------------------------------|----------------|---------------|
| 1       | Violation of laws and rules         | 0.062          | 4             |
| 2       | Shortfalls, lapses and deficiencies | 0.000          | 5             |
| Total   |                                     | 0.062          |               |

#### 1. Violation of laws and rules – Nu. 0.062 million

There was a case of violation of laws and rules involving Nu. 0.062 million as indicated below:

##### 1.1 Excess payment – Nu.0.062 million

The Royal Society for Protection of Nature had made excess payment of Nu. 0.062 million in the work of 'Laying granite on the stairs case'. The excess payment had occurred due to payment made for more quantity of work than actually executed at site. (AIN 10322; Para 1.3; Accountabilities: Direct: Wangchuk Namgay, Project Manager, EID No.200207098; supervisory: Lam Dorji, Executive Director, CID No.108110878)

#### 2. Shortfalls, Lapses and Deficiencies

There was a case of shortfalls, lapses and deficiencies as indicated below:

##### 2.1 Unjustified payment on plinth protection and drain works

The Royal Society for Protection of Nature had made unjustified payment for the work of plinth protection and drain around the office block and ERC building. It was found that the work was not executed. (AIN 10322; Para 1.1; Accountabilities: Direct: Wangchuk Namgay, Project Manager, EID No.200207098; Supervisory: Lam Dorji, Executive Director, CID No.108110878)



## 4.7.2 National Women's Association of Bhutan

During the period the Royal Audit Authority had issued three audit reports of the National Women's Association of Bhutan, Thimphu. There were 3 observations pointed out in the reports, involving Nu. 0.298 million, out of which observations amounting to over Nu. 0.298 million were resolved prior to compilation of draft Annual Audit Report 2012. The total unresolved significant irregularities are as summarized below:

| Sl. No. | Observation Category | Nu. In Million | Category Code |
|---------|----------------------|----------------|---------------|
| 1       | Mismanagement        | 0.000          | 3             |
| Total   |                      | 0.000          |               |

### 1. Mismanagement

The cases of mismanagement are as summarized below:

| Sl. No. | Observation in brief        | Nu. in million |
|---------|-----------------------------|----------------|
| 1.1     | Paper factory lying idle    | -              |
| 1.2     | Non maintenance of property | -              |
| Total   |                             | -              |

The cases of mismanagement are as indicated below:

#### 1.1 Paper factory lying idle

The National Women's Association of Bhutan had kept the paper factory at Ngatshang, Mongar idle for over two years. It was primarily due to damages caused by earthquake in 2009. Since then the NWAB had not been able to maintain it and put to use. (AIN 10483; Para 2; Accountabilities: Direct: Yangchen Pelden, Adm. Officer, CID No.10810000988; Supervisory: Yangchen Pelden, Adm. Officer, CID No.10810000988)

#### 1.2 Non-maintenance of properties

The National Handloom Development Centre, Khaling has two number of double storied building (office and staff quarter) constructed in 1986, which is in dire need of renovation/maintenance. (AIN 10449; Para 2; Accountabilities: Direct: Jambay Zangmo, Dy. Manager, CID No.11405000703; Supervisory: Jambay Zangmo, Dy. Manager, CID No.11405000703)



### 4.7.3 Tarayana Foundation

During the period the Royal Audit Authority had issued one audit report of the Tarayana Foundation. There were 2 observations pointed out in the report, involving Nu. 0.215 million, none of which were resolved prior to compilation of draft Annual Audit Report 2012. The total unresolved significant observations reflected in the AAR 2012 amounted to Nu. 0.215 million as summarized below:

| Sl. No. | Observation Category                | Nu. in million | Category Code |
|---------|-------------------------------------|----------------|---------------|
| 1       | Shortfalls, lapses and deficiencies | 0.215          | 5             |
|         | <b>Total</b>                        | <b>0.215</b>   |               |

#### 1. Shortfalls, Lapses and Deficiencies – Nu. 0.215 million

There were cases of shortfalls, lapses and deficiencies involving Nu. 0.215 million as summarized below:

| Sl. No. | Observation in brief   | Nu. in million |
|---------|--|----------------|
| 1.1     | Outstanding advances   | 0.099          |
| 1.2     | Differences in the amount reported in the Financial Statement and the amount as per payment voucher and supporting documents | 0.116          |
|         | <b>Total</b>   | <b>0.215</b>   |

The cases of shortfalls, lapses and deficiencies are as indicated below:

#### 1.1 Outstanding Advances – Nu. 0.099 million

The Project Fredskorpset-Peacecom5 South-South Exchange Program implemented by Tarayana Foundation had outstanding advances of Nu. 0.099 million against various officials. *(AIN 10747; Para 1; Accountabilities: Direct: Roseleen Gurung Program Officer, CID No.11812000633; Supervisory: Chime P.Wangdi, Secretary General, CID No.11410003243)*

#### 1.2 Differences in the amount reported in the Financial Statement and the amount as per payment voucher and supporting documents – Nu.0.116 million

The Project Fredskorpset-Peacecom5 South-South Exchange Program implemented by Tarayana Foundation had differences of Nu. 0.116 million in the amount reported in the Financial Statement and the amount as per payment voucher and supporting documents. *(AIN 10747; Para 2; Accountabilities: Direct: Roseleen Gurung Program Officer, CID No.11812000633; Supervisory: Chime P.Wangdi, Secretary General, CID No.11410003243)*



#### 4.7.4 Loden Foundation

During the period the Royal Audit Authority had issued one audit report of the Loden Foundation. There were 3 observations pointed out in the report, involving Nu. 0.291 million, none of which were resolved prior to compilation of draft Annual Audit Report 2012. The total unresolved significant observations reflected in the draft AAR 2012 amounted to Nu. 0.291 million.

