

འཇམ་གཞུང་ཕྱི་ལཱ་ཞེས་དབང་པོ་ལྷན་ཁང་།

ROYAL AUDIT AUTHORITY

(A Clean Public Service - Nation's Pride)



RAA(AG-SP)2003/

Dated:

Foreword

The Royal Audit Authority is pleased to publish the Annual Audit Report 2001 (AAR 2001).

This is the second Annual Audit Report, a sequel to the Annual Audit Report 2000 that had generated a positive response from the public both in the media and on the Internet in enhancing the RGoB's policy and commitment to accountability and transparency. The positive response and interests shown on it has reinforced our belief that the present publication further nurtures the national integrity and the quality of governance in Bhutan.

All authorities and readers we hope will appreciate that the Annual Audit Report is a universally accepted practice and an obligation of the National Auditing Agency. It is required to be placed before the government and the society. It is also a performance report of the national accountability machinery itself. It should thus be read as a necessary and inevitable obligation of the RAA and viewed accordingly.

The report mainly contains only the significant audit findings and observations contained by the Inspection Reports issued within the year 2001.

In the year 2001, the Royal Audit Authority had conducted 198 audits and transmitted 159 inspection reports.

In the last Annual Audit Report, we had reported audit recovery of over Nu. 10 millions. In the year 2001, audit recovered over Nu. 19 millions. We believe that the deterrent effect of audit has probably caused more public money and resources from being misused/squandered than the amount that was detected and recovered by audit.

It is to be reported that the audits of the Ministry of Finance and the Ministry of Foreign Affairs were ongoing at the end of the year 2001.

However, the delay in publication of this report at the request of the Council of Ministers pending the conclusion of Geog Elections, allowed the RAA time to include relevant findings regarding the Ministry of Foreign Affairs from the inspection Report No.IR(37)GG/MoFA/2003/340 dated 13.2.03 pertaining to the account up to 2001.

We have also taken the liberty to include in our Report the joint investigation report of the Ministry of Agriculture and the RAA on the logging operations and the Plantation Thinning Works carried out by the Divisional Forest Office (DFO), Samdrup Jongkhar. Various administrative

and disciplinary actions were taken on the officials at fault by the Ministry and the Royal Civil Service Commission. We would also like to report that the criminal charges against the defaulters are subjudice under the court of law.

The RAA had tried to keep track of what actions the ministries and agencies have taken on the audit observations after the issue of draft of this report in October 2002. The RAA has in brief incorporated the acceptable replies/ comments/actions of the ministries and other agencies (*in bold italic*). If no comments were reflected it should be understood either as absence of initiatives in the concerned ministries/agencies or responses given were not satisfactory to the RAA.

The Report that follows is also an account of the one year of dedicated service rendered by the auditors inspired by the His Majesty's Farsighted Vision. I would like to acknowledge the support and cooperation rendered by all auditors in our endeavor to serve the Nation.

We hope with the issues raised by the RAA in the report, the agencies may strengthen the internal control system and work towards better performance.

I also express my gratitude for the valuable support and cooperation of all the audited agencies.

Please feel free to suggest or comment on the Annual Audit Report for our guidance and to improve the future editions.

(Kunzang Wangdi)
Auditor General of Bhutan

PART- I

CHAPTER I

Background

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

In 1961, the 16th Session of the National Assembly of Bhutan formed a Committee of Accounts and Audit in response to the need for establishing accountability. The Committee would comprise of one representative of the King and one representative each from the Cabinet, People and the Monk Body all nominated by the King. The Royal Government issued the first edition of the “Financial Manual” in 1963. The manual provided for the organization of the Development Wing of the government and the Accounts and Audit for the Development Wing. The Audit and Accounts organization maintained the books of accounts, conducted budgetary controls of revenues and expenditures, and undertook periodic audit and inspections of accounts and records.



The Bhutan Integrity House, Kawajangsa, Thimphu.

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

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

Ministry of Finance. Posts were filled up by one people's representative, one monastic, one His Majesty the King's representative and one government representative. A representative and participatory arrangement to ensure the auditing is fair and objective without any bias.

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

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

The *Kasho* issued by the Third King in 1970, the General Auditing Rules and Regulations 1989, the Financial Manual 1988 and the *Kasho* issued by the Fourth King in 1999 delineated the roles and responsibilities of the Royal Audit Authority.

Audit shall primarily be responsible towards enhancing accountability in the government. In pursuance thereof, the Royal Audit Authority's functions are to:

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

- V. Issue records of outstanding audit observations to accountable officers or any other government officer/employee, upon recommendation of the proper administrative head or authority and settlement of deficiencies and un-cleared accounts for purposes of promotion in rank or salary, foreign travel, etc. as may be required or necessary.

Besides, the Royal Audit Authority is also responsible to:

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

Organization of RAA

A good audit service must be supported by an appropriate organizational structure that translates its mandate and facilitates operational responsiveness to the demands of the national accountability goals. The Royal Audit Authority at present has nine Divisions headed by a Division Chief. Proposals to restructure the organization of the RAA have been already submitted to the government and approved. The RAA will be opening up two more branch offices in Bumthang and Tsirang during the 9th plan.

Restructuring of the Royal Audit Authority

In line with the restructuring in the other Ministries, Organizations and Agencies of the Royal Government, the Royal Audit Authority (RAA) embarked on the process of restructuring its internal organizational structure. The restructuring was necessary for the following reasons:

- ❖ Required by the 25 members task force on Good Governance;
- ❖ Increase roles of RAA in enhancing the good governance and a clean public service;
- ❖ To suit in the efficient utilisation of the new building of RAA;
- ❖ To promote administrative and financial efficiency, accountability and transparency of RAA;
- ❖ To enhance morale and professionalism in the employees of RAA;
- ❖ Harmonizing with restructured Ministries, Departments and Agencies for a synchronized auditing in tune with the new changes;
- ❖ To prepare for the geog based auditing in the Ninth Plan; and
- ❖ To meet the challenges of the future plans and aspirations of RAA

Mandate of the RAA



TASHICHHODZONG
THIMPHU, BHUTAN

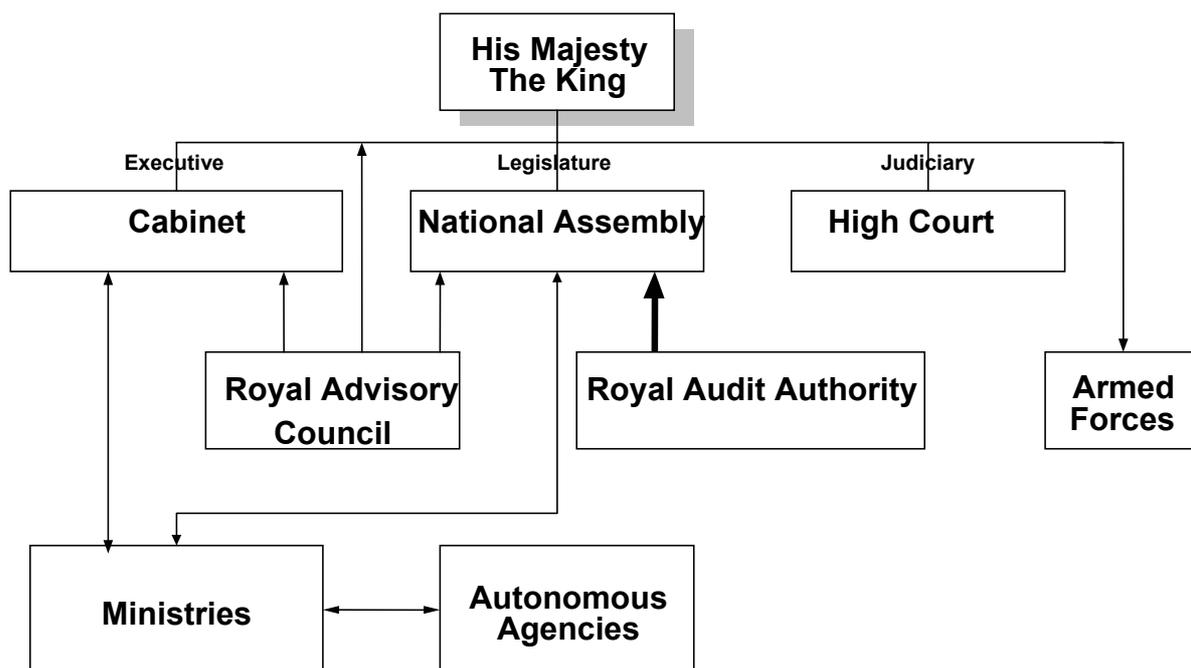
རྒྱལ་གཞུང་ཙེ་ས་ཞིབ་དབང་འཛིན་སྤྱི་ཁྱབ་སློབ་ཡུལ་སྡེ་ རོན་འབྲས་ དེ་ནི་
ང་བཅས་ར་འེ་འབྲུག་གཞུང་གི་ཞི་དྲག་ལྷན་ཁག་དང་ལས་ཁུངས་ ལས་ཕྱོ་སོ་སོའི་ནང་ གཞུང་གི་མ་དངུལ་དང་རྒྱ་
དངོས་ཀྱི་རིགས་ སྤྱོད་ཐངས་དང་བྱུང་ཐད་ཀྱི་ཙེ་ས་ཁྲ་བཞག་ཐངས་ཚུ་ ཙེ་ས་ཀྱི་ལམ་ལུགས་དང་འབྲིལ་ཉེ་ཚུ་ལ་
མཐུན་ཡོད་མེད་ཀྱི་ཞིབ་དབྱེད་རྒྱུ་ལོ་འུ་ལྟར་གཤམ་ཚུ་འདི་ རྒྱལ་གཞུང་ཙེ་ས་ཞིབ་དབང་འཛིན་ལུ་སོགས་
ལས་ ལས་འགན་དེ་འེ་བློའི་རིགས་ལག་ལེན་འཐབ་ད་ དྲག་ཞན་ཆེ་ཚུང་གི་ངོ་སོའི་དབང་ལུ་མ་ཤོར་བར་
ཆགས་ཕྱང་སྤྱོད་ལ་རི་ས་མེད་པར་ དེ་ཉེ་ཞིབ་མཐེལ་ཕྱིན་རྒྱུ་དགོས་པ་ ཉ་ཅང་གིས་གཤམ་གནད་ཆེ་མ་ལས་བརྟེན་
རྒྱལ་གཞུང་ཙེ་ས་ཞིབ་དབང་འཛིན་དེ་ ཉེ་མ་ལས་ གཞུང་གི་ལྷན་ཁག་དང་ལས་ཁུངས་གི་མངའ་འོག་ལུ་ཡང་
མེན་པར་ རང་དབང་རང་སློབ་བཟོ་གནད་ལྟ་ཡོད།

ད་རེ་ས་ཚུན་ ཙེ་ས་ཞིབ་དབང་འཛིན་གྱིས་ ཞིབ་དབྱེད་རྒྱུ་ཚུ་ར་བའི་སློན་ལུ་ཚུ་ དུས་རྒྱུན་རང་སོའི་
ལྷན་ཁག་དང་ལས་ཁུངས་ ལས་ཕྱོ་སོ་སོ་ལུ་བཏང་མ་ཡིན་རུང་ འབྲུག་རྒྱལ་ཡོངས་ཚོགས་ཐངས་༡༤ པའི་ལྷོས་
ཚོད་དང་འབྲིལ་ཉེ་ གཞུང་གི་འཛིན་སློབ་དབང་ཆ་ ལྷན་རྒྱུ་གཞུང་ཚོགས་ལུ་གནད་ཡོད་པ་བཞིན་དུ་ ད་ལས་པར་
ཙེ་ས་ཞིབ་སློན་ལུ་སྤྲུལ་མ་བདེ་མ་ཡོད་མི་ཚུ་ ཐད་ཀར་སློན་རྒྱུ་གཞུང་ཚོགས་ལུ་གཏང་དགོས་པའི་ཁར་ ཁྲིམས་
ཀྱི་སློན་ཚོགས་ཀྱི་ཙེ་ས་ཞིབ་སློན་ལུ་འེ་གས་ ཁྲིམས་སྤྱོད་པོ་ལུ་དང་ དྲག་སྤེ་གསུམ་གྱི་མ་དངུལ་བདག་འཛིན་
འཐབ་མེ་དངུལ་ཙེ་ས་ལྷན་ཁག་ཡིན་མ་ལས་ ཁོང་གི་ཙེ་ས་ཞིབ་སློན་ལུ་འེ་གས་ དངུལ་ཙེ་ས་ལྷན་ཁག་ལུ་གཏང་།

ཙེ་ས་ཞིབ་སློན་ལུ་མངའ་བདག་རྒྱལ་པོའི་ཞབས་སར་ལུ་ལེ་མེད་ རུར་བཞིན་བཀའ་རྒྱ་ལོགས་སུ་གནང་མ་དང་
མ་གཏོགས་ལུ་ལེ་དགོས། ཞིབ་དབྱེད་སློན་ལུ་སྤུལ་ཚུ་མི་ཚུ་ལུ་ ཁྲིམས་ལུགས་དང་འབྲིལ་བའི་ངོ་ས་ལེན་དུ་ས་
ཐོག་ལུ་འབད་ནིའི་འགན་ཁུར་འདི་ ལྷན་རྒྱུ་གཞུང་ཚོགས་དང་ ལྷན་ཁག་ འབྲེལ་ཡོད་ལས་ཕྱོ་སོ་སོ་ལུ་སོགས་པའི་
ཁར་ གཤམ་སྤྱད་དང་ལེན་ཚུ་ལ་མཐུན་མ་འབད་མི་རེ་འཛོན་པ་ཅེན་ ཙེ་ས་ཞིབ་དབང་འཛིན་ཁུམ་ལས་ དུན་བསྐྱལ་
དང་རྒྱ་དབྱེད་འབད་དགོས་པ་མ་ཚད་ ཞིབ་དབྱེད་ཀྱི་སྐབས་གལ་ལུ་ཡང་ འཚོར་སྤྱང་དང་ཐོ་ཚོམ་མེད་པར་ དམ་དམ་
འབད་ནི་གཤམ་ཆེ་མ་ལས་བརྟེན་ ཙེ་ས་ཞིབ་དབང་འཛིན་གྱི་གནས་སྤྱང་ལ་དེ་ རུར་བཞིན་རང་དབང་རང་སློབ་འབད་
རང་བཞག་དགོས་པའི་བཀའ་ཐམས། ཞེས་རང་ལུགས་རབ་བྱུང་བཅུ་བདུན་པའི་གནམ་ལོ་ས་མོ་ཡོས་ལོ་
ཟླ་ ༡ པའི་ཚེས་ ༡༥ ལུ་བཀྲིས་ཚོས་རྫོང་ལས་གནང་བ་དགོ།

forwang chulu
འབྲུག་མངའ་བདག་རྒྱལ་པོ།

The position of Royal Audit Authority in the Bhutanese System of Governance.

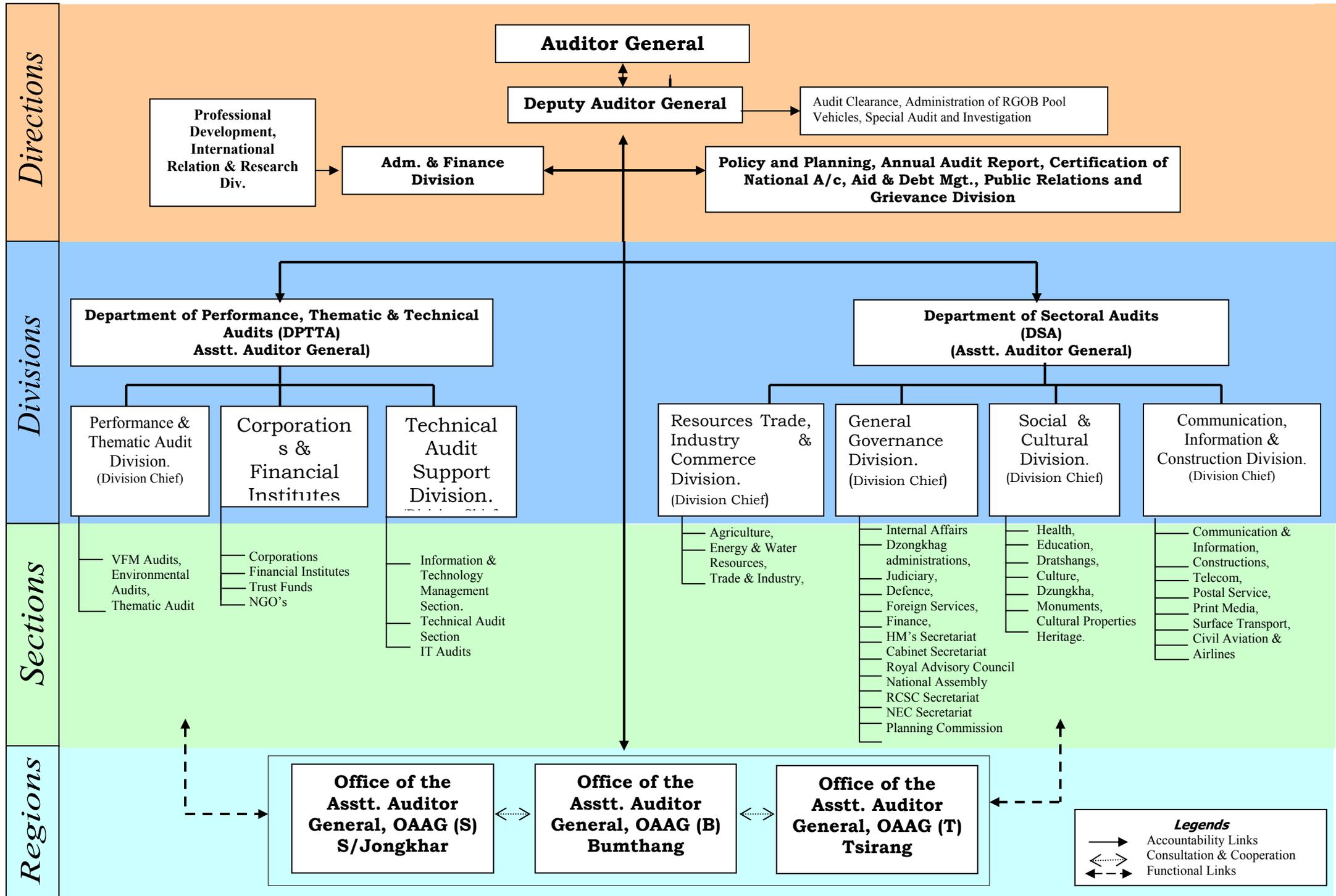


(Source: Enhancing Good Governance- Promoting Efficiency Transparency and Accountability for Gross National Happiness)

As per the Council of Minister's decision on restructuring of the Royal Government of Bhutan, every organization is expected to be audited every year. The RAA is required to pursue its findings consistently.

It is, therefore, necessary to establish an organizational structure that is reachable, efficient and cost effective, while also very modern in tune with dynamic governance that the Kingdom strives for. It is also carried with an intention to harmonize with the proposed position classification system of the RGOB. All these are borne out with the goal that even in a delinked auditing system the uniformity and harmony of the different services are enhanced.

Proposed Functional Organogram of the Royal Audit Authority



Human Resource Development

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

In-house Training

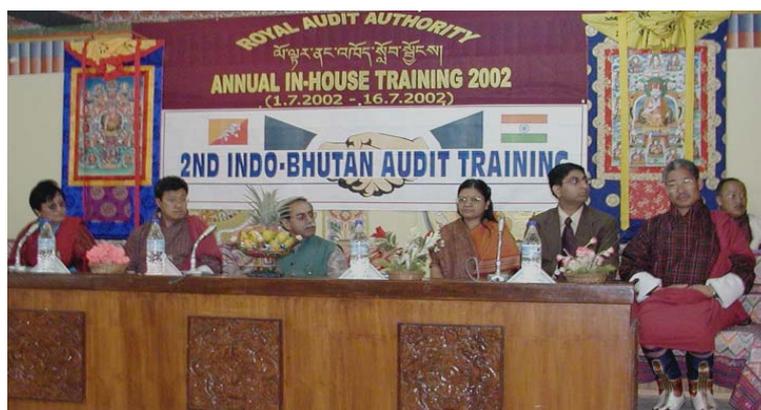
Although scarce resources limit the staff development efforts of the Royal Audit Authority, the Authority undertakes a balanced strategy of equal opportunity and continuous in-house training. Recently, the Royal Audit Authority conducted a series of training for its staff in collaboration with the office of the C&AG of India. All these efforts aim at achieving a high level of professionalism in the Royal Audit Authority.

Value for Money Audit

One of the issues raised and recommended by the Special Task Force for Restructuring of the Government has been the value for money auditing or economy, efficiency and effectiveness auditing in the government. Although the present capability of the RAA does not permit execution of such aspects of auditing in a professional way, the RAA made a giant effort by creating a VFM wing responsible to conduct performance auditing from the year 2001. Thus, there is an immediate need to train its staff in area of value for money audit so as to produce high quality audit reports.



Chief Guest, Ambassador of India to Bhutan during the opening ceremony of the Inhouse training.



Chief Guest, guests, resource speakers and Auditor General during the opening Ceremony of the Inhouse training, RAA.

Value for Money Auditing (VFM) ¹

Why VFM Auditing?

Auditing is generally limited to the establishment of the accountability of the accounting of resources alone. It is a growing trend in a climate of continuous and rapid progress; and ongoing public sector reforms, the accounting of resources are in itself are proven inadequate and not a productive exercise, unless these are known to have been applied economically, efficiently and effectively. And public programs had created positive, greater and the right impacts and benefited optimally the intended beneficiaries across the sectors and in the nation. Thus the VFM audits can be of greater assistance in this context to:

- identify areas where improvements in administration are required and areas of best practice to 'add real value' and
- focus attention more on best practice models and ways for improvement rather than by simply highlighting areas of deficiency.

What is VFM Auditing anyway?

VFM auditing is a systematic and constructive review of management activities to ensure the maximum utilization of all resources in achieving the defined objectives of organization.

VFM Auditing is concerned with the 3 E's audit i.e. of **economy, efficiency and effectiveness**.

It is an auditing of:

- (a) the **economy** in administration of activities in accordance with sound administrative principles and management policies;
- (b) the **efficiency** on utilization of human, financial and other resources, including examination of information systems, performance measures and monitoring arrangements, and procedures followed by the audited entities for remedying identified deficiencies; and
- (c) the **effectiveness** in performance in relation to the achievement of the objectives of the audited entity, and audit of the actual impact of the activities compared with the intended impact.

The 3 E's are a framework for analyzing the operation of a program:

- ∞ *Economy* - **minimising** the cost of resources used for an activity, having regard to the appropriate quality.
- ∞ *Efficiency* - the **relationship** between the output, in terms of goods, activities, or other results, and the resources used to produce them.
- ∞ *Effectiveness* - the extent to which **objectives** are achieved and the relationship between the intended impact and the actual impact of an activity.

The VFM Auditing offers significant potential to "add VFM" by identifying the areas where improvements in public administration and management are required.

VFM Auditing facilitates analysis of *economy, efficiency* and administrative *effectiveness* of activities of government agencies and public sector in relation to the following:

- ∞ the program objectiveness, which should be clear enough to identify the desired outcomes;
- ∞ the financial, human, physical and information resource inputs used;
- ∞ the process or activity by which the inputs are converted into outputs;
- ∞ the goods, services or other results which constitute the output of the program; and
- ∞ the actual impacts or outcomes, both intentional and unintentional.

VFM also recognized as *performance Audit* is usually directed towards specific issues, functions, activities, programs or operations of an entity or entities.

VFM auditing attempts to see how 1 Ngultrum is not only properly reflected in the books of accounts and applied as per the policies, laws and rules but also what optimal benefits the public derived from the public resources.

¹ INTOSAI and ASOSAI Manuals and Auditing Standards.

Foreign Training

The Royal Audit Authority maintains links with various international professional bodies as well as leading training institutes in other countries. These include the International Organization of the Supreme Audit Institutions (INTOSAI), Asian Association of Supreme Audit Institutions (ASOSAI), the Office of the Comptroller and Auditor General of India and other counterpart auditing institutions. The Royal Audit Authority benefits from the training conducted in different areas of auditing and accounting by the Office of the C&AG India and the auditing bodies.

Summary of the Trainings undertaken during the year 2001

Sl. No	Participants	Course	Duration	Place	Funding
1	Lt. Kumbu Dorji	E-Governance	2 weeks	India	Colombo
2	Wangchuk T	Advance Networking programme	5 weeks	India	GOI(ITEC)
3	Kinley Gyeltshen	Mastering in office Procedures	5 weeks	India	GOI(NIIT)
4	Bogtu	Professional Development programme	5 weeks	India	GOI(ITEC)
5	Chogyal	Training Programme in Software System	5 weeks	India	GOI(ITEC)
6	Lobzang Dorji	International Programme in Banking for Development	6 weeks	India	GOI
7	Tshering Samdrup	Urban Development Management	7 weeks	India	GOI
8	Lt. Ugyen Wangmo	Office Technologies and Internet Applications	12 weeks	India	GOI(ITEC)
9	Tshering Dema	Mastering Enterprise Networks	12 weeks	India	GOI(ITEC)
10	Gaza Wangchuk	Audit of Public Works	5 weeks	India	Colombo
11	Ugyen Wangchuk	VFM Workshop on Research and Development	2 weeks	Australia	ASOSAI
12	Tashi Phuntsho	International Programme in Banking & Finance	3 weeks	India	GOI(ITEC)

Next step

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

The Royal Audit Authority no longer restricts only on routine financial audits. With the Bhutanese economic environment changing rapidly over the last two decades, the need for performance auditing being imminent, appropriate measures are already put in place.

Computer audit or EDP audit

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

Environmental Audit.

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



Participants of the In-house training

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

Efficiency and effective flow of information is very critical. The RAA need to network with other organizations such as the Royal Civil Service Commission, Dept. of Immigration and Census, Dept. of Revenue and Customs, Ministry of Trade and Industry and Dzongkhags etc. to make required information available on time and contribute to efficient auditing thereby contributing to the effectiveness of the RAA.

Improving the government accounting system.

What makes the task of the accountants and auditors in Bhutan more difficult is the non-existence of standards of sound accounting and auditing practice to which each could refer in carrying out their work. Consequently, there is a lack of uniformity in the reporting system. The RAA considers improving the internal control and accounting system in the Royal Government as a priority. To this end, the RAA endorses the need for development of Accounting and Auditing Standards and urges this be implemented at the earliest.

Audit Coverage

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

Oath of Good Conduct, Ethics and Secrecy.

It is mandatory for all the auditors to take an Oath of Good Conduct, Ethics and Secrecy. There are Sixteen Principles essential for Good Conduct, Ethics and Secrecy for to be an ideal auditor.

Oath of Good Conduct, Ethics and Secrecy of Auditors

I am fully conscious that the auditors task is to work towards ensuring, advising and reporting on whether or not that the policies, plans, programmes are carried out efficiently, effectively, economically and as per laws, rules and regulations in the fulfillment of the national goals and objectives.

I on my own free will subscribe to the following Sixteen Principles essential for good conduct, ethics and secrecy for to be an ideal auditor:

I. Integrity:

1. I will conduct myself in such a way that my speech and acts are honest and trustworthy, able to nurture a culture of truth and reliability
2. I shall adhere to high standards of behavior (e.g. honesty and candidness) in the course of my work and in my relationships with the staff of audited entities
3. I shall refrain from being involved in all matters in which I have vested interest as the moral obligation of an auditor.
4. I shall in order to sustain public confidence, conduct myself above suspicion and reproach and make decisions with the public interest in mind, and in handling the resources of the RAA.

II. Incorruptibility:

1. I will not accept any financial or be obligated to individuals or organizations, which could lead me to act unethically in my duties and responsibilities.

III. Good Faith:

1. I accept the obligation to declare any personal interests, which may affect the interests of those I serve and where there can be conflicts of interests.

IV. Impartiality:

1. I will make fair choices which do not unduly or unjustly favour those with whom I have other ties in carrying out my duties, including making appointments, awarding contracts, grants, or recommending individuals for benefits.
2. I shall be objective and impartial in all works conducted by me, particularly in my reports, which should be accurate and objective.
3. I shall draw my conclusions in opinions and reports based exclusively on evidence obtained and assembled in accordance with the auditing standards.

V. Openness:

1. I will be transparent in my decisions and actions, and will not withhold information, which is in the public interest.

VI. Accountability:

1. I recognize that I am accountable for my decisions and actions, and will submit to whatever scrutiny is appropriate.

VII. Justice:

1. I will act justly, and promote the culture of respect for the Law.

VIII. Respect:

1. I will act in a way that promotes respect for all people regardless of their beliefs.

IX. Generosity:

1. I will seek to be generous and hospitable towards others in right speech, attitude and behaviour.

X. Independence:

1. I shall behave in a way that increases, or in no way diminishes, the independence of the Royal Audit Authority (RAA).
2. I shall strive not only to be independent of audited entities and other interested groups, but also to be objective, be without fear and favour in dealing with the issues and topics under review and reviewed.
3. I will be duty bound to make use of information brought forward by the audited entity and other parties, and this information is to be taken into account in the opinions expressed in an impartial way.

XI. Political Neutrality:

1. I shall maintain both the actual and perceived political neutrality and independence from political influence in order to discharge my audit responsibilities in an impartial way.

XII. Conflicts of interest:

1. I shall protect the independence of audit and avoid any possible conflict of interest by refusing gifts or gratuities, which could influence or be perceived as influencing the independence and integrity.
2. I shall avoid all relationships with managers and staff in the audited entity and other parties which may influence, compromise or threaten my ability to act and be seen to be acting independently.
3. I shall not use my official position for private purposes and avoid relationships which involve the risk of corruption or which may raise doubts about the objectivity and independence.
4. I shall not use information received in the performance of my duties as a means of securing personal benefit for myself or for others.
5. I shall neither divulge information, which would provide unfair or unreasonable advantage to other individuals or organisations, nor shall I use such information as a means for harming others.

XIII. Professional Secrecy:

1. I shall not disclose information obtained in the auditing process to third parties, either orally or in writing, except for the purposes of meeting the RAA 's statutory or other identified responsibilities as part of the RGoB's normal procedures or in accordance with relevant laws.

XIV. Competence:

1. I will conduct my duty in a professional manner at all times and apply high professional standards in carrying out my duties competently and with impartiality.
2. I will respect applicable international and local auditing, accounting, and financial management standards, policies, procedures and practices.
3. I shall have good understanding of the legal and institutional principles and standards governing the operations of the audited entity.

XV. Professional Development:

1. I shall exercise due professional care in conducting /supervising the audit and in preparing related reports.
2. I shall use methods and practices of the highest possible quality in auditing.
3. I will have continuous obligation to update and improve the knowledge and skills required for the discharge of my professional responsibilities.

XVI. Leadership:

1. I shall promote and support these principles, by personal example and service, at all times and all places.
2. I shall seek to recommend, by personal example and service, the fundamental moral principles on which a successful community, society, organization and a nation can be built and maintained.

Fifth Annual Audit Conference Resolution

The Auditors and Officers of the Royal Audit Authority gathered in Thimphu to attend the 5th RAA Annual Audit Conference 2002 on the theme “**A successful 9th Plan: Role of RAA**” from 21st July to 23rd July 2002.

The Conference adopted a resolution to:

1. Adopt the 9th Plan RAA Audit strategies to encompass the following:-

I. Audit planning and programming

“Good proportion of time shall be devoted in planning and programming each audit; Planning & budget documents will be used as reference to determine priorities & allocate resources by each division, audits shall be prioritized but no audit shall be over due, every auditee shall be required to be audited annually; The Annual Audit Plan must be comprehensive and complete.

II. Audit approach

“The 9th plan auditing will not only be confined to financial regularity audit. Normal audits are useful but more thematic audits shall be carried out and more frequently; where possible comprehensive Value for Money (VFM) audit shall be applied; all audit shall be supplemented by physical verification; Audit shall also be extended to Human Resources Auditing, Environmental Auditing, Geog based activities etc; use of system based audit and Computer Assisted Auditing Techniques (CAATS) shall be promoted; Greater cooperation & coordination shall be promoted with the internal audits in the line Ministries; certification audit of the Consolidated National Accounts shall be conducted; resource mobilization & debt servicing shall be reviewed.

III. Geog Based Audit

“While 201 geogs (group of several villages) will be subjected to audit in the financial year 2003-2004, review will be carried out of the geogs under a Dzongkhag across the board or each geog depending on the National Assembly’s decision on GYT and DYT.

IV. Audit Reporting

“Balanced reporting shall be adopted indicating the accomplishments made by the audited agencies; to achieve uniformity, Audit Master Report Template shall be improved and consistently used; Audit report shall be issued timely; concept of



Auditor General addressing the 5th Annual Audit Conference, 2002



Auditors at the 5th Annual Audit Conference, at the Royal Banquet Hall.

materiality shall guide while the quality of reporting at no time to be compromised; RAA shall continue to commit towards transparency and make inspection report public; audit reports and assignment carried out shall be supported by essential audit evidence & adequate working papers; reports shall contain analytical and be research supported, to serve as useful advisory input.