Based on the responses received after the issue of draft AAR 2012 and action taken by the management, observations amounting to Nu. 0.091 million were either resolved fully or substantially. The total unresolved significant irregularities amounted to Nu. 0.200 million as summarized below:

| Sl. No. | Observation Category                | Nu. in million | Category Code |
|---------|-------------------------------------|----------------|---------------|
| 1       | Shortfalls, lapses and deficiencies | 0.200          | 5             |
|         | <b>Total</b>                        | <b>0.200</b>   |               |

#### 1. Shortfalls, Lapses and Deficiencies – Nu. 0.200 million

There was a case of shortfalls, lapses and deficiencies involving Nu. 0.200 million as indicated below:

##### 1.1 Default in loan repayment – Nu.0.200 million

The Loden Foundation had granted interest free loan of Nu. 0.200 million to one individual to set up culture guest house at Ura in December 2009 to be repaid after grace period of six months in installments. However, not a single installment has been received as on April 2012. *(AIN 10558; Para 2; Accountabilities: Direct: Phub Wangdi, Finance Officer, CID No.1191002011; Supervisory: Dorji Tashi, Coordinator, CID No.10104000758)*



## 4.8 POLITICAL PARTIES

### 4.8.1 Druk Phuensum Tshogpa

During the period the Royal Audit Authority had issued one audit report of the Druk Phuensum Tshogpa. There were 2 observations pointed out in the report, involving Nu. 0.628 million, none of which were resolved prior to compilation of draft Annual Audit Report 2012. The total unresolved significant observations reflected in the draft AAR 2012 amounted to Nu. 0.628 million as summarized below:

| Sl. No. | Observation Category                | Nu. in million | Category Code |
|---------|-------------------------------------|----------------|---------------|
| 1       | Shortfalls, lapses and deficiencies | 0.628          | 5             |
|         | <b>Total</b>                        | <b>0.628</b>   |               |

#### 1. Violation of laws and rules – Nu. 0.628 million

There was a case of shortfalls, lapses and deficiencies involving Nu. 0.628 million as indicated below:

##### 1.1 Accounts Receivables – Nu. 0.628 million

The Druk Phuensum Tshogpa Secretariat had unadjusted advances lying against employees, party members and regional coordinators as on 30<sup>th</sup> June 2012 amounting to Nu.0.628 million. *(AIN 10710; Para 2)*

### 4.8.2 The People's Democratic Party

During the period the Royal Audit Authority had issued one audit report of the People's Democratic Party. There were 6 observations pointed out in the report, involving Nu. 25.658 million, none of which were resolved prior to compilation of draft Annual Audit Report 2012. The total unresolved significant observations reflected in the AAR 2012 amounted to Nu. 25.658 million as summarized below:

| Sl. No. | Observation Category                | Nu. In Million | Category Code |
|---------|-------------------------------------|----------------|---------------|
| 1       | Violation of laws and rules         | 25.658         | 4             |
| 2       | Shortfalls, lapses and deficiencies | 0.000          | 5             |
|         | <b>Total</b>                        | <b>25.658</b>  |               |

#### 1. Violation of laws and rules – Nu. 25.658 million

There were cases of violation of laws and rules involving Nu. 25.658 million as summarized below:



| Sl. No. | Observation in brief                               | Nu. in million |
|---------|--|----------------|
| 1.1     | Irregularities in loan outstanding                 | 21.721         |
| 1.2     | Membership application form used as money receipts | -              |
| 1.3     | Accumulated current liabilities                    | 3.937          |
|         | <b>Total</b>                                       | <b>25.658</b>  |

The cases of violation of laws and rules are as indicated below:

### 1.1 Irregularities in Loan Outstanding – Nu. 21.721 million

The People's Democratic Party had outstanding loan amounting to Nu. 21.721 million from BoBL which was liquidated by surrendering the land mortgaged in lieu of it. As the land belonged to former PDP president, the amount now stands as borrowing from him which is not permissible by Public Election Fund Act of the Kingdom of Bhutan 2008. Further, the PDP had not paid any loan installment to the incumbent as of July 2012. (AIN 10714; Para 1)

### 1.2 Membership Application Form used as Money Receipts

The People's Democratic Party had used Membership Application Form as an acknowledgement instead of Money Receipt, which is not a substitute of each other. (AIN 10714; Para 2)

### 1.3 Accumulated Current Liabilities – Nu. 3.937 million

The People's Democratic Party had accumulated current liabilities amounting to Nu.3.937 million. However, related documents in respect of current liabilities were not made available. (AIN 10714; Para 6)

## 2. Shortfalls, Lapses and Deficiencies

There were cases of shortfalls, lapses and deficiencies as summarized below:

| Sl. No. | Observation in brief                      | Nu. In million |
|---------|---|----------------|
| 2.1     | Missing Receipt Booklets                  | -              |
| 2.2     | Unreconciled recoveries and remittances   | -              |
| 2.3     | Irregularities in the financial statement | -              |
|         | <b>Total</b>                              | <b>-</b>       |

The cases of shortfalls, lapses and deficiencies are as indicated below:

### 2.1 Missing Receipt Booklets

The People's Democratic Party had cancelled 313 numbers of Money Receipt Booklets via print media to make those invalid. However, during joint physical verification, only



13 numbers of booklets were found while the whereabouts of 300 numbers of booklets were not known. (AIN 10714; Para 3)

## **2.2 Un-reconciled 'Recoveries & Remittances'**

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The People's Democratic Party had remitted statutory deductions in excess of what was actually recovered. (AIN 10714; Para 4)

## **2.3 Irregularities in the Financial Statement**

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The People's Democratic Party had unreconciled figure between the amount shown in the Financial Statement and the amount reflected as per the supporting documents. It was found that the account head – *Establishment, Administrative and Financial* also had substantial difference in amount reported in Financial Statement and amount worked out based on the supporting documents. (AIN 10714; Para 5)



# CHAPTER 5

## SUMMARY OF PERFORMANCE AND THEMATIC AUDIT REPORTS

During the period, the Royal Audit Authority issued following two performance audit reports:

| Sl. No. | Name of the Performance & Thematic Audit Reports   |
|---------|--|
| 1.      | Performance Audit of Environmental Issues in Forestry – NFI, Forest Fires & Watershed Management |
| 2.      | Performance Audit of Constituency Development Grant (CDG)  |

*Table 5.1: Details of Performance & Thematic Audit Reports issued during the year.*

### 5.1 Performance audit of environmental issues in Forestry – NFI, Forest Fires & Watershed Management

The Royal Audit Authority carried out the Performance Audit of Environmental Issues in Forestry – NFI, Forest Fires & Watershed Management on the modalities agreed under the cooperation framework of the INTOSAI Development Initiatives (IDI) and the INTOSAI WGEA with the following objectives:

- i. To assess whether the Department of Forest and Park Services has maintained the forest inventory as per type of vegetation, growing stock, description of stands, etc.,
- ii. To understand the rigor and adequacy of strategies implemented by the Department to manage forest fires and destruction of water quality risks.

#### 5.1.1 Positive findings

- Bhutan is ranked second in terms of proportion of forest cover to its land area amongst the countries in Asia and is expected to top amongst the countries in Asia in terms of proportion of forest cover to its land area with corrected land area of 38,394 Sq. Km;
- Bhutan is able to designate 51.44% of its total land area as protected areas, accounting for 19,703.57 sq. km (including 3,307.14 sq. km of biological corridors). Bhutan has five National Parks, four Wildlife Sanctuaries and one Strict Nature Reserve;



- To ensure sustained yield in perpetuity, providing social and economic benefits and maintaining environmental stability, the logging activities are carried out by the authorized agency, the Natural Resources Development Corporation Limited (NRDCL) from the Department identified Forest Management Units (FMUs). All FMUs have management plans for its scientific management drawn up by the Department and approved by the Ministry of Agriculture and Forests.
- To incorporate community participation in management, conservation and sustainable utilization of forest resources, the Community Forestry was established with endorsement of the Nature and Forest Conservation Act 1995. Currently, there are 315 Community Forests extending over an area of 36,231 Ha and benefitting over 14,103 households;
- The biodiversity in Bhutan is outstanding with more than 5,600 species of vascular plants, over 600 species of birds and 190 species of mammals of which 14 species of birds and 26 species of mammals are featured in the World conservation Union's Red List of Threatened Species;
- Bhutan ensures its commitment to integrate the principles of sustainable development into its policies and programmes and reverse the loss of environmental resources as stated in one of the Millennium Development Goals; and
- Bhutan received many prestigious international recognitions and awards for outstanding leadership and contribution to conservation of global environment.

### 5.1.2 Lapses and Deficiencies

- The Department does not have specific reporting and monitoring requirement to check on the trend of the Constitutional requirement of maintaining a minimum of sixty percent forest cover for all times to come;
- The Department is still in the staggering process of formulation of the National Forest Inventory (NFI), which should in fact form the primary basis for any informed decision makings and prudent operations of forestry functions;
- There are as high as 43% of the Government Reserved Forest outside formal management regimes;
- The Coordination was generally not adequate between the Department and other related agencies, affecting smooth reporting and monitoring of activities;
- The forest in Bhutan is characterized by densely populated trees, which inherently exposes to risks of forest fires and poor habitat for big wildlife,



therefore necessitating interventions through carefully planned thinning programme;

- The Different divisions under the Department of Forests and Park Services maintain its own independent set of information structure and system. Thus, the existing information system is scattered over different divisions and units, affecting real time decision making and effective delivery of services. It also exhibits lack of consistency, duplication and existence of multiple channels of information disseminations;
- The forest fires are reportedly one of the main drivers of forest degradation in Bhutan. Its incidences are also more prone around settlements indicating its causes to be generally man made which beckons for requirement of extensive public awareness on its negative impact as well as of stricter enforcement and penalties. The Department also lacks reliable information on the incidences of forest fires to assist informed decision making and appropriate interventions; and
- The activities under watershed management are diverse with many stakeholders. The complex network and intricacies in its activities created confusion, with potential for responsibilities to be overlooked. The management also attributes constrain in human and financial resources for effectively delivery of their services. The audit is also of the opinion that deficiency in effective discharge of their responsibilities has resulted from lack of synergy between the related agencies, especially in between the DoF&PS and the National Environment Commission Secretariat (NECS) which is the lead agency for water resource management.