V. Strengthening the RAA's capacity: face the challenges of the Ninth Plan.

"In order to provide to face the challenges outlined by the Ninth Plan, the RAA had during its Fifth Annual Conference adopted a resolution which provides: The RAA's plan for restructuring shall be implemented; Audit Information Management System (AIMS) must be made user-friendly; De-concentrate RAA's office with two more regional offices at Tsirang and Bumthang; strengthen RAA's Human Resources by training & further studies and recruiting additional officials;

Endorsed the RAA's policy to send auditors on secondment to other organizations to gain experience of the field work;

Conduct propriety audit free of charges, however, certification of the Annual Accounts (Statutory Audit) required for this purposes of the management of the Trust Funds, Associations and Entities will be subject to payment of fees;

Decided to form a permanent Committee to vet the Draft Annual Audit Report to ensure its conformity with principle, policies, and standards to avoid inclusion of anything that shall have a bearing on the Integrity, National security and overall public interests.

Introduce an Internal auditing practice of the RAA and its operations by Divisions on a yearly rotational basis to ensure that RAA administration functions exemplary, in addition to the external audit conducted annually;

Decided that every year an appropriate RIMDO will be performed by RAA to be financed by staff;

The RAA Welfare Fund membership contribution rate to be enhanced from Nu. 100 to Nu. 200 per month for one year;

Decided to develop a full-fledged documentation centre that archives all master copies of the audit reports, working papers while it shall have all reading materials necessary for a professional auditing;

Transmit where feasible the Audit Inspection Reports in Zhungkha and English by developing a bilingual programme;

Approved audit clearance certificate shall henceforth be issued in Zhungkha. AIMS shall develop a programme so that audit data can be both inputted and retrieved either in National language and official languages;

Approved to conduct 214 audits in the financial year 2002-2003, and issue Annual Audit Report 2001 not later than end of August 2002; and

The Theme for the 6th Annual Audit Conference 2003 was adopted as “Auditing beyond the Books of Accounts”.

“This resolution shall be the basis on which the Royal Audit Authority will carry out its mandates in the ninth plan”.

Auditor General’s Compliance Assurance Award.

The Royal Audit Authority is composed of 8 auditing divisions. In any given Financial Year the division that has effected the highest recovery from the auditee agencies is awarded the Auditor General’s Compliance Assurance Award.

The Best Audit Observation Prize.

The panel of judges chosen from outside of the RAA decides on the best audit observation for the year and the team is given a monetary prize.

PART- II

CHAPTER II

A Review of the AAR 2000

Introduction

The Annual Audit Report 2000 that was published in the beginning of the year received a lot of comments on the media and the Internet. The Royal Audit Authority made an attempt to evaluate the follow up status on the observations that featured in the Annual Audit Report 2000.

We are pleased to produce the status of those observations for the information of all. Most of the unresolved issues pertain to the outstanding advances. It is to be mentioned that an advance, which is not adjusted/recovered within the legitimate timeframe permissible by rules, are good as misuse of funds for private gains. We expect all overdue be settled in order not to be recognized as misuse.

A summary of the status of AAR 2000 at different dates are shown in the Table 1.1 below:

Sl.No	Agency	Nu. millions			Balance as on 31.3.03
		Amount reflected in AAR 2000.	Amount adjusted/recovered as at 7.10.02	Amount adjusted/recovered after issue of draft of this report in October 2002	
1	Ministry of Communications	107.56	65.99	20.93	20.64
2	Ministry of Home Affairs	67.89	20.26	25.23	22.40
3	Ministry of Agriculture	26.04	1.87	13.10	11.07
4	Ministry of Health & Education	115.00	49.19	46.72	19.09
5	Ministry of Trade & Industry	113.02	15.99	76.76	20.27
6	Ministry of Finance	187.18	69.94	106.89	10.35
7	Auto. Body	19.24	1.12	11.19	6.93
8	Dungsam Cement Project	33.40	11.04	22.36	0.00
9	Tala Hydro Project	73.97	46.11	0.00	27.87
10	Judiciary	1.03	0.31	0.53	0.19
11	Fin. Institutes	343.14	9.72	119.22	214.195
	Total	1087.47	291.54	442.93	353.01

An agency wise review of the observations included in the Annual Audit Report 2000 is thus elaborately presented in the tables:

Ministry of Communications

Table 1.2: Showing the status of observations Included in the AAR 2000

Sl No	Observation	Nu. millions		
		Amt. Reflected in Report	Amount Recovered/ Adjusted	Balance as on 31.3.03
1	Excess payments	4.42	0.14	4.28
2	Outstanding Advances	39.17	37.75	1.42
3	Irregular payments	17.42	17.07	0.35
4	Outstanding Revenue	9.83	5.90	3.93
5	Tendering Losses	8.6	6.09	2.51
6	Loss of revenue	11.34	5.33	6.01
7	Award of work on work order basis	3.72	3.72	0.00
8	Irregular purchases	10.67	9.89	0.78
9	Government property issued to private parties	0.97	0.88	0.09
10	Non accountal of stocks	0.22	0.15	0.07
11	Misutilization of budget	1.2	0	0.00
TOTAL		107.56	86.92	20.64

After several round of meetings at various levels total adjustments/ recoveries to the tune of Nu. 86.92 millions were effected thereby leaving a current balance of Nu. 20.64 millions

Serial number 11 “misutilization of budget”.

Though the budget mis-utilized at that point of time was later put back to its intended purpose the manner in which the fund was handled has to be justified and the person involved shall still be held accountable.

Ministry of Home Affairs

Table 1.3: Showing the status of observations included in the AAR 2000

Sl No	Observation	Nu. millions		
		Amt. Reflected in Report	Amount Recovered/ Adjusted	Balance as on 31.3.03
1	Excess payment	3.73	1.79	1.94
2	Misappropriation	2.11	1.93	0.18
3	Outstanding advance	45.80	38.96	6.84
4	Outstanding revenue	1.09	0.85	0.24
5	Irregular payments	3.12	1.96	1.16
6	Award of work on cut of points	12.04	0	12.04
Total		67.89	45.49	22.4

The Dzongkhags had informed the RAA that necessary adjustments and recoveries as deemed appropriate were made. The RAA is also informed that some of the Dzongkhags had brought forward outstanding advances in the latest audit reports thereby nullifying the balances in old reports. The current balances of other Dzongkhags where the balances of outstanding advances were not brought forward stands at Nu.6.84 millions. The overall balance yet to resolve is Nu. 22.4 millions.

The Dzongkhag which were involved in awarding works on ‘cut off point basis’ did not respond.

Ministry of Agriculture

Table 1.4: Showing the status of observations included in the AAR 2000

Sl N	Observation	Nu. millions		
		Amt. reflected in Report	Amount Recovered/ Adjusted	Balance as on 31.3.03
1	Excess payment	0.58	0.22	0.36
2	Losses due to tendering and procurement lapses	0.42	0.35	0.07
3	Outstanding Advance	13.09	11.83	1.09
4	Misappropriation	0.12	0.12	0.00
5	Outstanding Revenue	0.53	0.00	0.07
6	Irregular payment	1.83	0.10	0.17
7	Wasteful expenditure	2.46	0.00	2.46
8	Award of work without inviting tender	7.01	0.16	6.85
Total		26.04	14.97	11.07

The current balance of the Ministry of Agriculture stands at Nu.11.07 millions i.e. reduced by more than 50% after the issue of draft of this report in October 2002.

Ministry of Health and Education

Table 1.5: Showing the status of the observations included in the AAR 2000

Sl. No	Observation	Nu. millions		
		Reflected in Report	Amount Recovered/ Adjusted	Balance as on 31.3.03
1	Excess expenditure	0.36	0.31	0.05
2	Irregular Payment	5.25	4.13	1.12
3	Outstanding revenue	0.49	0.23	0.26
4	Outstanding advance	100.9	83.24	17.66
5	Uneconomic purchases	8.00	8.00	0
Total		115.00	95.91	19.09

After the issue of the draft of this report in October 2002, the Ministry of Health and Education had initiated numerous actions either to adjust or recover where appropriate. After necessary adjustment and recovery where possible the current balance as per the records of the RAA stands at Nu.19.09 millions.

Ministry of Trade and Industry

Table 1.6: Showing the status of observations included in the AAR 2000

Sl. No	Observation	Nu. millions		
		Amount reflected in Report	Amount Recovered/ Adjusted	Balance as on 31.3.03
1	Irregular payment	0.45	0.45	0.00
2	Misappropriation	0.26	0.08	0.13
3	Outstanding advance	102.95	17.58	12.90
4	Outstanding revenue	7.05	0.72	6.33
5	Loss of revenue	1.4	1.40	0.00
6	Non-accountal of stock	0.91	0.00	0.91
Total		113.02	92.75	20.27

After the issue of the draft of this report in October 2002, the Ministry of Trade & Industries have recovered/ adjusted to the tune of Nu.92.75 millions thereby leaving a balance of Nu. 20.27 millions

Ministry of Finance

Table 1.7: Showing the status of observations included in the AAR 2000

Sl. No	Observation	Nu. millions		
		Reflected in Report	Amount Recovered/ Adjusted	Balance as on 31.3.03
1	Excess Payments	0.65	0.62	0.03
2	Irregular Payments	1.91	0.00	1.91
3	Misappropriation	0.18	0.18	0.18
4	Outstanding Revenue	82.90	78.07	4.83
5	Outstanding advances	97.40	94.00	3.40
6	Loss of revenue	0.78	0.78	0.00
Total		187.18	176.83	10.35

The Ministry of Finance had initiated measures to recover/adjust as appropriate after the issue of draft of this report i.e. October 2002. The present status of the figure stands at Nu. 10.35 millions. It includes Nu.4.83 millions of revenue outstanding of the Department of Revenue & Customs.

Services of some officials involved in masterminding the misappropriation cases were terminated.

Autonomous Body

Table 1.8: Showing the status of observations included in the AAR 2000

Sl. No	Observation	Nu. millions		
		Reflected in Report	Amount Recovered/adjusted	Balance as on 31.3.03
1	Excess payment	0.27	0.27	0.00
2	Outstanding advances	13.05	11.96	1.09
3	Outstanding revenue	5.30	0.08	5.22
4	Irregular purchases	0.61	0	0.61
Total		19.23	12.31	6.92

Most of the advances outstanding and revenue outstanding pertains to the National Women Association of Bhutan (NWAB) for which no action is reported to have taken.

Dungsam Cement Project

Table 1.9: Showing the status of observations included in the AAR 2000

Sl. No	Observation	Nu. millions		
		Reflected in Report	Amount Recovered/adjusted	Balance
1	Outstanding revenue	0.488	0.488	0
2	Outstanding advance	7.415	7.415	0
3	Excess payments	0.268	0.268	0
4	Non accountal of stock	0.17	0.17	0
5	Wasteful expenditure	24.949	24.949	0
6	Liquidated damages	0.112	0.112	0
TOTAL		33.402	33.402	

The RAA is informed that advances outstanding were recovered by the project. The amount reflected under wasteful expenditure was regularized by the board.

Tala Hydroelectric Project Authority (THPA).

Table 1.10: Showing the status of observations included in the AAR 2000

Sl. No	Observation	Nu. millions		
		Reflected in Report	Amount Recovered/adjusted	Balance
1	Irregular payments	43.33	43.33	0.00
2	Excess payments	20.518	20.518	0.00
3	Recoverable from contractor	9.683	0.00	9.683
4	Liquidated damages	0.434	0.434	0.00
Total		73.965	46.1	9.683

The RAA is informed of all settlements except Nu.9.683 millions shown as recoverable from contractors which is subjudice in the court of law in Chimakothi

This would be reviewed by the RAA in the next audit.

Judiciary

Table 1.11: Showing the status of observations included in the AAR 2000

Sl No	Observation	Nu. millions		
		Amt. reflected in Report	Amount Recovered/Adjusted	Balance as on 31.3.03
1	Irregular payment of residential telephone bills	0.39	0.24	0.15
2	Outstanding revenue	0.64	0.60	0.04
Total		1.03	0.84	0.19

The current balance yet to be resolved/accounted for stands at Nu. 0.19 million

Financial Institutions

Table 1.12: Showing the status of observations included in the AAR 2000

Sl No	Observation	Nu. millions			Agency
		Amount reflected in report	Recovered /adjusted	Balance as on 31.3.03	
1	Contract awarded based on cut-off points	40.17	0	40.17	RICB
2	Irregular award of work	61.00	0	61.00	RICB
3	Uneconomic purchases	6.50	0	6.50	RICB
4	Loss due to purchase made from unauthorized suppliers	0.36	0	0.36	STCB
5	Non-realization of sale proceeds	0.85	0	0.85	STCB
6	Irregular payment of bonus incentive to contractors	0.125	0	0.125	RICB
7	Irregular payment of advances	7.70	0	7.70	RICB
8	Irregular payment of insurance claims	5.00	0	5.00	RICB
9	Irregular payment of donation	0.093	0	0.093	RICB
10	Other irregular payments	1.08	0	1.08	All
11	Works executed without inviting tenders	11.9	0	11.9	RICB
12	Outstanding advances against contractors	18.94	0	18.94	RICB
13	Excess payment	6.96	5.15	0.80	STCB
14	Non-accountal of stocks	4.21	0.53	3.68	STCB
15	Irregular sale of vehicles damaged	0.087	0	0.087	RICB
16	Execution of substandard works	1.88	0	1.88	RMA
17	Wastage expenditure	3.879	3.05	0.84	RMA
18	Monetary Policy Failure	112.5	112.5	0.00	RMA
19	Irregular payment of differential interest	7.71	7.71	0.00	RMA
20	Avoidable expenditure	3.8	0	3.8	STCB
21	Non-accountal of stocks	48.4	0	48.415	STCB
	Total	343.135	128.94	214.195	

The RAA reported observations involving Nu. 343.135 millions of the Corporations and Financial institutions i.e. RICB, STCB and RMA in the Annual Audit Report 2000. Except for the RMA which has taken appropriate action issues have been substantially resolved, it is regretted to note that no adequate follow-ups action were taken by the RICB and the STCB on the issues raised in the AAR..

It is to be noted that advances outstanding beyond the period admissible under rules must be fully accounted or will be treated as misuse for personal reasons.

PART-III

CHAPTER III

Summary of the AAR 2001.

This chapter and the chapters that follow shall form the part of the Annual Audit Report 2001.

The observations that are included in these chapters represent the findings featured in the inspection reports issued in the year 2001. In doing so, attempts have been made to reflect the current status of those observations where information were made available as on the time of finalization of this Report. The report also contains significant observations that were not included in the Annual Audit Report 2000, but in the opinion of the RAA these warrant the attention of the concerned authorities this time.

In this chapter, the RAA would like to briefly present the summary of the AAR 2001 in a tabulated form. Findings are not just restricted to observations presented in a table. Audit had detected irregularities amounting to over Nu. 812 millions during the year 2001 as presented in the Table 1.13.

The highest amount of lapses was noted in the areas of procurement and tendering aspects where the amount involved was more than Nu.326 millions. Corporations, Armed forces and Autonomous agencies respectively were in the top list, thereby indicating the need for either a rapid improvement or complete overhaul of the procurement practices.

Outstanding advances against the employees, suppliers and third parties and outstanding revenues from the private companies respectively were the areas indicating weaknesses in the financial discipline of government organizations and corporations.

The Ministry of Home Affairs had Nu.39.52 millions of government money in private hands either awaiting adjustment or recovery. It is closely contested by Corporations and Autonomous agencies with Nu.31.81 millions and Nu.25.39 millions respectively remaining either with individuals or private parties.

All in all, to our dismay Corporations which are expected to be model of 3 E's (Economy, Efficiency and Effectiveness) had the highest amount of administrative and management lapses detected **(in monetary terms)** than six government ministries put together.

Table 1.13: Showing agency wise audit observations by different categories (Nu. millions).