### 5.1.3 Recommendations

- The appropriate authority should clearly designate the responsible agency to uphold the Constitutional responsibilities of maintaining sixty percent forest cover. The responsible agency so designated should institute specific reporting and monitoring requirements to monitor changes and uphold the wisdom of Constitution in perpetuity;
- The Department should expedite development of the National Forest Inventory as it forms the fundamental inputs for informed decision makings and prudent operations of forestry functions;
- The Department should expedite preparation of formal management plans for those Government Reserved Forests which currently do not have one to ensure sustainable management of forests;
- Proper mechanism of coordination and communication should be established between the related agencies to facilitate smooth flow of information and enhance effective delivery of services;



- The Department may explore the prospect of forest thinning in areas where thinning may be necessary, particularly in forests designated for commercial timber harvesting and fire prone area;
- The Department may initiate integration of information system which currently is scattered over different divisions and units. Information integration would allow easy access and thus assist real time decision making and also help to resolve duplication and inconsistencies in information;
- The Department should also maintain updated database on incidences of forest fires around the country. The information would allow making appropriate interventions. There may also be a requirement of extensive public awareness on the negative impact of forest fires as it constitutes one of the main drivers of forest degradation in Bhutan; and
- The water resources development and management should be done in an integrated mode for long term sustainability. Sustained flow of water of good quality depends on the integrity of the watershed. Therefore, it is paramount that mechanism of institutional coordination and linkages i promoted with clear line of communication and responsibilities established so as to have the required watershed management inventory in place.

## 5.2 Performance Audit of Constituency Development Grant (CDG)

The Performance Audit of the Constituency Development Grant (CDG) was carried out with an overall objective to *“ascertain the economy, efficiency and effectiveness in the use of public resources in strengthening the democracy”* and aimed at verifying whether:

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



### 5.1.1 Findings

- As against the total fund of Nu. 282.00 million, activities involving Nu. 174.36 million were proposed and approved representing 62.82% of the earmarked fund;
- Community feedback received through survey questionnaires distributed to the direct beneficiaries in eighteen Constituencies indicated that the grant was beneficial for the rural community;
- Out of the 570 activities proposed, forty-six Constituencies had actually implemented 523 activities (91.75%). One Constituency had not proposed and implemented any CDG activities;
- As against Nu. 174.36 million proposed and approved for 570 activities, only Nu. 152.50 million representing 86% of approved budget was utilized;
- Actual utilization of Nu. 152.50 million represented only 54.07% of the total fund allocated which indicated possible lack of absorption capacity of the Constituencies;
- Expenditure of Nu. 9.91 million were incurred for activities which were not in keeping with Section 3.7 of the CDG Rules 2009;
- In twelve Constituencies, 25 activities were implemented benefiting the individual households only. Further, four activities implemented in three Constituencies had benefitted less than 10 households which was not consistent with the CDG Rules;
- The existing system of allocating the CDG equally amongst the Constituencies may not be reflective of varying national poverty index, geographical spread, population size, pace of economic development, accessibility and sizes of the Constituencies etc.;
- In many of the Constituencies and Gewogs, the maintenance and upkeep of the assets created by way of grant activity and maintenance of records were inadequate;
- Many Gewogs implementing the grant activity had not submitted periodic progress and final completion reports; and
- Backhoe loader procured at a cost of Nu. 2.070 million under the CDG funding was registered in the name of Ex-Gup instead of Gewog and the asset was hired out to him for a period of five years. Hire charges of Nu. 0.385 million was not collected from the Ex-Gup.



### 5.1.2 Recommendations

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



# CHAPTER 6

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## RECOMMENDATIONS

In accordance with the Section 44 of the Audit Act of Bhutan 2006, a dedicated chapter on audit recommendations is maintained to contain series of suggested course of actions that need to be acted upon by the audited agencies as well as relevant authorities in improving economy, efficiency and effectiveness of their operations in the use of public resources. The recommendations are generic and drawn on the basis of the overall findings and deficiencies noted in the operations of audited agencies during the year.

As of now since the institution of new democratically elected Government, the RAA has issued five Annual Audit Reports including AAR 2012. All these AAR contained several recommendations for parliamentary review and advice. Excepting a few cases, there have not been concrete decisions and advices on other recommendations included in AAR 2007 to AAR 2011. The RAA would, therefore, request if the Parliament may consider it necessary to review these recommendations and issue appropriate directives.

Apart from the recommendations in the individual audit reports, the Royal Audit Authority also formulates AG Advisory Series to report on the findings and recommendations of significant and frequently occurring issues or on specific issues of potential significance requiring timely attention of the Government.

With a view to improve the financial management practices in the government and achieve value for money in the public operations the following recommendations are made in the AAR 2012.

### **6.1 Need to carry out assessment of absorption capacity of the government in undertaking increasing developmental works**

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With the estimated outlay of Nu. 201 billion for the Eleventh Five Year Plan, which is about 35% (Nu. 201 - Nu. 148 / Nu. 148) above the total outlay of the Tenth Five Year Plan, the government agencies implementing the plans, are tasked with enormous responsibilities of showcasing their absorptive capacity in terms of institutional, organizational, human resource etc. If the absorptive capacity is constrained, it shall impede the effective and efficient utilization of development funds allocated.

Therefore, it is imperative that, government should look into carrying out assessment of absorption capacity of the government agencies, and identify the bottlenecks to formulate appropriate strategies to bridge the gap.