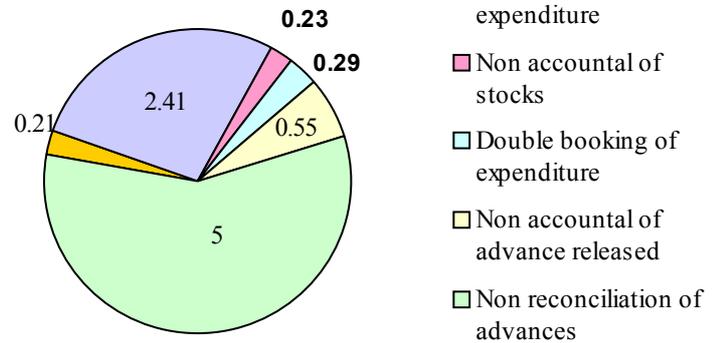
SL. NO.	Nature of observation	MoHE	MTI	MoC	MoHA	MoA	MoFA	Corp.	Armed Forces	Auto agency	Total
1	Outstanding Advance	13.98	12.19	20.75	39.52		24.67	37.81		25.39	174.31
2	Outstanding Revenue		8.01	61.41	0.77	0.94		33.77		4.18	109.08
3	Excess/double Payment	0.21			3.11	0.12	0.81	2.04		0.74	7.10
4	Wrong booking of expenditure	2.41									2.41
5	Non accountal of stocks/furniture	0.23	0.78		0.06	0.29	1.80	41.35	1.02	0.33	45.86
6	Double booking of expenditure	0.29									0.29
7	Non accountal of advance/fees/reimbursements	0.55					0.34				0.89
8	Wasteful expenditure		3.93	1.30				1.21		1.77	8.21
9	Non enforcement of contract clauses			4.50	1.77				1.87	2.68	10.82
10	Loss due to idle machinery			8.00							8.00
11	Poor cost benefit analysis			20.00							20.00
12	Unreconcilable balances	5.00		2.18				14.57			21.75
13	Irregular payments			2.83		0.22	3.17	5.17		1.20	12.59
14	Contracting and procurement lapses			12.44	8.73			152.2	90.40	62.99	326.76
15	Misutilization of revenue				0.10						0.10
16	Fictitious payment							3.28			3.28
17	Loss of revenue							5.14			5.14
18	Misappropriations							2.22		0.04	2.26
19	Obsolete stocks							36.66			36.66
20	Non enforcement of rules						0.87				0.87
21	Lack of budgetary discipline			1.47							1.47
22	Materials Management			4.00	0.08						4.08
23	Outstanding loan									1.56	1.56
24	Irregularities in cash closing balance						0.19				0.19
25	Payment made without supporting bills						1.29				1.29
26	Missing of disbursement vouchers						6.66				6.66
27	Irregularities in travels abroad						0.63				0.63
	Total	22.67	24.91	138.9	51.18	1.57	40.43	335.42	93.29	100.88	812.26

CHAPTER IV

Ministry of Health and Education

The Royal Audit Authority issued the Inspection Reports of the following agencies under the Ministry of Health and Education during the year 2001:

- ❖ Report of the Department of Health Services including the reports of UN projects; and
- ❖ Report of the GOI Assisted Projects.



Observations(Nu. millions)

Table 1.14: Showing audit observations by different categories.

Sl.No	Nature of Observations	Amount (Nu. Millions)	%
1	Outstanding Advances	13.98	61.68
2	Excess payments	0.21	0.91
3	Wrong booking of expenditure	2.41	10.63
4	Non accountal of stocks	0.23	1.01
5	Double booking of expenditure	0.29	1.28
6	Unconfirmed advance released by GOI Project, Thimphu	0.55	2.43
7	Non reconciliation of advances paid to suppliers and the materials received from the suppliers	5.00	22.06
Total		22.67	100.00

The Table 1.20 represents the actual scenario at the time of issuing the audit reports in 2001. The updated version of the contents of the above table is given under each observation in bold *Italic*.

Major findings:

1. Outstanding advances.

It was observed that over Nu.13.98 millions including advances for ongoing activities were lying as outstanding advances in the books of accounts of the Department of Health Services and the GOI projects. Advances were found to have been not adjusted/liquidated at the end of the financial year as required by the Financial Manual. These advances are shown in the Table 1.15:

Outstanding advances (Nu. millions)

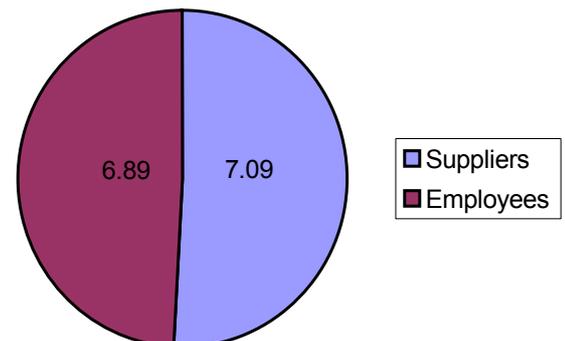


Table 1.15: Showing the advances against various agencies.

Sl.No	Agency	Paid to (Nu. millions)		
		Suppliers	Employees	Total
1	Department of Health Services		6.71	6.71
2	GOI assisted Health Project	7.09	0.18	7.27
Total		7.09	6.89	13.98

The RAA had raised concern over the issue and recommended vigorous follow up either to recover the advances or adjustments expedited.

The Ministry of Health and Education has initiated actions to recover/adjust as appropriate after the issue of draft of this report in October 7th 2002. The current balance still stands at Nu.6.725 millions.

2. Excess payments.

Over Nu. 0.21 million found to have been paid in excess of what was actually payable. Such payments relate to the double payment of salary, payment to M/s Meditech Group for equipment not supplied by the firm, payment to M/s Druk Sherig Construction at the market rate for all the items deviated from the bill of quantities etc.

3. Wrong booking of expenditure.

It was observed that GOI project management had incurred expenditures of about Nu.2.41 millions on purchase of Computers, Furniture, Hospital equipment and expenditures on travel outside the country. Without the budget provision for such activities, the expenditures were booked as expenditure on structure.

The Ministry of Health & Education had informed the RAA that though the budget proposal was submitted in different object code, the Ministry of Finance had approved the different budget in one object code. The same was verified by the RAA, hence the issue stands resolved.

4. Non accountal of stock.

It was observed that 13.034 metric tons of Tor steel worth Nu. 0.23 million supplied through the MPU (PWD), Phuntsholing were not accounted in the records of the GOI project at Mongar. The project site engineer confirmed that the materials were not received by the project. Audit concluded possible misuse of the materials/the value of the materials. The project management did not have a reasonable explanation to the audit

observation. Physical verification revealed that the materials were diverted to the construction of filter clinic and type-I staff quarter at Thimphu.

The project management had stated that initial orders for supply of construction materials for both projects at Mongar and Thimphu were placed with STCB. The Material Procurement Unit, P/ling was assigned the responsibility of lifting materials from STCB and dispatch to the concerned projects. Materials actually meant for Project in Mongar as addressed in the STCB bills were lifted for use in Thimphu.

The joint verification team from RAA and project management verified the representation.

5. Double booking of expenditure.

The RAA detected that an advance of Nu. 0.29 million paid to M/s Zhongar Construction Company by the project management of the GOI project, Mongar was adjusted in the imprest account as well as the GPLC account.

It was stated that the follow-up audit had noted the rectification of accounts carried out by the Project Management. Journal Voucher was prepared to rectify the accounts by debiting Nu.0.29 million to advance to contractors and by crediting the equivalent amount to expenditure on structure.

6. Unconfirmed advance released by GOI, Thimphu.

The books of accounts of the GOI project Thimphu showed that an advance of Nu. 0.55 million shown as disbursed to Trashy Yangtse GOI projects. Cross verification of the advances released to that of advances received by the field office revealed that the advances of Nu. 0.55 million were not received by the field office.

It was informed that the advance of Nu. 0.50 million were directly released by the GOI, Thimphu to a supplier and the other Nu. 0.05 million is yet to be accounted for.

7. Non reconciliation of advances paid to suppliers and the materials received from the suppliers.

The GOI, Health Construction Project, Thimphu had been paying advances to suppliers for supply of construction materials to the project. It was however observed that reconciliation was not carried out to determine the exact position of materials and the advances outstanding with the suppliers. As a result over Nu. 5 millions were outstanding against the suppliers as on the date of audit. After the audit some book adjustments were carried out and Nu.0.25 million was recovered leaving a balance of Nu.0.056 million.

All necessary reconciliations were made and the balance amount of Nu.0.056 million was deposited into the ARA.

Chapter V

Ministry of Trade and Industry

The Royal Audit Authority had issued the audit reports of the following agencies under the Ministry of Trade and Industries during the year 2001:

1. Department of Geology and Mines;
2. Department of Trade;
3. Regional Trade and Industry Office, Thimphu;
4. Central Maintenance Unit, Begana;
5. Department of Tourism; and
6. Department of Industries.

Amount involved (Nu. millions)

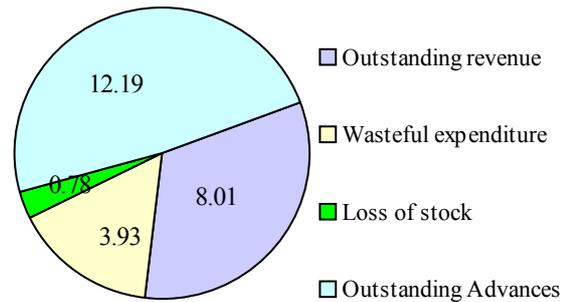


Table 1.16: Showing different categories of audit observations by amount & percentages.

Sl.No	Nature of Observations	Amount (Nu. Millions)	%
1	Outstanding Revenue	8.01	32.16
2	Outstanding Advances	12.19	48.94
3	Wasteful expenditure	3.93	15.78
4	Loss of stock	0.78	3.13
Total		24.91	100.00

The above table represents the actual scenario at the time of issuing the audit reports in 2001. The updated version of the contents of the above table is given under each observation in bold *Italic*.

Major findings.

1 Outstanding Revenue.

The Department of Trade had not realized the revenue amounting over Nu. 8.01 millions. The revenue accrued pertains to revenue earned from lease of industrial sheds, Royalty, Mineral rents and surcharges levied to M/s Druk Petroleum Limited for depots and barrels for the petroleum products. The statement below depicts the outstanding revenue from various sources:

Table 1.17: Showing various agencies by the amount of outstanding revenue.

Sl.No	Source	Types of revenue	Amount (Nu. millions)
1	RTIO, Thimphu	Outstanding Shed rent, Plot/surface rent and Royalty/Mineral rent (Nu.)	0.43
2	DGM	Outstanding royalty/mineral rent	4.63
3	CMU, Begana	Sale, repair and maintenance of transformers	0.78
4	Department of Trade	Non deposit of barrel/depot surcharge by M/s DPCL	1.71
5	RTIO, Thimphu	Royalty and Mineral rents	0.46
TOTAL			8.01

Out of the total outstanding revenue of Nu.8.01 millions, the MTI had recovered and deposited Nu.1.95 millions only to the RAA after the issue of draft of this report in October 2002.

The responsible officials must deposit the balance of Nu.6.06 millions with the RAA.

2 Outstanding Advance.

A sum of over Nu.12.19 millions from the govt. exchequer were lying with the suppliers and employees of the agencies under the Ministry of Trade and Industries audited during the year 2001. The advances that are needed to be recovered or adjusted are shown in the table below:

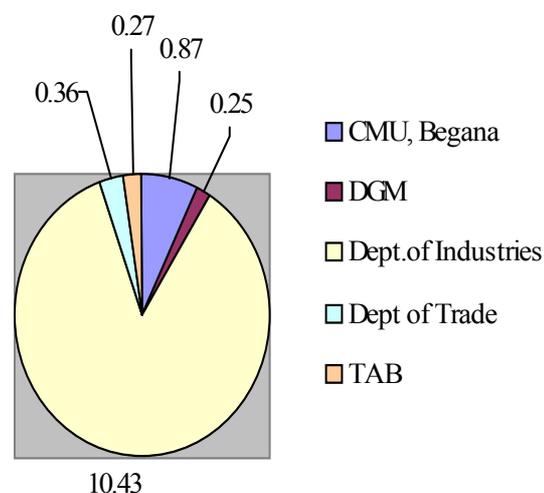
Table 1.18: Showing various agencies by the amount of outstanding advance

Sl.No	Agency	Amount (Nu.millions)
1	CMU, Begana	0.87
2	DGM	0.25
3	Dept. of Industries	10.43
4	Dept of Trade	0.36
5	TAB	0.28
Total		12.19

The major portion of these outstanding advance relate to payments made to M/s Handicraft Development Corporation, M/s Indian Oil Corporation, M/s STCB and EE, ESU, Samdrup Jongkhar. The advances were as old as 5 years on the date of audit.

Advances wherever possible to the tune of Nu.0.17 million is recovered after the issue of draft of this report.

Outstanding advance (Nu. million)



Those advances where the possibility of recovery is remote it has been processed for write-off on the basis of a Tripartite Meeting held amongst the Ministry of Trade & Industry, Ministry of Finance and the RAA.

The responsible officials must deposit the balance amount.

3 Wasteful expenditure.

An expenditure amounting to approximately Nu. 3.93 millions was found incurred by the Department of Trade to construct two above ground tanks for HSD and a tank for kerosene at Dechencholing. It was observed that these tanks were left without being used since 1998. The physical properties of these tanks were also found to be deteriorating.

The RAA is informed that the tanks were reportedly kept unused for security reasons.

4 Stock Loss of Petroleum Products.

Verification of records related to stock of petroleum products revealed differences in the opening and closing stock of these products. It was informed that the difference was due to the loss through evaporation, inaccurate measurement, tanks filled less than half of their capacities etc. The percentage of such stock loss was 23% for petrol and 15.6% for Diesel.

The RAA is informed that the stock loss of petroleum products have been appraised to the Ministry of Finance for write-off.

5 Irregular permission to lift marbles for export by the M/s Asian Minerals Pvt. Ltd.

The Department of Geology and Mines (DGM) had issued a permit to lift, collect and export marbles from Omchuna/Maluna at Paro. It was observed that:

- i) No Lease Agreements were drawn between the two parties;
- ii) Although royalty and mineral rent were collected, surface rent as required by the Mines and Minerals Management Act 1995 was not collected from the Company;
- iii) The area allowed to lift the boulders were not demarcated;
- iv) While the agreement allowed collecting and exporting marbles from the surface, it was also observed that mining and quarrying were carried out. The field report of the geologist who visited the site indicated the existence of ruby, which he stated, needed further investigation. Such existence was not reported to the government.

- v) Government vehicle (Truck) was engaged to collect boulders from the site to Bondey stockyard. There were no correspondences or agreements if the Company (Asian Mineral Pvt. Ltd) hired it. The Company only at the instance of the audit remitted hire charges. This was a case of a highly irregular arrangement between a private company and a government agency.

The point wise response of the agency is briefly reiterated below:

- I. ***The RAA is informed that DGM shall draw a lease agreement specifying the royalty payable per month in all its future mining contracts;***
- II. ***The DGM had clarified that the surface rent was not collected from the company because the area was not surveyed and demarcated. The correctness of the fact will be verified in the next audit;***
- III. ***No satisfactory response was intimated;***
- IV. ***The RAA is informed that a draft report of the Geologist was submitted to the Department for scrutiny of the Senior Geologist. The outcome will be reviewed in the next audit.***
- V. ***On the basis of audit observation the DGM had recovered Nu.0.065 million from the company and deposited into the Audit Recoveries Account.***

Any administrative actions taken by the Ministry to avoid such lapses in future is yet to be communicated to the RAA.

6. Irregular issue of a Drilling Machine to a private company by the Department of Geology and Mines.

The Department of Roads (DoR) had requested to either recommend a firm capable of carrying out the geo-technical studies/investigation for bridge foundations or the DGM's intention to carry out itself. The DGM had refused the offer of the DoR stating the reasons that the department does not have manpower and equipment. However, it was found that the DGM had a drilling machine and its accessories issued in the name of the DGM official for use by M/s Kelwang Consultancy free of cost. Ironically, the official in whose name the equipment was issued was unofficially deputed to work with the firm.

The DGM had dismantled two drilling machines and reassembled it into one useable. The reassembled machine was surrendered to DNP as unserviceable only to find that M/s Kelwang Consultancy was the buyer of that machine from the DNP.

The RAA advised the agency to take the following course of actions:

- I. The responsibility was to be fixed on the official who had approved hiring out the machinery to a private firm;
- II. There was a misuse of a trained manpower of a government agency for which justification of the management was sought along with charging of consultancy fees to M/s Kelwang Consultancy;
- III. The hire charge of Nu.0.25 million(Nu.4500/day for 55 days) of drilling machines worked out from the date of issue of the machine until it was surrendered to the DNP to be deposited into the Audit Recoveries Account;
- IV. The cost of accessories amounting to Nu.0.17 million to be recovered from M/s Kelwang Consultancy;
- V. The drilling machine though in working condition (when assembled as one unit) was surrendered to the DNP as unserviceable for which the DGM was asked to justify or fix the accountability on the official who knowingly surrendered the useable drilling machine; and
- VI. The DGM to produce letter of the DNP instructing them to hand over the machine to the firm and to substantiate how the book value of the machine was assessed and arrived at.

Responses of the agency as submitted to the RAA to point number I, II and IV are briefly reiterated below:

- I. The DGM represented that the equipment and accessories were issued along with one Technical Officer in anticipation of an approval from the Ministry of Finance. When the Ministry of Finance did not accord approval the equipment and the Technical Officer was stated to have withdrawn with no cost to the government***
- II. It was informed that the Technical Officer was engaged only for a week to set up the machine with no cost borne by the government.***
- IV. The cost of accessories amounting to Nu.0.17 million was deposited into the Audit Recoveries Account.***

The RAA expects the concerned authorities to take action as appropriate and intimate the RAA accordingly.

7. Execution of work by DGM for the contract works awarded to M/s Kelwang Consultancy by the Department of Roads.

The Department of Roads had requested to either recommend a firm capable of carrying out the geo-technical studies/investigation for bridge foundations or the DGM's intention to carry out itself. The DGM on the ground of non-availability of manpower and equipment conveyed its inability to carry out the work and instead recommended M/s Kelwang Consultancy as the only firm capable of undertaking such a work.

In contravention to the above stand, the DGM and M/s Kelwang Consultancy had signed an agreement to hire out the drilling unit along with the technical support team to carry out the sub-surface geo-technical investigation at the Puna Tshangchu Bridge foundation site for the work awarded to M/s Kelwang Consultancy.

The DGM had not only deputed the technical support team but also deputed the geo-technical officer to carry out the core drilling works of bore holes without charging anything to the company except the meterage charges. The meterage charge realized from the company was Nu.0.12 million as compared to the salary paid to the DGM team of Nu. 0.11 million.

On a detailed review of the whole process it revealed that the entire work awarded to M/s Kelwang Consultancy by the Department of Roads was carried out and completed by the DGM without involving the company even for the transportation of equipment to the site. The company without having invested anything had made a net profit of Nu. 0.81 million out of the total contract amount of Nu.0.93 million. Had the said work been taken up by DGM the government could have narrowed the budget deficit by Nu.0.81 million.

The DGM in order to justify that the whole work was not done by DGM had appraised the RAA that drilling and core logging is part of a one whole. The response also stated that there are direct costs involved to get the project started thus defying the audit statement that the company had made a net profit of Nu.0.81 million.

The RAA had given a following further comments, that;

- I. the salaries paid to the DGM team during their engagement with M/s Kelwang Consultancy amounting to Nu. 0.11 million be deposited into the Audit Recoveries Account,
- II. the management to deposit the transportation charges of equipments involved into Audit Recoveries Account; and
- III. the responsibility to be fixed on the official who had deputed the DGM officials and staffs for the work of M/s Kelwang Consultancy.

CHAPTER VI

Ministry of Communications

The Royal Audit Authority issued the audit reports of the following agencies under the Ministry of Communications during the year 2001:

1. Material Procurement Unit, Phuntsholing;
2. Mechanical Cell;
3. MoC, Secretariat;
4. Department of Civil Aviation;
5. Roads Maintenance Section, Trongsa;
6. Roads Maintenance Section, Trashigang;
7. Roads Maintenance Section; Lobesa;
8. City Corporation, Thimphu;
9. Regional Workshop, Hesothangka;
10. Regional Workshop, Lingmethang; and
11. Road Maintenance Section, Lingmethang.

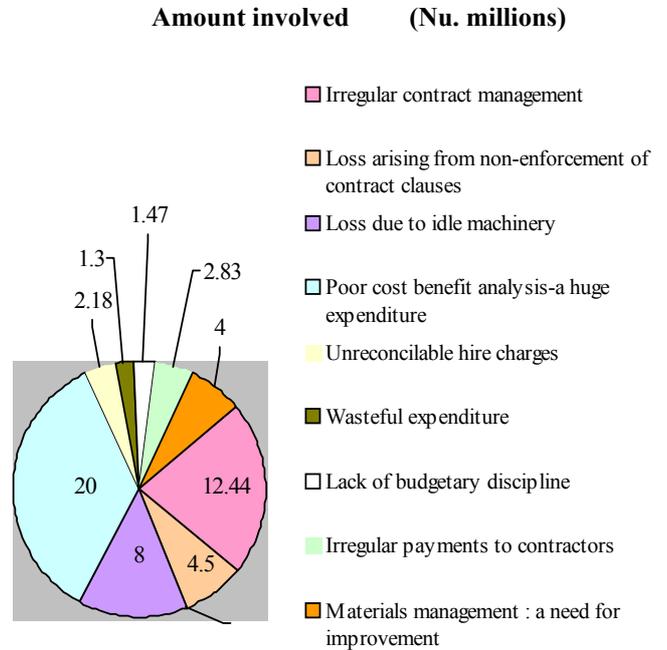


Table 1.19: Showing audit observations by different categories

Sl.No	Nature of observations	Amount involved (Nu. millions)	%
1	Irregular contract management	12.44	9
2	Loss arising from non-enforcement of contract clauses	4.50	3
3	Outstanding Advances	20.75	15
4	Outstanding Revenue	61.41	44
5	Loss due to idle machinery	8.00	6
6	Poor cost benefit analysis-a huge expenditure	20.00	14
7	Unreconcilable hire charges	2.18	2
8	Wasteful expenditure	1.30	1
9	Lack of budgetary discipline	1.47	1
10	Irregular payments to contractors	2.83	2
11	Materials management : a need for improvement	4.00	3
Total		138.88	100

The above table represents the actual scenario at the time of issuing the audit reports in 2001. The updated version of the contents of the above table is given under each observation in bold *Italic*.

Major findings.

1 Irregular contract management.

It was observed that agencies under the Ministry of Communications had awarded works worth millions of Ngultrums to contractors/suppliers without following the government's established norm of inviting tenders to obtain competitive rates. Works were also found awarded not to the lowest bidders. The notion of economic use of the scarce resources of the government was ignored. Instances of such irregularities are presented below:

Table 1.20: Shows the award of contract works to various agencies without inviting tenders

Sl. No.	Agency	Name of the work	Value of the work(Nu. millions)	Remarks
1	Road Maintenance Section, Trongsa	Road resurfacing work on Yotongla - Ura Highway	1.60	Negotiation to M/s EFCC
2	Department of Civil Aviation, Paro	The work "Security Lighting" at Paro Airport	0.58	Direct award of work to M/s Topsecure
3	Road Maintenance Section, Lobeysa.	Construction of Tingtha Bailey Bridge	1.43	Work order basis to M/s Nima and Singye Constructions
4	Road Maintenance Section, Trashigang.	Restoration works on (a) Dewathang - Bhangtar Road, (b) Kawaipani - Bhangtar Road etc.	2.43	Work not awarded to lowest bidder
5	MoC, Secretariat	Supply of Nashautic copier	0.15	Without quotation to M/s Automation system
6	Department of Civil Aviation, Paro	Hanger roofing, Fixing of wire mesh and Civil work at Paro Airport	2.03	Work order basis to M/s K.L Construction
7	Road Maintenance Section, Trashigang.	Restoration works on T'gang - Yadi Road; Chaskar Feeder Road; Works on Dewathang - Bhangtar Road	2.77	Work awarded on work order basis, based on the approval of the Secretary, MoC
8	Road Maintenance Section, Lobesa	Monsoon restoration works	1.45	Non-award of the work to the lowest bidder
TOTAL			12.44	

Justifications to serial number 1, 2, 5 & 6 above submitted by MoC are briefly outlined below:

- 1. During the meeting between the Ministry of Communications and the RAA on 26.3.03, the MoC acknowledged that the Road**

Resurfacing Work on Yotongla-Ura Highway though awarded on negotiation to M/s Environmental Friendly Construction Company (EFCC) the actual deal did not materialize. It was stated that the work eventually had to be carried out departmentally as the company failed to take up works.

2. ***The RAA was appraised that the work on security lighting at Paro airport was directly awarded to M/s Top Secure because of the security reasons and that the job demanded expertise and there were no other local contractors.***

The Department of Civil Aviation (DCA) further submitted that the tender and procurement formalities will be strictly complied with in all its future contracts.

5. ***The MoC submitted that Nashautic copier had to be procured directly since it was required mainly for the donors who were conducting a Telecommunications Regulatory Meeting which was time bound. The MoC stated that such practice is discontinued.***

6. ***The DCA had appraised the RAA that the work on hanger roofing, fixing of wire mesh etc was awarded based on the approval of the ministry considering the urgency of the work. It was also stated that the budget for the work was reappropriated from the budget earmarked for the purchase of vehicles.***

The DCA further submitted that the tender and procurement formalities will be strictly complied with in all its future contracts.

The MoC is still accountable to submit satisfactory justifications for the rest of the works brought out in the Table above.

2 Loss arising from non-enforcement of contract clauses.

A contract agreement is a legal document containing the terms and clauses governing the contract between the two parties.

In the audit of the agencies under the Ministry of Communications during the year 2001, it was observed that liquidated damages amounting to over Nu. 4.5 millions were not levied on the contractors who had breached contract terms. It was found that projects were not completed on the time agreed in the contract agreement.

The government therefore needs to review the competency of the contractors or the reasonableness of the contract duration keeping in view that most contractors had defaulted in delivering on the time agreed.

Necessary justifications and the amount recovered to the tune of Nu.1.57 millions were outlined in the meeting on 26th March 2003 thereby leaving a balance of Nu.2.87 millions. The MoC had further

assured the RAA about inclusion of penal clauses in all its future contracts.

Table 1.21: Showing the detail of the balance amount of liquidated damages:

Sl. No	Agency	Name of works	Amount Nu. millions	Remarks
1	Department of Civil Aviation	Cons. of Airport Security barracks, toilets etc	0.04	M/s Top Secure
2	Department of Civil Aviation	Supply of Compressors	0.28	
3	Department of Civil Aviation	Hanger roofing, fixing of wire mesh etc.	0.20	M/s K.L. Construction
4.	MPU, P/ling	Supply of Bridge parts	0.03	Bhutan Hardware agency.
5.	MPU, P/ling	Supply of Tor steel	0.15	Yarkey Enterprise
6.	MPU, P/ling	Supply of Copper Sheets	0.07	Yarkey Enterprise
7.	MPU, P/ling	Supply of galvanized chain link wire mesh.	0.05	Yarkey Enterprise
8.	RMS, Lobeysa	Road resurfacing	1.97	
9.	Thimphu City corporation	Supply of electrical cables, fittings etc.	0.08	D.T. Enterprise
		Total	2.87	

3 Outstanding Advances.

Outstanding advances (Nu. millions)

Advances amounting to over Nu. 20.75 millions were outstanding as of year 2001. Agency wise amounts outstanding are presented in the table below:

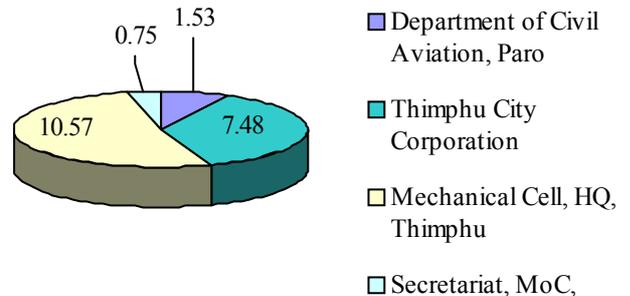


Table 1.22: Showing the outstanding advances against various agencies

Sl.No	Agency	Amount Nu. Millions		
		Total Amount	Adjusted/recovered	Balance
1	Department of Civil Aviation, Paro	1.53	1.15	0.38
2	Thimphu City Corporation	7.49	7.49	-
3	Mechanical Cell, HQ, Thimphu	10.58	0.0007	10.58
4	Secretariat, MoC, Thimphu	0.76	0.28	0.48
5	Hesothangkha Regional Workshop	0.39	0.08	0.31
	Total	20.75	9.00	11.75

The Ministry of Communications had initiated actions, recoveries and adjustments were made. As a result the latest position of the outstanding is only a mere Nu.0.03 million.

4 Slow moving and obsolete materials.

Old and slow moving items such as vehicle spare parts, water supply materials worth millions were dumped in the stockyards of the Material Procurement Unit, Regional workshops in Hesothangka and Lingmethang. This not only impinges on the financial resource of the nation but also on the human and spatial resources.

A copy of the handing/taking note between MPU, P/ling and the Department of National Properties was not produced.

5 Outstanding Revenue.

Revenue worth Nu. 61.41 millions earned out of hire of machinery and equipment, sale of water supply materials, taxes etc. from the government as well as the private parties were outstanding during the year 2001. This is shown in the table 1.29:

Outstanding revenue (Nu. Millions)

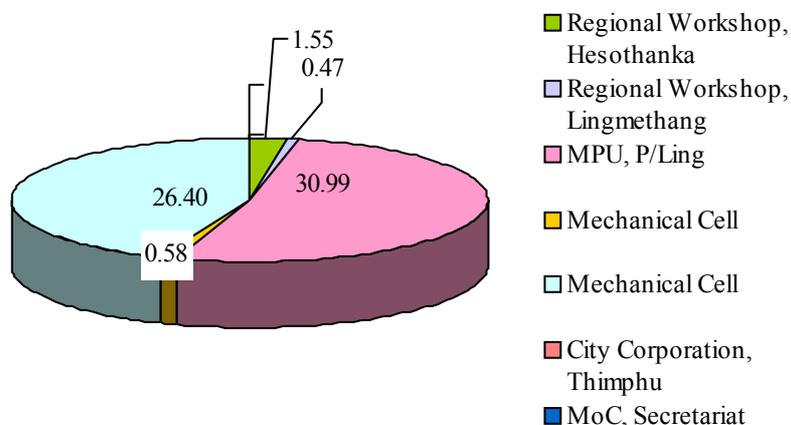


Table 1.23: Showing the agency wise outstanding revenue

Sl.No	Agency Audited	Outstanding on account of	Nu. millions	
			Total Amount	Adjusted/recovered
1	Regional Workshop, Hesothanga	Hire of machinery and equipment	1.55	1.15
2	Regional Workshop, Lingmethang	Hire of machinery and equipment	0.47	0.23
3	Material Procurement Unit, P/Ling	Dzongkhags and private parties	30.99	2.29
4	Mechanical Cell	Hire of equipment	0.58	0.03
5	Mechanical Cell	Outstanding against regional workshops and RMSs	26.40	
6	City Corporation, Thimphu	Outstanding urban taxes	0.57	0.47
7	MoC, Secretariat	Renewal fees from cable operators and dish antenna users	0.85	
Total			61.41	4.17

The responses submitted to the RAA stated that the adjustments and recoveries are continuously being pursued. Out of Nu.57.24 millions

outstanding as on 7th October 2002, the balance amounts awaiting adjustments/recoveries stands at Nu.20.82 millions as detailed in the Table 1.24 below:

Table 1.24: Showing balances of revenue outstanding.

Sl.No	Agency Audited	Outstanding on account of	Amount Nu. millions
1	Regional Workshop, Hesothanga	Hire of machinery and equipment	0.20
2	Material Procurement Unit, P/Ling	Supply of materials to Dzongkhags and private parties	17.87
3	Mechanical Cell	Hire of equipment	0.55
4	Mechanical Cell	Outstanding against regional workshops and RMSs	1.25
5	City Corporation, Thimphu	Outstanding urban taxes	0.10
6	MoC, Secretariat	Renewal fees from cable operators and dish antenna users	0.85
		Total	20.82

6 Loss due to idle machinery.

The Regional Workshops at Hesothangka and Lingmethang hire out machinery to the Road Maintenance Sections. Hire charges were charged only for the actual use of the machine ignoring the idle time during the period of the hire. If the idle time is taken into consideration, and the alternative of hiring it out to the private parties considered, government would have earned approximately Nu. 7 millions from the Regional Workshop, Lingmethang and over Nu. 1 million from Hesothangka.

The MoC had informed the RAA that the matter in question is brought to the notice of the Ministry of Finance. The Ministry of Finance had instructed the Regional Workshop to keep the withholding charges in abeyance.

7 Poor Cost Benefit Analysis: a huge expenditure.

The Material Procurement Unit in Phuntsholing had incurred about Nu. 20 millions towards the cost of transportation in 3 years to transport materials to various agencies. The MPU had four trucks standing idle on many of the dates of transportation through private transporters.

The MPU on the one hand was paying huge amounts on account of hire charges, where as on the other hand departmental trucks were lying idle.

The MoC had submitted that the departmental trucks in question were meant for specific project. The project document did not authorize its usage for non-project related activities.

8 Irreconcilable Hire Charges.

The hire charges of Machinery by the Regional Workshop, Hesothangka could not be reconciled to the tune of Nu. 2.18 millions. The bills raised were higher than the payments received by the workshop.

The concerned agency had informed the RAA about having recovered/realized the billed amount thus reconciling the hire charges.

This will be reviewed in the next audit.

9 Wasteful Expenditure.

It was observed that expenditure to the tune of Nu. 1.3 millions approximately were incurred on the works executed on the Kawaipani-Bhangtar road. It was however found that the work was abandoned resulting in wastage of government fund to that extent.

The RAA is informed that the work in question was abandoned due to security reasons.

10. Lack of budgetary discipline.

- I. It was observed that the Ministry of Communications had incurred over Nu. 0.4 million on hospitality and entertainment as against the Budget provision of Nu.0.20 million.
- II. Salary disbursement to the tune of Nu. 0.26 million and Nu. 0.81 million were made by the RMS, Lobesa and Regional workshop, Hesothangka against posts not sanctioned/approved.

For point No. I: The MoC had stated that out of Nu.0.40 million expenditure incurred, about Nu.0.095 million was incurred on Deputy Minister's behalf which should have got refunded from the Ministry of Finance, minus Secretary's entitlement of Nu.0.20 million rest were incurred during the visit of government guest which must be refunded from the Ministry of Finance.