## **6.2 DPR should be made more accurate and reflective of actual geological conditions**

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There have been many instances where Detailed Project Report were inaccurate either due to inadequacies in preliminary studies such as geo-technical, feasibility studies, topographical survey and lack of due diligence and care in the preparation of DPR and detailed drawings and designs. The accountability of the Consulting Firms were also not defined for erroneous preparation of the DPR. Such inaccuracies resulted in many ad-hoc changes including changes of construction sites after incurring substantial amounts of expenditure with resultant time and cost overruns besides risk of possible qualitative implications due to ad-hoc changes. There were also instances of implementation of projects hastily without adequate planning, co-ordination, monitoring and controls, which may impede economy, efficiency and effectiveness in the use of public resources. Moreover, since Procurement Rules and Regulations do not stipulate requirement for carrying out preliminary studies such as topographical survey, geo-tech study, hydrological study etc., such important studies are usually not carried out

The Government should ensure that large projects are executed only upon proper planning, detailed preliminary studies and that Detailed Project Reports are prepared accurately. Topographic and geo-tech studies must be carried out properly to avoid incurring of additional expenditure on account of adverse geological conditions; and need for conducting such preliminary studies should be clearly stipulated in the Procurement Rules and Regulations. There should also be mechanism established to hold the Consulting Firms or agencies liable for cost and time overruns as a result of inaccuracies in the DPR.

## **6.3 BOQ should more accurately reflect quantities of excavation works**

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There have been several cases where quantities of earth work excavation executed had far exceeded the BOQ quantities. Such variations were in alarming proportion even exceeding by over 1000% in some cases. As a consequence, since deviation in quantities of works executed beyond certain specified percentage (say 20%) is paid at analyzed rates which is usually much higher than competitive rates, huge amounts of extra expenditure is incurred by the Government not only for excavation work but also for removal of excavated materials. This is a trend even in mega projects implemented successively. Despite knowing that excavation works beyond quantities specified in the BOQ will lead to increased cost, no due diligence is exercised by the project management to accurately estimate and reflect the quantities in the BOQ. While in some cases the Government agencies had regulated the payments for additional quantities excavated as per tendered rates, this has not been the case in most construction projects including hydro power projects. Payments for excess quantities executed beyond variation limit are one of the main reasons for increase in the project costs.

It is not a prudent and sound financial management practice to continue to underestimate the quantities of works knowingly and incur huge additional expenditure by making payments at analysed rates despite past experiences of implementation of many such projects.



There is a need for instituting appropriate mechanism to address such problems either through thorough study of geological conditions and more accurately estimating quantities of excavation works or even by introducing appropriate changes in the procurement rules. Government should, therefore, review the existing procurement rules and address the issue so as to spend public money wisely. The requirement to exercise standards of economy and pursue prudent and sound financial management practices should also be extended to mega projects.

#### **6.4 Need to encourage mechanization of construction industry and innovation in building and other construction works**

The mechanization of the construction industry in the country is very limited and the construction works are very labour intensive and beyond what can be supported by the national work force. Consequently huge numbers of expatriate workers are engaged in the construction industries. This entails time and huge costs. As per the Report of the Task Force on Balance of Payments with India and the Rupee Shortage issued on March 5, 2012, an annual remittance by expatriates working in Bhutan was estimated to be about ₹ 256 million, which causes Rupee outflows<sup>1</sup>. In view of this, the Government may explore the possibility of mechanizing the construction industry to reduce the demand for expatriates as well as reduce the outflow of foreign reserves. The construction companies must be facilitated through appropriate means and policy directives to encourage use of machineries in their work and innovative constructions. There is a need to carry out research on Traditional Constructions having regard to local architectural requirements.

#### **6.5 Need to ensure realistic time stipulation for constructions**

The RAA during the year had observed frequent occurrences of time overruns in the construction and cases where time extensions were granted on request by the contractors or imposed liquidated damages for the delay in the completion of construction within the stipulated time. As the issue of contractors not being able to complete the work within the stipulated timeframe becomes endemic in the system, it certainly calls for the government to undertake appropriate studies to identify root causes leading to these problems. Apart from failure of the contractor due to their own incompetency for which the executing agencies could rightfully invoke the provision of penalty as per the contract term, failures due to unworkable period of construction stipulated in the contract must be addressed by the appropriate authorities. If the stipulation of period of construction is not realistic and not based on magnitude of work, it may not be just and seen fair to oblige the contractors to complete the work within such unworkable period and exert undue time pressure to complete the works. This approach also renders it difficult to enforce contractual obligations in the event of delays in completion of works.

<sup>1</sup> Page 29 of the Report on Balance of Payments with India and Rupee Shortage



As such it is important for the executing agencies to stipulate workable and realistic duration of construction based on magnitude of work and other applicable parameters. A more scientific approach for stipulation of construction period, which shall be reasonable, may have potential to prevent the problems of time overruns, frequent grant of time extensions, litigations etc. that are likely to ensue from unrealistic stipulation of duration of constructions.

#### **6.6 Need to review the causes of abandonment of rural houses for reversal of trend**

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The RAA observed cases of abandonment of large number of rural houses by the owners. It was noted that in Pemagatshel Dzongkhag only as many as 633 households had abandoned their houses. There have been indications of abandonment of houses in some other Dzongkhags too. However, in absence availability of requisite information and proper study of such cases, the RAA could not ascertain the number of cases of abandonment of houses in other Dzongkhags. Since this is not a healthy trend and likely to result in under utilization of infrastructures and facilities in these Dzongkhags and also put tremendous pressure on places where people of such abandoned houses are living, it is necessary that proper study is conducted to ascertain the total number of cases and causes of abandonment of houses in rural areas and take steps to reverse the trend.

#### **6.7 Need to avoid rush of expenditure at the close of the financial year through appropriate directives**

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The practice of rush of expenditure at the close of the financial prevalent in most of the agencies continues to be an area of concern. It proves to show the lack of control over expenditure or non existence of proper plan of execution of activities. Such practices may be resorted to, either in case of delays in execution of planned activities or excessive allocation of budgets over the actual requirements. The agencies may be utilizing the funds at the close of the year to avoid surrender of lapsed fund for fear of affecting the releases in the next financial year.

The government should regulate the rush of expenditure at the close of the financial year through prescribing the balanced pace of expenditure throughout the financial year to enable the government to timely reallocate unutilized excess funds for other purposes and to avoid exhaustion of released amount in excess of actual requirement. Appropriate directives must be issued to minimize incidences of unnecessary, unbudgeted and unplanned purchases **made** by the spending agencies.

#### **6.8 Need to develop policy framework for leasing of government land**

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Land and mineral resources being scarce natural resources, it is only prudent that these resources are used in a more productive and sustainable manner. As such it is necessary that a clear policy framework is in place which amongst others specifies the policy objectives of leasing of land and mineral resources, areas of priority, need for identifying land suitable for leasing, intergenerational equity, fair and equitable distribution of country's natural resource amongst citizens, macro-economic



considerations and other relevant factors. Since lease is granted for a specified period, it is necessary that obligations of lessor and lessees at the expiry of lease term are also anticipated and clearly specified.

#### **6.9 Need to undertake assessment of environmental and social impact for mining activities**

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In one of the studies conducted by the RAA on the mining operations in Bhutan, it was seen that most of the mines and quarries were leased without adequately analysing and considering the environmental and social impacts. Sustainable Development follows the triple bottom line, namely the economy, society and environment. The Government should therefore be mindful of societal justice and environmental sensitivity besides the economic value accruing from mining operations. It is also imperative that intergenerational equity is maintained in extracting non-renewable natural resources.

In absence of a system of carrying out comprehensive environmental impact assessment, the exact nature and extent of environmental, social and other impacts of mining and quarry operations have not been ascertained as yet. Though, many of these adverse impacts are visible.

It is, therefore, necessary that agencies concerned strengthen their capacity and carry out such studies which would help informed decision making and putting measures in place to mitigate adverse environmental and other impacts of mining and quarry activities.

#### **6.10 Need to test the performance and operational effectiveness of new systems developed prior to changeover**

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There have been cases of implementation of new accounting and reporting systems developed without adequate trial run and testing of the systems to ensure that the new systems are functioning effectively and are reliable. Consequently, serious operational problems emerged subsequently including data migration, data validation and input, inconsistencies in returns received and reports generated by the system etc thereby posing threats to integrity and reliability of the new systems.

It is, therefore, necessary the all new systems developed are properly tested prior to changeover of the system. Thus, there is, need for developing and issuing proper system development guidelines to ensure that all major system developments go through requisite processes and system testing including parallel running for some period of time.



**EXHIBIT - I: AUDITORS' REPORT ON THE AUDIT OF ACCOUNTS & OPERATIONS OF THE ROYAL AUDIT AUTHORITY FOR THE FISCAL YEAR ENDED 30 JUNE 2012**

**S. GHOSE & CO.**  
CHARTERED ACCOUNTANTS



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**AUDITOR'S REPORT ON THE RECEIPTS & PAYMENTS STATEMENT OF LC ACCOUNT NO. 108.01/01 OF THE ROYAL AUDIT AUTHORITY OF BHUTAN FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012.**

1. We have audited the attached Receipts and Payments Statement of LC Account No.108.01/01 of the Royal Audit Authority of Bhutan (RAA) for the Financial Year ended 30 June 2012 and the annexed Expenditure Statement for the year then ended as required under Section 83 of the Audit Act of Bhutan 2006.
2. The preparation of these financial statements is the responsibility of the management. Our responsibility is to express an opinion on these financial statements based on our audit.
3. We have conducted our audit in accordance with the Auditing Standards generally accepted in Bhutan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
4. We report that :
  - (a) 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.
  - (b) In our opinion, proper books of account as required under the Financial Rules & Regulations, 2001 have been maintained by the RAA so far as it appears from our examination of those books and records.
  - (c) The Receipts & Payments Statement of LC A/c No. 108.01/01 and the Expenditure Statement referred to in this report are in agreement with the books of account.
  - (d) In our opinion and to the best of our information and according to the explanations given to us the said Receipts & Payments Statement and the Expenditure Statement give the information required by the Financial Rules & Regulations, 2001 in the manner so required and give a true and fair view;
    - i) In the case of the Receipts & Payments Statement of the Receipts and Payments of the said authority for the year ended 30 June 2012; and
    - ii) In the case of the Expenditure Statement, of the expense of the said authority for the year then ended