The RAA expects the RMS, Lobeyssa and Regional Workshop, Hesothangka to obtain the concurrence of competent authority for engaging staff beyond the approved post and furnished to audit for verification.

10 Irregular payments to contractors.

Contrary to imposing penalties to the contractors for the breach of contract terms and conditions, it was observed that the government

agency had extended undue financial help to the contractor against the provisions of the contract agreement and the financial rules in force. It is seen that either the advances to the contractors were paid in excess of what was defined in the contract agreement or against the rules set in the financial manual. Instances of such irregular payments are given in the table below:

Table 1.25: Shows the Irregular payments and the amount involved

Agency responsible	Name of the work	Irregularities	Amount (Nu.millions)	Contractor
DCA, Paro	Hanger roofing, fixing wiremesh and other civil works	Payment of advance not covered by the contract	2.00	M/s K.L construction
RMS, Lobesa	Additional formation cutting on Tashithang-Damji road	Advance released, works not executed	0.51	M/s Nima Construction
RMS, Lobesa	Formation cutting on Tashithang-Damji road	Excess payment of advance not in terms of the contract	0.32	M/s Nima Construction
Total			2.83	

11 Materials Management: a need for Improvement.

It was observed that materials worth over Nu. 3.5 millions were dumped behind the workshop in Hesothangka exposed to heat and rain. Similarly, it was observed during the audit of RMS, Lingmethang that materials worth over Nu. 0.5 million remained at site after the completion of the works without proper care.

The RAA was informed that proper storage facilities have been constructed and that the materials are under safe custody. The issue now stands resolved.

CHAPTER VII

Ministry of Home Affairs

The Royal Audit Authority issued the audit reports of the following agencies under the Ministry of Home Affairs during the year 2001.

1. Dzongkhag Administration, Dagana;
2. Dzongkhag Administration, Lhuntse;
3. Dzongkhag Administration, Mongar;
4. Dzongkhag Administration, Punakha;
5. Dzongkhag Administration, Trashigang;
6. Dzongkhag Administration, Trongsa;
7. Dzongkhag Administration, Tsirang; and
8. Dzongkhag Administration, Samdrup Jongkhar.

Table 1.26: Nature of observations and the amount involved

Sl.No	Nature of observations	Amount involved (Nu. millions)	%
1	Irregular award of work on contract	8.73	16.12
2	Excess payments	3.11	5.74
3	Non-enforcement of contract clauses	1.77	3.27
4	Outstanding revenue	0.77	1.42
5	Misutilization of revenue/ funds collected	0.10	0.18
6	Outstanding advances	39.52	73.00
7	Non-accountal of stock	0.06	0.11
8	Unauthorised issue of cement to private parties	0.08	0.15
Total		54.14	100

The above table represents the actual scenario at the time of issuing the audit reports in 2001. The updated version of the contents of the above table is given under each observation in bold *Italic*.

Major findings.

1 Irregular award of work on contract.

It was observed that the construction of 8 double unit staff quarters were awarded without inviting tender to Gups and Chimis by the Mongar Dzongkhag Administration. It was explained that this was decided in the 53rd DYT. Whether the decision of the DYT can overrule the government standing rules were not known. The result of the decision was however very distinct and clear i.e. constructions were not completed on time.

Similarly, the renovation of Trashigang Jr. High School was awarded to two contractors directly without inviting tenders. The work was valued at Nu. 0.73 million.

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The Dzongkhag Tender Committees of Trashigang, Mongar and Samdrup Jongkhar also awarded works to contractors not within the authority of the committee. Such award of works relate to the construction of BHU worth over Nu. 8 millions in Kanglung, construction of Science Block in Mongar, Construction of BHU in Gomdar etc.

The Dzongkhag Administration, Mongar had represented that in keeping with the Policy of Decentralization and to make the Geog Yargye Tshogchung (GYT) members responsible and accountable for the construction and maintenance of service facilities some works were awarded to Gups and Chimis on work order basis at the estimated cost.

The award of work to non-licensed contractors was in deviation to the provisions outlined in the Procurement Manual. Therefore, officials involved in the process must still be held accountable.

The Dzongkhag Administration, Trashigang stated that the works were awarded on work order basis since the scope of works were small and fulfilling tender formalities would have meant delay in renovation and that the contractor to whom the work was awarded had proven record of delivering quality products.

Direct Contracting shall be exercised only in line with the relevant clauses in the Procurement Manual. Therefore, officials involved in the process must still be held accountable.

2 Excess payments: where lies the problem? Payee or the payer?

It is not unusual to observe that payments are released to the contractors, suppliers and employees in excess of what are actually admissible. It is usually in the form of payments entertained towards cost of works not performed, goods not delivered, payment not

in accordance with the rules in force and paying twice for the same thing.

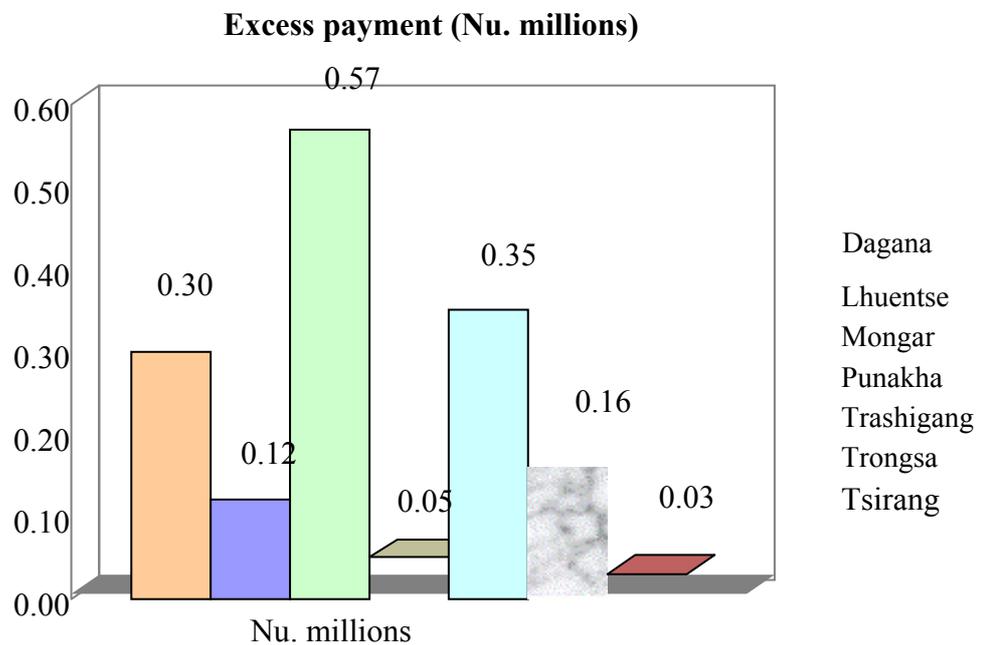


Table 1.27: Showing the Dzongkhag wise instances of excess payments

Sl. No	Agency	Excess payment on account of	Nu. millions		
			Total amount	Recovered	Balance
1	Dagana	Inadmissible allowance to surveyors, to contractor for works not executed in the constructions at Emirey School, etc	0.30	0.30	Nil
2	Lhuentse	Works not executed of the construction of Resource Centre in Tangmachu High School and excess payment of stipend to the Principal of Tangmachu High School	0.12	Nil	0.12
3	Mongar	Inadmissible payment of halt charges to teachers on transfer, double payment of leave encashment, double payment of transfer allowances, excess payment of stipends, payments of inadmissible cost index & for works not executed	0.58	0.20	0.38
4	Punakha	Payment of residential telephone bills from the government fund	0.05	Nil	0.05
5	Trashigang	Excess payment of stipend, excess payment of salary to apprentice teachers, payment for works not executed etc	0.35	0.04	0.31
6	Trongsa	Payment for works not executed in the constructions of head teachers quarters at Tshangkha Jr. and Primary Schools, Bemji Primary School, fencing work at RNR centre and BHU Construction at Tongtofey, CGI roofing at Kuenga Rapten palace and Construction of Dzongdag's residence	0.18	0.18	Nil
7	Tsirang	Double payment of salary to apprentice teachers, and payments for works not executed in the construction of BHU at Tsirangdara	1.53	0.50	1.04
Total			3.11	1.22	1.90

Most of the instances of excess payment have either been recovered or adjusted thereby leaving a current balance of Nu. 0.79 million.

3 Non-enforcement of contract clauses.

The contract for the construction of Khoma Primary School under Lhuntse Dzongkhag awarded to M/s Rabgay Construction Company had to be rescinded since the contractor did not complete the work on the agreed time. The Company did not pay the liquidated damages amounting to Nu. 1.2 million imposed by the Dzongkhag Administration.

Similarly, the Construction of Nagor Primary School under Mongar Dzongkhag contracted to M/s Druk Construction Company was not completed as agreed in the contract agreement. Review of time extensions granted to the contractor did not justify the non-completion of the construction on time. The Dzongkhag Administration had therefore failed to invoke the clause on the liquidated damages of the contract agreement and did not levy liquidated damages amounting to Nu. 0.57 million.

The delay in the completion of the work by the contractor therefore prompts the question of the proper evaluation of contractors financial and technical capabilities at the pre-evaluation phase vis a vis the reasonableness of the estimates and the contract duration.

4 Revenue Management: a need for improvement

a) Outstanding revenue.

It was observed that revenue amounting to Nu. 0.77 million were not collected by the agencies under the Ministry of Home Affairs. It was also observed that revenue arising from statutory deductions such as salary tax, house rent and health contributions were not deducted.

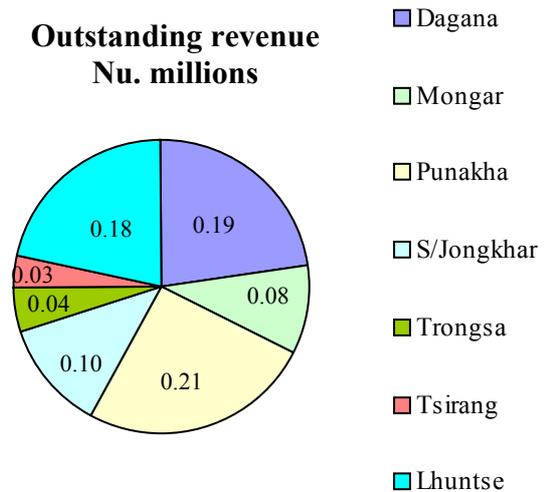


Table 1.28: Showing the outstanding revenue against various agencies

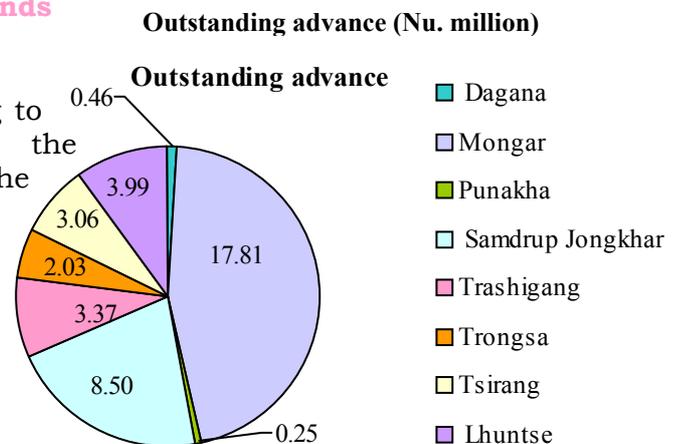
Sl.No	Dzongkhag	Outstanding revenue on account of	Nu. Millions		
			Total amount involved	Recovered	Balance
1	Dagana	Non-collection of Rural taxes from Gups	0.13	0.08	0.05
2	Mongar	Outstanding Municipal taxes	0.08	Nil	0.08
3	Punakha	Outstanding Rural taxes from Gups	0.21	0.21	Nil
4	S/Jongkhar	Outstanding Municipal taxes	0.09	0.08	0.01
5	S/Jongkhar	House rents not deducted from officials occupying government quarters	0.02	0.02	Nil
6	Trongsa	Outstanding Municipal taxes	0.04	0.03	0.01
7	Tsirang	Outstanding Rural taxes from Gups	0.03	Nil	0.03
8	Lhuntse	Non-recovery of salary tax and health contributions	0.05	0.04	0.01
9	Lhuntse	Non-recovery of house rents	0.13	0.13	Nil
TOTAL			0.77	0.59	0.18

Recoveries to the tune of Nu.0.03 have been effected by the RAA after the issue of the draft of this report in October 2002 thereby leaving a balance of Nu.0.16 million still to be accounted for.

b) Misutilization of revenue/funds collected

It was observed that revenue amounting to Nu. 0.07 million were not deposited into the government revenue account by the Dzongkhag Administration, Dagana.

Similarly, Jigme Sherubling High School did not account the closing balance of Nu. 0.03 million of the School Development fund.



5 Outstanding Advances.

The total amount of advances outstanding stood at Nu. 39.52 million for those agencies under the Ministry of Home Affairs as shown in the table below:

Table 1.29: Showing the outstanding advance against various agencies

Sl.No	Dzongkhag	Amount Nu. millions		
		Total Amount involved	Recovered/adjusted	Balance
1	Dzongkhag Administration, Dagana	0.46	0.06	0.40
2	Dzongkhag Administration, Mongar	17.81	0.00	17.81
3	Dzongkhag Administration, Punakha	0.25		0.25
4	Dzongkhag Administration, Samdrup Jongkhar (Nu. 621,596.97 written off)	8.50	4.16	4.34
5	Dzongkhag Administration, Trashigang	3.37	0.46	2.91
6	Dzongkhag Administration, Trongsa	2.03	0.58	1.45
7	Dzongkhag Administration, Tsirang	3.06	0.03	3.03
8	Dzongkhag Administration, Lhuntse	3.99		3.99
	Total	39.47	5.29	34.18

The advances reflect current updated status as of August 2002 and not necessarily based on the report issued in 2001.

Instances were also observed during the audit of the Dzongkhag Administrations, Dagana and Mongar that advances were not booked in the accounting records. The payment of Nu. 0.05 million made to the contractor as advance was neither booked nor recovered from the bills of the contractor carrying out the construction of Khibisa BHU in Dagana.

Only Nu.3.15 millions have been adjusted/recovered after the issue of the draft of this report in October 2002 thereby leaving a current balance at Nu.31.03

6 Non accountal of Stocks.

Physical verification of the stores revealed the shortages of the materials in the following Dzongkhags.

Table 1.30: Showing the missing items and the amount involved

Sl. No.	Dzongkhag	Item	Amount Nu. millions
1	Mongar	VVIP Guest House	0.02
2.	Punakha	CGI Sheets	0.02
3.	Trongsa	Furniture	0.02
		Total	0.06

Only Dzongkhag Administration, Punakha had settled their issue

7 Unauthorized issue of cement to private parties.

The Dzonkhag Administration, Mongar had issued cement worth Nu. 0.08 million to private parties. The materials were not returned as on the date of the audit.

CHAPTER VIII

Ministry of Agriculture

The Royal Audit Authority had issued reports of the following agencies under the Ministry of Agriculture during the year 2001:

1. Divisional Forest Office, Mongar;
2. Divisional Forest Office, Samtse;
3. Natural Resources Training Institute, Lobeysa;
4. Divisional Forest Office, Sarpang;
5. Paro Valley Agriculture Development Project; and
6. Divisional Forest Office, Thimphu

Table 1.31: Showing the nature of observations and the amount involved.

Nature of observations	Amount (Nu. millions)	%
Excess payment	0.12	7.64
Outstanding revenue	0.94	59.87
Non-accountal of stores	0.29	18.47
Irregular payment.	0.22	14.02
Total	1.57	100

The above table represents the actual scenario at the time of issuing the audit reports in 2001. The updated version of the contents of the above table is given under each observation in bold *Italic*.

Major Findings.

1 Excess payment Nu. 0.122 million.

(a) Payment for works not executed Nu. 0.122 million (Thimphu DFO).

Physical verification of the construction works executed under the Divisional Forest Office, Thimphu, at Khasadrapchu, Chuzom, and Jemina, revealed that the payments were made to the contractor for higher quantity than the actual quantity of work executed at site. Such payments amounted to Nu. 0.122 million from which the management deposited Nu. 0.064 million to RAA as of date.

Nu.0.063 million was recovered and deposited into Audit Recoveries Account. For the remaining balance an undertaking was given to deposit by the end of February 2003 but it is yet to be deposited.

2 Outstanding revenue Nu. 0. 936 million (PVADP).

Verification of debtors' ledger of the Paro Valley Development Project (PVADP) revealed that amount aggregating to Nu. 0.94 million were lying outstanding as at 21.3.2001 on account of hire of Machinery and sale of stone chips. The project management did not abide by the standing instruction of the Ministry of Agriculture for realization of 100% advance for estimated value of hire charges before deploying the machinery.

It is noted that as of December 2002 good progress has been made in effecting recoveries leaving a balance of Nu.0.015 million.