Date: 8 February 2013  
Place: Thimphu



For S.Ghose & Co.  
Chartered Accountants

*B.K. Sarkar*  
(B.K. Sarkar)  
Partner  
Membership No. 015774



**ROYAL AUDIT AUTHORITY**  
Receipts and Payments Statement  
For A/C. No. 108.01/01 - LC

For the Year ended 30th June - 2012

| For the Year ended 30th June - 2012 |                                     |                                       |   |   |                                      |                                       |              |                                       |   |   |                                      |             |                                       |
|-------------------------------------|-------------------------------------|---------------------------------------|---|---|--------------------------------------|---------------------------------------|--------------|---------------------------------------|---|---|--------------------------------------|-------------|---------------------------------------|
| No.                                 | Group/Broad Head of Account         | Receipts                              |   |   |                                      |                                       | Payments     |                                       |   |   |                                      | Total (Nu.) |                                       |
|                                     |                                     | Head Quarter Annual Progressive (Nu.) | OAAG, S/Jongkhar Annual Progressive (Nu.) | OAAG, Bumthang Annual Progressive (Nu.) | OAAG, Tsira Annual Progressive (Nu.) | OAAG, P/ling Annual Progressive (Nu.) | Total (Nu.)  | Head Quarter Annual Progressive (Nu.) | OAAG, S/Jongkhar Annual Progressive (Nu.) | OAAG, Bumthang Annual Progressive (Nu.) | OAAG, Tsira Annual Progressive (Nu.) |             | OAAG, P/ling Annual Progressive (Nu.) |
| 1                                   | Opening Balance :                   |                                       |   |   |                                      |                                       |              |                                       |   |   |                                      |             |                                       |
|                                     | a. Cash                             |                                       |   |   |                                      |                                       |              |                                       |   |   |                                      |             |                                       |
|                                     | b. Bank                             |                                       |   |   |                                      |                                       |              |                                       |   |   |                                      |             |                                       |
| 2                                   | Releases:                           |                                       |   |   |                                      |                                       |              |                                       |   |   |                                      |             |                                       |
|                                     | a. Budgetary                        | 105,930,000.00                        | 10,483,000.00                             | 10,079,000.00                           | 11,715,000.00                        | 7,732,000.00                          |              |                                       |   |   |                                      |             | 145,959,000.00                        |
|                                     | b. Non-Revenue                      |                                       |   |   |                                      |                                       |              |                                       |   |   |                                      |             | 12,074.00                             |
|                                     | c. Refundable Deposits              |                                       |   |   |                                      |                                       |              |                                       |   |   |                                      |             |                                       |
|                                     | d. Un-cashed Cheques                |                                       |   |   | 12,074.00                            |                                       |              |                                       |   |   |                                      |             |                                       |
| 3                                   | Grants in-Kind:                     |                                       |   |   |                                      |                                       |              |                                       |   |   |                                      |             |                                       |
|                                     | a. Donor A                          |                                       |   |   |                                      |                                       |              |                                       |   |   |                                      |             |                                       |
|                                     | b. Donor B                          |                                       |   |   |                                      |                                       |              |                                       |   |   |                                      |             |                                       |
| 4                                   | Borrowings in-Kind:                 |                                       |   |   |                                      |                                       |              |                                       |   |   |                                      |             |                                       |
|                                     | a. Lender A                         |                                       |   |   |                                      |                                       |              |                                       |   |   |                                      |             |                                       |
|                                     | b. Lender B                         |                                       |   |   |                                      |                                       |              |                                       |   |   |                                      |             |                                       |
| 5                                   | Revenue Receipts/Remittances:       | 4,232,243.39                          | 414,762.00                                | 382,525.00                              | 379,963.00                           | 365,808.32                            | 5,775,301.71 | 4,232,243.39                          | 414,762.00                                | 382,525.00                              | 379,963.00                           | 365,808.32  | 5,775,301.71                          |
| 6                                   | Other Recoveries/Remittances:       |                                       |   |   |                                      |                                       |              |                                       |   |   |                                      |             |                                       |
|                                     | a. GIF: Employees Contribution      | 3,232,444.00                          | 357,815.00                                | 384,769.00                              | 397,679.00                           | 286,732.00                            | 4,659,439.00 | 3,232,444.00                          | 357,815.00                                | 384,769.00                              | 397,679.00                           | 286,732.00  | 4,659,439.00                          |
|                                     | b. Govt. Insurance Scheme           | 292,900.00                            | 33,700.00                                 | 38,100.00                               | 35,400.00                            | 28,900.00                             | 429,000.00   | 292,900.00                            | 33,700.00                                 | 38,100.00                               | 35,400.00                            | 28,900.00   | 429,000.00                            |
|                                     | c. Other Insurance Premia           | 640,956.00                            | 68,525.00                                 | 42,792.00                               | 114,393.00                           | 68,237.00                             | 934,903.00   | 640,956.00                            | 68,525.00                                 | 42,792.00                               | 114,393.00                           | 68,237.00   | 934,903.00                            |
|                                     | d. Loans from Fin. Instts.          | 4,081,725.00                          | 984,100.00                                | 1,628,029.00                            | 1,366,883.00                         | 801,396.00                            | 8,862,133.00 | 4,081,725.00                          | 984,100.00                                | 1,628,029.00                            | 1,366,883.00                         | 801,396.00  | 8,862,133.00                          |
|                                     | e. Others                           | 3,944,175.00                          | 748,995.00                                | 86,540.00                               | 131,201.00                           | 37,850.00                             | 4,948,761.00 | 3,944,175.00                          | 748,995.00                                | 85,540.00                               | 131,201.00                           | 37,850.00   | 4,947,761.00                          |
| 7                                   | Personal Advances:                  | 5,231,788.18                          | 1,237,922.00                              | 1,463,325.01                            | 1,286,816.00                         | 206,910.00                            | 9,426,761.19 | 5,611,715.18                          | 1,177,736.00                              | 1,379,233.00                            | 1,202,400.00                         | 206,910.00  | 9,577,994.18                          |
| 8                                   | Miscellaneous Receipts/Payments:    |                                       |   |   |                                      |                                       |              |                                       |   |   |                                      |             |                                       |
|                                     | a. Non-Revenue A/C. Deposits        |                                       |   |   |                                      |                                       | 0.00         |                                       |   |   | 12,074.00                            |             | 12,074.00                             |
|                                     | b. Refundable Deposit A/C. Deposits |                                       |   |   |                                      |                                       | 0.00         | 192,178.36                            |   | 73,086.81                               | 30,908.20                            | 11,106.51   | 307,279.88                            |
|                                     | c. Payments to DBA                  |                                       |   |   |                                      |                                       | 1,130,784.00 | 910,478.00                            |   | 28,216.00                               |                                      |             | 938,694.00                            |
|                                     | d. Others                           | 1,102,568.00                          |   | 28,216.00                               |                                      |                                       |              |                                       |   |   |                                      |             |                                       |









**EXHIBIT – II: RESOLVED CASES OF INDICATORS OF FRAUD, CORRUPTION AND EMBEZZLEMENT NOT REPORTED IN THE MAIN REPORT**

| AIN          | Para Nos. | Observation in brief  | Amount (Nu. In Million) | Agency  |
|--------------|-----------|---|-------------------------|---|
| 9803         | 1a        | Shortage of materials   | 0.715                   | Gewog Administration, Tongzhang, Trashiyangtse                          |
| 9803         | 1c        | Shortage of Tools   | 0.042                   | Gewog Administration, Tongzhang, Trashiyangtse                          |
| 10757        | 4         | Payments of mileage when pool vehicle was used                                  |                         | Wangchuk Centennial Park, Bumthang, Ministry of Agriculture and Forests |
| 10565        | 1         | Shortage of cash from Subsidiary Budget Account [SBA] - Nu.408,000.00           | 0.408                   | Royal Court of Justice, Chhukha   |
| 10790        | 1         | Award of POL and Industrial LPG Dealership without following Tender formalities | -                       | Department of Trade, Ministry of Economic Affairs                       |
| 10922        | 1.4       | Possible Existence of Conflict of interest in Contract                          | -                       | Department of Civil Aviation, Ministry of Information and Communication |
| <b>TOTAL</b> |           |   | <b>1.165</b>            |   |



### EXHIBIT - III: GLOSSARY OF TERMS

Following words in the AAR 2012 shall mean the commission or omission of the actions stated against it.

|          |  |  |
|----------|--|--|
| <b>A</b> | Malpractices and abuses                                    | Unethical and improper practices and abuses of authority by the government functionaries for payments made for the works not executed, materials not received at sites, acceptance and payments for substandard works with ulterior intention. |
| <b>B</b> | Misappropriation   | Willful malpractice by public functionaries either for direct or indirect personal gains.  |
| <b>C</b> | Intentional double bookings/irregular/unauthorized payment | Double/excess/irregular/unauthorized payments made intentionally for ulterior motives. Payments/booking of expenditures unauthorized duly or in excess of amount done intentionally.   |
| <b>D</b> | Non/short accountal  | Failures by the functionaries to account the government properties, funds, taxes and revenue.  |
| <b>E</b> | Mismanagement of fund                                      | Improper management of funds   |
| <b>F</b> | Mismanagement of revenue and taxes                         | Improper management of revenue and taxes   |
| <b>G</b> | Management of properties                                   | Improper use and management of properties  |
| <b>H</b> | Violation of accounting norms                              | Non compliance of accounting requirements in relation to maintenance of accounting records, receipts, payments including sanctioning and authorization.  |
| <b>I</b> | Violation of procurement norms                             | Works and supply contracts made in deviation to procurement manuals and contract terms and agreement   |
| <b>J</b> | Violation of Acts, Directives and Policies                 | Non-compliance to directives, Acts and Policies framed/issued by the government functionaries.   |
| <b>K</b> | Over inadmissible/irregular/double payment                 | Payment made in excess of what was actually inadmissible, payment not as per the rules and regulations and payment made twice for the same purposes.   |
| <b>L</b> | Non/improper recording in books                            | Non-updating books of accounts and improper maintenance of accounts.   |
| <b>M</b> | Non reconciliation/certification of balances               | Non-reconciliation, confirmation and certification of balances.  |
| <b>N</b> | Irregularities in advances                                 | Money lying in the hands of suppliers, contractors, employees and third parties beyond the reasonable period due to irregular and excess payment as well as inadequate records keeping and follow up.  |
| <b>O</b> | Irregularities in recoveries                               | Non/short recovery of amounts due to government.   |
| <b>P</b> | Irregularities in property management                      | Deficiencies in management, uses, physical safeguards, custody and control of properties.  |
| <b>Q</b> | Non/short deductions                                       | Non deduction or short deduction of taxes, rebates and advances etc. from the bills claimed.   |
| <b>R</b> | Shortfalls and uneconomical operations                     | Deficiencies and lapses in the operations, resulting in inefficiencies, losses and non attainment of unintended goals.   |