3. Non accountal of stores (PVADP).

On physical verification of spare parts purchased from the RGOB fund, shortages of Nu. 0.29 million were noticed during the audit of the Paro Valley project. This was an indication of poor store management and lack of administrative control.

The RAA is informed that the shortages have been traced and requested for necessary verification in the next audit.

4. Irregular payment (DFO, Sarpang).

It was observed that the Range Officers of Sarpang, Gelephu and Kali Khola, had incurred expenses of Nu.0.043 million on entertainment of staff. The management agreed to recover the expenditures not supported by proper documents. Similarly, expenditure amounting to Nu. 0.181 million were incurred on wages for the sanitation works. The expenditure at the time of audit was not supported by estimates, sanction order/work order and number of labourers engaged etc.

Out of Nu.0.043 million spent on entertainment of staff the agency has agreed to recover Nu.0.015 million from Range Officer, Kalikhola. Copy of estimates, technical and financial sanction for Nu.0.181 million was submitted to the RAA for review and settlement of the observation.

Chapter IX

The Ministry of Foreign Affairs.

The audit findings of the Ministry of Foreign Affairs including Embassies and Missions Abroad excluding RBE, Bangkok are summarized as shown in the Table 1.32 below:

Sl. No	Observations	MoFA HQR.	PMB Geneva	PMB New York	RBE Dhaka	RBE Delhi	RBE Kuwait	Total Nu in Million
1.	Double/ Over Payment	0.81	-	-	-	-	-	0.81
2.	Outstanding advance	8.80	5.66	3.65	3.00	3.36	0.20	24.67
3.	Irregularities in cash closing balance	0.19	-	-	-	-	-	0.19
4.	Payment made without supporting bills	0.70	-	-	-	-	0.59	1.29
5.	Missing of disbursement vouchers	1.25	5.41	-	-	-	-	6.66
6.	Irregularities in travels abroad	0.63	-	-	-	-	-	0.63
7.	Irregular payment	2.72	0.33	-	-	0.12	-	3.17
8.	Non-accountal of Visa fee	0.28	-	-	-	-	-	0.28
9.	Non-production of quotation document	-	-	-	-	-	0.26	0.26
10.	Non remittance of statutory deductions	-	0.76	-	-	-	0.11	0.87
11.	Non accountal of furniture/ equipment	-	1.70	-	-	0.10	-	1.80
12.	Non recording of advances in the sub-ledger	-	-	-	-	0.06	-	0.06
	Grand Total	15.38	13.87	6.68	3.00	3.64	1.16	40.69

Major findings:

1. Double/ Over payments.

The Ministry of Foreign Affairs (MFA) Headquarter has made double/ over payments to the tune of Nu 0.81 millions to various officials and private parties on account of payment of bills and rents. Such lapses had occurred due to negligence and lack of adequate internal control exercised by Administration and Accounts Section of the Headquarter.

The MFA had stated that out of the above figure of Nu. 0.81 million, Nu.0.69 million was the case of a double payment made in favour of the Colombo Plan Secretariat, Sri Lanka.

The MFA had further informed the RAA that the Ministry is examining the case on over payment and that the outcome would be intimated to the RAA.

2. Outstanding Advances.

A sum of Nu. 24.98 millions were lying outstanding as on 30th June 2001 against the officials, private parties and agencies. This includes payments made as advances but not reflected in the relevant books of accounts and booking of advances irregularly. For RBE, New Delhi it includes an outstanding advance of Nu. 1.00 million given from the guest house fund.

3. Irregularities in Cash Closing Balance.

Differences in status of cash receipts, payments and closing balance in the cash book to the tune of Nu. 0.19 million was noticed in the Headquarters.

The official responsible for cash irregularity had already deposited the cash shortages into the Audit Recoveries Account (ARA). The RAA is informed that Commercial Interest would also be recovered and deposited into the ARA.

4. Payment made without supporting documents

MFA Headquarters and RBE, Kuwait had payments of Nu. 0.70 million and Nu.0.59 million respectively to various individuals, officials and suppliers without supporting bills and the authenticity of which could not be ascertained by audit.

5. Missing of disbursement vouchers

The disbursement vouchers of Nu. 1.25 millions and 5.41 millions of the Headquarters and Permanent Mission of Bhutan, Geneva respectively was not available for verification during the time of audit. Hence, expenditure incurred and payments made there upon could not be vouched.

The MFA Headquarters had informed the RAA that the vouchers would be made available for which the ministry has been making concerted efforts in tracing the missing disbursement vouchers. As of date the PMB, Geneva had traced out the missing vouchers for Nu.5.41 millions and had produced to RAA for its verification.

The missing disbursement vouchers will be verified by RAA during the next audit.

6. Irregularities in travels abroad.

Nu.19.52 millions was observed incurred for travelling abroad for Workshops, Seminars, Training etc. for the Financial Years 1998-2001. Out of the above amount, for the travel expenses of Nu.0.63 million requirement of documents such as Invitation letter from the host country, correspondences with the Third Countries regarding the expenses to be borne by either party were not maintained.

Hence, in absence of above documents genuineness of payment to the tune of Nu.0.63 millions could not be ascertained.

7. Irregular payments.

The payment amounting to Nu. 2.72 millions made on account of purchases, excess baggage, vehicle spare parts, entertainment, incidental and inadmissible travel expenses during the Fiscal Years 1998-2001 were found irregular.

A sum of Nu. 0.12 million was paid from guest house account to an unauthorised appointee as the salary for renovation and interior decoration on the ground that the “professional from the open market were asking 15% or very high professional fee”. The approval for appointment order and terms and conditions of interior decorator was neither on record nor produced during the time of audit for verification.

Two officers were paid a sum of Nu. 0.33 million on account of DSA during travel from Bhutan to Geneva on transfer in lieu of lodging expenses and foreign allowances as admissible.

8. Irregularities in out-catering.

Quotations for Banqueting and out-Catering services rendered during the Fiscal Years 1998–2001 were invited only for the calendar year 2001. Ironically, the catering contract for that particular period was also awarded to the highest bidder M/s Samphelling Catering Unit because the Ministry felt that rest of the competitors were either inexperienced or incapable of rendering quality service. Approved programme and guest lists for most of the buffet dinners and receptions were neither attached with the disbursement vouchers nor produced during the time of audit.

Buffet dinners and lunches were charged at varied rates ranging from Nu. 150.00 to Nu. 850.00 per head without giving the details of Menu. Besides, rates for similar beverages also fluctuated.

The MFA had assured that an appropriate action will be taken on the audit paras.

The action taken will be verified by RAA in due course of time.

9. Expenditure on hospitality/entertainment.

Expenditure incurred for the hospitality and entertainment were reviewed. Requirements such as programmes were not signed by the Chief of Protocol to ensure its authenticity. There were numerous instances where the programmes submitted in support of payment vouchers did not coincide or match with details of bills raised by the hotel proprietors.

Huge number of piecemeal bills for snacks/tea served to a single guest/delegation was submitted, thus making verification of payments difficult and confusing. An exorbitant expenditure were incurred on frequent purchases of large quantities of grocery items, toiletries, etc. for which no quotations were called.

10. Non-accountal of Visa Fee collections.

A scrutiny of monthly visa fee collections with that of Ordinary Visas issued by the visa section revealed that visa fees amounting to Nu 0.28 million was neither accounted nor deposited into Government Revenue Account.

The above amount got deposited into Audit Recoveries Account. The MFA had informed the RAA that the commercial interest which comes to Nu.0.014 million approximately is being recovered.

11. Non-production of quotation documents.

The verification of disbursement vouchers pertaining to RBE, Kuwait revealed that the purchases worth Nu. 0.26 million were made but the tendering documents were neither attached with disbursement vouchers nor produced for audit verification during the time of audit. Further, the physical verification of the equipment like computers, telephones, fax machines, etc. could not be conducted during the time of audit as the audit was conducted only in the Headquarters.

The RBE, Kuwait had stated that purchases without quotations have been resorted to since the purchases were of limited quantities and that shops would not bother to quote for petty amounts. It is also stated that where possible like in the case of computers, fax machines, telephones etc. the purchases have been made from the authorized dealers.

12. Non-remittance of statutory deduction.

The PMB, Geneva and RBE, Kuwait had deducted Nu. 0.76 and Nu. 0.11 millions respectively on account of salary tax, health contribution and house rent from the monthly salary of diplomats. However, such deductions were not remitted to the Government Revenue Account as required by rules in vogue.

The MFA Headquarters stated that the statutory deductions made by PMB, Geneva were actually lapsed to the government account. The MFA had assured that the missions would be directed hereafter to take note for future compliance.

The RAA is informed that the deductions made by RBE, Kuwait had in fact been remitted.

13. Non-accountal of furniture/equipment.

The furniture/equipment worth Nu. 1.70 and Nu. 0.10 millions respectively were procured by PMB, Geneva and RBE, New Delhi respectively. These were either not accounted or accounting not confirmed.

The PMB, Geneva and RBE, New Delhi had informed the RAA that necessary accounting of the inventory has been made.

14. Non-recording of advances in the Sub-ledger.

A sum of Nu.0.06 million paid as advance to employees and other parties by RBE, Delhi was not accounted in the sub-ledger.

The RBE, Delhi had informed the RAA that advances not recorded were now reflected in the proper books of accounts.

The RAA will verify in the next audit.

15. Construction irregularities.

The RBE, New Delhi had taken up the construction of Six Unit Staff quarters. Deficiencies such as changes in design without approval from the competent authority, award of additional works without prior approval to the tune of Nu. 0.65 million, payment of unreasonable advances to the contractors, cost overrun by 46 % over the initial cost estimate and occupying without the occupancy certificate were noticed during the time of audit.

The RBE, New Delhi had also taken up the renovation of the embassy buildings for which cost overrun by 89.01% due to lack of planning, non-preparation of estimates, preparation of wrong estimates and many other deficiencies were observed.

CHAPTER X

Corporations

The Royal Audit Authority had issued the audit reports of the following corporations during the year 2001.

1. Bhutan Broadcasting Corporation;
2. Army Welfare Project;
3. Forestry Development Corporation;
3. Bhutan Post; and
4. Bhutan Board Products Limited.

Bhutan Broadcasting Corporation

Table 1.33: Showing the audit observations by different categories

Sl.No	Nature of observations	Amount (Nu. millions)	%
1	Debtors Management	1.67	10.48
2	Outstanding advance	13.58	85.25
3	Non-accountal of money	0.47	2.95
4	Excess payment	0.21	1.32
Total		15.93	100.00

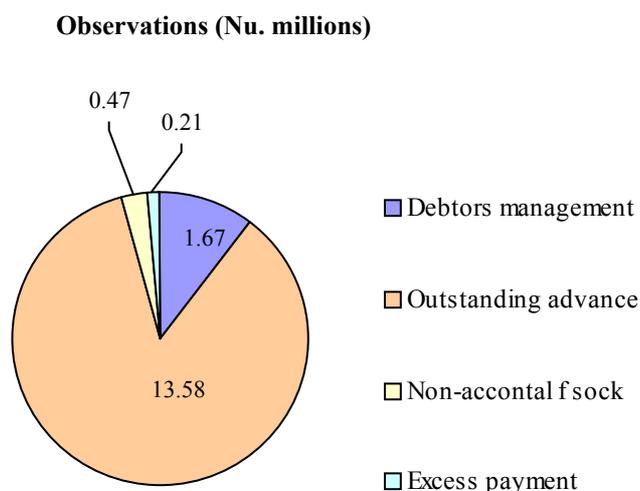
The above table represents the actual scenario at the time of issuing the audit reports in 2001. The updated version of the contents of the above table is given under each observation in bold *Italic*.

Major Findings

1 Debtors management.

A review of the services rendered on credit revealed considerable scope for improvement in management of debts. As of 30.06.2001, Nu. 1.67 millions and US \$ 588.18 remained unrealized from Government agencies and others. Debtors' balances pertained to the years 1998, 1999, 2000 and 2001.

Out of the above amounts, as of May 2002, Nu. 1.029 millions and US \$ 588.18 were still remaining unrealized indicating poor pace of recovery.



The management of BBSC informed the RAA that Nu.0.39 million have been realized after the issue of draft of this report.

2 Advances outstanding.

Advances aggregating to Nu.13.58 millions remained unadjusted against the employees and suppliers of the BBSC as of 30.06.2001. BBSC had made good progress in liquidating the outstanding amounts after the dates of audit. As of May 2002, unadjusted advances stood at Nu.1.28 millions.

It is intimated that out of Nu. 1.28 millions remaining as outstanding as at May 2002 is now drastically reduced to Nu.0.16 million only.

3 Non accountal of money.

About Nu. 0.47 million were not accounted in the books of accounts. It pertained to non-accountal of money transferred from the project account in the books of the normal account, non- accountal of advances refunded, non-accountal of revenue collected and difference in cheque amount to that of figures posted in the ledger.

Out of these, Nu. 0.07 million had been resolved based on justifications furnished and the documents produced. The observation on non-accountal of advance of Nu.0.075 million and non-accountal of funds transfer from TV Account to Normal Account has been resolved subject to verification in next audit. As regards to Nu. 0.027 million which was observed as difference in Cheque amount and the figures posted in ledger, the management had agreed to recover from the concerned if they are not able to trace the discrepancy.

The management had informed the RAA that all unaccounted money detected by the RAA is taken in the books of accounts. The RAA shall be verifying the facts in the next audit.

4 Excess payments.

It relates to payment of residential telephone charges, double payment of leave encashment and LTC and the payment of full salary on trainings beyond one year. The excess payment stood at Nu. 0.212 million.

Out of total excess payments of Nu. 0.212 million, an amount of Nu. 0.157 million have been resolved by way of amounts deposited/justification provided by the BBSC.

It is informed that further sum of Nu.0.055 million is recovered by the management after the issue of draft of this report, thereby leaving a nil balance now.

Army Welfare Project (AWP)

Table 1.34: Showing the audit observations by different categories.

Sl. No	Nature of observations	Amount Nu. millions	%
1	Loss due to acceptance of rectified spirit below specifications.	0.17	0.83
2	Commission paid not commensurate with sales generated	0.35	1.71
3	Misappropriation	1.00	4.89
4	Receipt of contaminated rectified spirit by Gelephu Distillery	3.15	15.42
5	Procurement of drugs and chemicals without inviting quotations	1.46	7.15
6	Credit Policy: need for review	14.30	70.00
	Total	20.43	100.00

Note:

The AWP had not responded to any of the issues highlighted in this report.

Major Findings.

1. Loss due to acceptance of rectified spirit below specifications

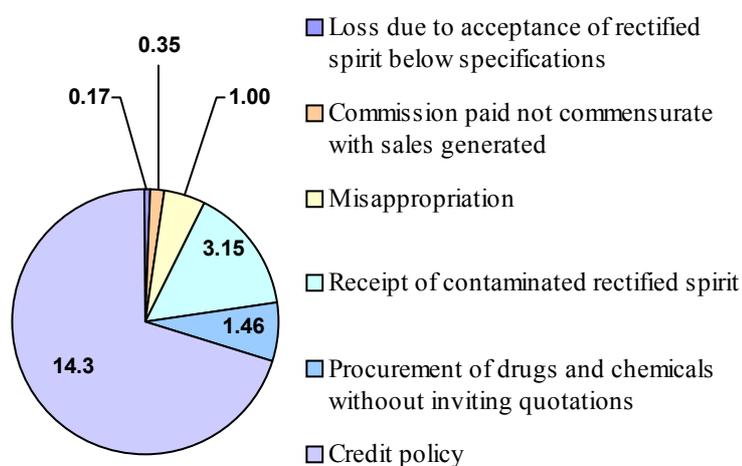
The Army Welfare Project accepted rectified spirits below specifications, which resulted in loss amounting to Nu. 0.179 million.

2 Commission paid not commensurate with sales generated.

Sale of liquor to BSF, CRPF & other Para military forces in India was being made through Mr. Pawan Kumar Dhanania on commission basis.

The commission was being paid on realizable value after adjustment of Export fee, Bottling fee & Transport charges. Besides it was being paid in advance before realization of the outstanding dues against supply of liquor. No deduction on account of breakage, leakage, a shortage if any claimed by forces were being made from the agent and was being borne by AWP.

Observations (Nu. millions)



Total amount paid during 1999 on account of commission was Nu. 0.358 million against the total sale of liquor valuing Nu. 1.759 millions, it would be seen that in view of the business valuing Nu. 1.760 millions conducted by the agent, the amount of Nu. 0.359 million paid, as commission appears to be very high and not commensurate of the work done where no investment/risk is involved of the agent.

3. Misappropriation.

Two employees of the Army Welfare project had misappropriated over Nu. 1.00 millions from the project fund. The management informed the case, as subjudice.

4. Under utilization of installed capacity.

In order to ascertain as to what extent annual capacity of the Gelephu Distillery was utilized during the last three years, an attempt, to have a comparative study, was made and it was observed that the installed capacity remained under utilized as per details given below: -

Table 1.35: Showing the comparison of installed capacity and its production

Year	Installed Capacity in cases	Production in cases	Percentage of utilization
1998	360,000	134,334	37.32%
1999	360,000	269,993	75%
2000	360,000	186,361	51.77%

From the above table, it would be seen that during the year 1999, 75% of its installed capacity was utilized whereas in the remaining years, it was comparatively less. This indicates that the performance of the unit was not up to the required/expected level.

5. Receipt of contaminated rectified spirit by Gelephu Distillery valuing Nu. 3.157 millions.

It was noted that Gelephu Distillery received 170,000 Bulk Liter of rectified spirit valuing Nu. 2.575 millions were received from Samtse Distillery. Upon physical test it was found out that almost all the quantities were found contaminated at various degrees with the petroleum products. It was also stated that, upon sensory evaluation and preliminary test conducted in the laboratory, odour/taste and PPT time did not comply with rectified spirit Grade-1.

As would be seen from above, the standard of rectified spirit was not up to the mark, the cut off percentage of impure spirit would be very high during re-distillation, which would affect the quantity and quality of ENA to be produced out of rectified spirit. Despite the deficiencies in the rectified spirit valuing Nu.1.157 million, the same were accepted and sent to re-distillation plant for production of ENA.

6. Procurement of drugs and chemicals without inviting quotations Nu. 1.496 millions.

The sample check of paid invoices, revealed that the following procurements were made based on purchase orders and single quotation without availing competitive rate from other suppliers as no comparative rates from various suppliers were produced to Audit Team.

Table 1.36: Showing the goods procured without inviting quotation

Sl. No.	Invoice No. & Date	Suppliers	Value of Materials supplied (Nu. millions)
1	FCO/017/98-99 Dt. 31.3.99	Fine Chemicals Corporation, Siliguri.	0.24
2	01 Dt. 5.499	Lux Flavours, Chennai	1.03
3	22/DKN/99 Dt. 23.4.99	DK Nath & Son, Siliguri.	0.078
4	NI/005/99-2000 Dt. 27.4.99	Nisha International, Siliguri	0.142
Total			1.49

7. Non Settlement of Joint Venture's CBBU Assets.

M/s AWP Card Board Box Unit, Samtse a joint venture undertaking of M/s AWP and M/s BFPL with 50% share each and engaged in manufacture of card board boxes for packing and packaging purposes was set up during 1983 and a deed of agreement was drawn on 1st Day of November, 1983.

The joint venture was dissolved by AWP vide letter dt. 9.12.1996. Five years have elapsed, neither the assets of the unit have been divided nor disposed off to settle the issue and the matter is being prolonged indefinitely on one pretext or the other.

8. Credit Policy: a need for review.

Amounts aggregating to Nu. 14.306 millions have been lying unadjusted against the parties who procured liquor on credit from Bonded Warehouse, Thimphu and Phuentsholing, Samtse, Gelephu and S/Jongkhar Distilleries.

Some of the amounts pertained to late 1980s and early 1990s. The management need to review the credit policy of the AWP and the provision for bad and doubtful debts.

Forsestry Development Corporations.

1. Excess Payment Nu.1.62 millions.

(a) Adjustments not made for change in depot involving reduced distance Nu. 1.048 millions (FDC, Zhongar).

The FSD had approved different rates per cft of timber for transportation from the working scheme to the main designated forest depots depending upon the distance between the working scheme and the depot. It was however observed that the transporters did not transport the logs to the main depot but to the contractors transit depot from where the timbers were auctioned off. Payment of bills was however based on the rates approved for the distance between the main depot and the working scheme. This had resulted to an excess payment to transporters of Nu. 1.048 millions.

The RAA is informed that out of Nu.1.048 millions, Nu.0.157 was subsequently recovered. The recovery of the balance amount needs to be reviewed by the corporation in the light of a shorter distance of 6.5 km transported by the contractor against the actual distance of 28 KM.

(b) Payment for works not executed Nu. 0.20 million (FDC, Zhongar).

Bridge construction under the construction of Lingmethang Forest Management Unit Road was awarded to Sangay Tenzin, Contractor at Nu. 0.20 million. However, on physical verification by the audit team & FDC Officials, it was observed that no such construction had been carried out by the contractor.

Upon being pointed out by the RAA Nu. 0.05 was recovered and deposited into the Audit Recoveries Account. The work on said culvert would be jointly verified in next audit.

(c) Excess payment due to allowing more passing places on Construction of road at Korila-Nu. 0.28 million (FDC, Zhongar).

It was observed that excess payments were made to the contractor undertaking the construction of forest road at Korila due to allowing more number of passing places as against actual number of passing places recorded by the Committee Members.

The RAA is informed that Nu. 0.04 has been recovered by the corporation. Exact number of passing places to be verified in next audit.

2. Payment on behalf of contractor Nu. 0.135 million (FDC, Zhongar).

It was noted from the notification No. MFDC/1-31/98/456 dt. 21.7.98 that Government approved rate of Nu. 9.50 per cft. for the transportation of timber from Tshamang working scheme to Lingmethang Depot was inclusive of loading/unloading and maintenance of Tshamang road. The cost of minor maintenance of road was required to be borne by the contractor.

In contravention to the terms of the notification, the Division had incurred expenditure to the tune of Nu. 0.135 million on the maintenance of the aforementioned road. The payment was found not recovered from the contractor.

The RAA is informed that the corporation would submit further verification report on maintenance works.

3. Award of work without approval and tender (FDC, Zhongar)

The FDC, Zhongar Management had directly awarded the contract for the reconstruction/repair works of Tshamang working scheme and Korila Forest Management Unit road to M/s Pema Wangdi and M/s S. Tenzin contractors prior to obtaining approval from Managing Director, FDC, HQ.

It was also observed that the FDC had incurred about Nu. 0.054 million for the reconstruction and repair of Tshamang road and that FDC's compressor machine and tractors were used for the work as was evident from the DSA claims made by the machine operators. No recovery was affected from the contractor for the expenditures incurred and for use of the departmental machinery.

It was also observed that the contractor for reconstruction and repair works of Korila road was not at the work site during the entire period. Except for the final bill of Nu. 0.187 million, there were no evidences that the advances were acknowledged by the contractor. This is evident from the payment of advances for the work, which had been released in the name of the Range Manager and other suppliers.

The RAA is informed that Nu.0.044 million was recovered from the contractor. The corporation still has to recover the balance of Nu.0.01 million.

4. Irregular payment of advances: Undue financial help to the contractors (FDC Zhongar).

It was noted that advances to the extent of Nu. 2.598 millions were paid to the contractors towards the logging works, transportation of timber, road construction etc. without certification/verification of the concerned Range Managers supervising the works. Some advances paid were not supported with the application of the contractors.

The RAA is informed that since the new management took over in the year 2000, the corporation had stopped paying advances to the contractors. In view of liquidation of all advances and assurances that such lapses shall not be repeated, the RAA agreed not to pursue the matter further.

5. Booking of fictitious expenditure of Nu. 0.62 million by fabricated bills (FDC, S/Jongkhar).

The extraction of timber under sanitation operation of the Range Office, Pemagatsel that was to be carried out departmentally was carried out by a regeneration logging contractor. The bills were found manipulated by booking the payments based on the approved rate per cft of logs extracted and transported as against the actual payment was based on the regeneration logging rate. This had resulted in fictitious payment of Nu. 0.62 million.

Services of some of the officials involved were terminated. The case has been subjudice and the court verdict is awaited.

6. Shortage of timber stock worth of Nu. 1.43 millions (FDC, S/Jongkhar).

About 25,538.41 cft of timber valuing Nu. 1.43 millions were found short during the physical verification of the timber stock at Kheri Gonpa depot and road heads under Pemagatsel Range Office.

Services of some of the officials involved were terminated. The case has been subjudice and the court verdict is awaited.

7. Fictitious muster roll payment Nu. 1.12 millions (FDC, S/Jongkhar).

It was noted that Range Office, Pemagatsel had booked expenditure on account of muster roll payment towards logging related works. It was confirmed that expenditures so booked were either borne by the contractor or the work was not taken up. Thus the claim made by the Range Office was false.

Services of some of the officials involved were terminated. The case has been subjudice and the court verdict is awaited.

8. Booking of expenditure through manipulation of rates Nu. 0.32 million (FDC, S/Jongkhar).

For the extraction of block size timber from the trees felled along the transmission line, the Forestry Development Corporation had approved Nu. 82.00 per cft outlining rates for different stages of logging operation. It was however noted that Range Office, Pemagatsel had charged at the approved rate per cft although labourers were paid at lower rates.

Services of some of the officials involved were terminated. The case has been subjudice and the court verdict is awaited.

9. Irregular booking of depreciation Nu. 0.11 million (FDC, S/Jongkhar).

The Range Office, Pemagatsel had claimed Nu. 0.11 million towards the depreciation cost of machinery. Since the sanitation and block size timber extractions were carried through contract, it was pointed out that the claim on account of depreciation was false and fictitious.

Services of some of the officials involved were terminated. The case has been subjudice and the court verdict is awaited.

10. Irregular increase in logging rates resulting into additional payment of Nu. 0.11 million (FDC, S/Jongkhar).

The Forestry officials of DFO, S/Jongkhar detected illicit felling of 300 trees and seized the timber in Rikheyju and its vicinity during their patrolling duty. It was then decided to extract the seized timber departmentally. However, 5,478.60 cft of timber was extracted through a firewood Contractor, @ Nu. 50 per cft whereas the departmental rate was Nu. 30 per cft approved by a committee. This has resulted into excess expenditure of Nu. 0.11 million.

The RAA is appraised that Mr. Dorji Rinchen, Ex-DFO of Samdrup Jongkhar has been held responsible for increasing the rate from Nu. 30/cft to Nu. 50/cft.

11. Direct allotment of contract for production (FDC, S/Jongkhar).

Extraction works worth over Nu.20.7 millions were given on direct allotment basis with the approval of the Joint Secretary, MoA during 1992 to 1998. This is in contravention to the Note-sheet No.nil dated 17.07.1991 under letter No.DF/RAD/IT-14/91/3545, dated 29.07.91, page No.3-Method of Logging Rule 4(a) stipulated that “the stump to depot contract to be awarded on tender basis” and Chapter 7 of Financial Manual 1988.

The justifications for direct allotment of timber production contract to Karsang have been noted. Direct allotment of timber production contracts to other contractors were not in order. Besides, the contractors were also allowed to extract much more quantity of timber than approved quantities with time extension.

12. Misappropriation of Nu. 0.75 million (FDC, S/Jongkhar).

An amount of Nu.0.75 million were adjusted against extraction of 9,000.01 cft of timber at Pemagatsel against the advances taken by Range Officer, Pemagatsel from PTW account. It was established from the records that PTW operation was neither approved nor carried out in Pemagatsel.

Similarly, a sum of Nu. 0.155 millions was misappropriated by the Accountant and the Cashier, by forging the payment voucher during June to October 1999. The Ranger (Payee) claimed that the amounts were

altered in the payment vouchers after he had signed them. The joint investigation team verified the vouchers and found that the vouchers are fraudulently altered.

Services of some of the officials involved were terminated. The case has been subjudice and the court verdict is awaited.

13. Payment without supporting documents (FDC, S/Jongkhar).

Expenditure vouchers for total production of 56,197.48 cft of timber costing Nu. 1.055 millions were not available for verification during audit.

Similarly, expenditure vouchers for production of 33,427.63 cft of timber costing Nu. 0.867 million which were booked during 1993-1995, were not supported by documentary evidences such as challans and bills. As a result, species wise quantity could not be calculated.

15. Negotiated sale of timber, worth Nu. 23.32 millions (FDC, S/Jongkhar).

Timbers were sold through negotiation at various occasions. The reasons and the authority were not clearly recorded in the auction register where the negotiated sales were recorded.

The RAA has noted negotiated sale of timber valuing Nu.4.69 millions to Wood Based Industries and to private individuals valuing Nu.3.28 millions under proper order. Timber disposals to other individuals on negotiation were not covered under any rules.

Irregular sale to private individuals must be avoided in future.

16. Fictitious Payment made in the name of the Range Officer, Pemagatsel.

Payments shown as made to the Range Officer, Pemagatsel were found misused by the DFO and the Accountant in the manner shown in the Table1.37.

Sl.No	Payment shown in the voucher	Amount (Nu. millions)	Actual payment made to
1	Advance to range officer	0.05	Cheque issued and encashed by accountant and amount misappropriated
2	Advance to range officer	0.04	Self cheque drawn by DFO
3	Advance to range officer	0.10	Cheque issued in favour of Mr. Choeda, M/s Pelri Yangkhil Tshongkhang, Phuntsholing
4	Advance to range officer	0.29	Self cheque drawn by the accountant
5	Advance to range officer	0.06	Self cheque drawn by officiating DFO
6	Advance to range officer	0.18	Self cheque drawn by DFO
Total		0.72	

Services of some of the officials involved were terminated. The case has been subjudice and the court verdict is awaited.

17. Non-realization of bills amounting to Nu.0.708 million and dues from M/S Kuenchap Wood Based Industries, Samdrup Jongkhar Nu. 0.455 million.

Debtors' Ledger was not maintained to record credit sales. A list of bills for Nu.0.708 million pertaining to the period 1993-95 was lying unrecovered and Nu. 0.455 million from M/s Kuenchap Wood Based Industries.

The RAA is informed that Nu. 0.212 million and Nu.0.094 million were realized from M/s Kuenchap Wood Based Industries and other Debtors respectively.

Bhutan Board Products Limited

Table 1.38: Showing the different categories of audit observations by amount & percentages.

Sl.No	Nature of observation	Amount (Nu. millions)	%
1	Decline in the profitability of the company		
2	Idle/obsolete items of inventory	7.78	4
3	Shortages of raw /finished boards financial loss	40.31	23
4	Loss due to improper procurement practices	5.48	3
5	Irregular payments of retirement benefits	0.81	0.45
6	Work awarded without inviting tenders	69.74	39
7	Purchase of spare parts for bulldozer	2.98	2
8	Work awarded to non-licensed contractor	7.30	4
9	Purchase made without quotation	11.00	6
10	Avoidable expenditure	1.21	1
11	Loss arising for purchase of chemical from a single source	6.93	1
12	Excess payment	0.21	0.12
13	Un-reconciled balance	14.57	8
14	Hiring of private vehicle and irregularities thereof.	0.84	0.47
15	Non-accountal of stock	0.33	0.18
16	Outstanding advances	9.70	5
Total		179.19	100.00

Major Findings

1 Decline in the profitability of the Company.

The audit of the BBPL revealed that the Company's financial performance was deteriorating as can be seen from the table below:

Table 1.39: Showing the profitability of the Company by years wise (Nu. millions)

Sl. No.	Nature	1998	1999	2000
1	Sales	313.18	206.60	220.71
2	Misc. income	2.09	2.44	3.37
3	Net profit(loss)	21.79	-36.67	-9.35
4	Corporate tax	7.09	0.00	0.00
6	Dividend	10.14	0.00	0.00
7	Shareholders' fund	150.09	113.09	142.67

The management attributed this decline in performance due to:

- ❖ high borrowing cost and liquidity problem;
- ❖ poor management of available financial resources;
- ❖ lack of internal control over purchase/procurement;
- ❖ in-effective marketing policy;

- ❖ adverse market condition followed by low demand; and
- ❖ Non-provisioning of doubtful debts amounting to Nu. 12.143 millions.

The financial difficulty faced by the company also can be seen from the continued dependence on the overdrafts financing. The Company had following bank overdraft balances at the last four or five balance sheet dates:

Table 1.40: Showing the year wise Bank over draft amount involved

Sl. No.	Year end	Amount (Nu. millions)
1	31.12.1996	32.03
2	31.12.1997	30.00
3	31.12.1997	40.00
4	31.12.1998	40.00
5	31.12.1999	36.71

While the company was experiencing a serious liquidity problem, it was observed that funds were tied up in the form of inventory as can be seen from the table below:

Table 1.41: Showing the level of stock holding by different years in (Nu. millions)

Sl. No.	Inventory	1998	1999	2000
1	Raw materials	32.37	30.64	40.20
2	Stores & Spares	35.19	33.27	29.96
3	Packing material	1.16	0.81	0.45
4	Work in progress	3.05	3.46	8.15
5	Finished goods	55.21	68.12	67.18
	Total	126.98	136.30	145.94

Similarly, funds were also tied up in the form of outstanding debts arising out of the credit sales. All these have attributed to decline in profitability of the company.

Table 1.42: Showing Year wise outstanding credit sales (Nu. millions)

Year end	Sundry debtors
1998	2.00
1999	70.19
2000	79.29
Total	151.48

An amount of Nu. 4.966 millions were lying as liability on account of unpaid dividends declared in the year 1998. While the company was relying on the overdraft facility to finance its operation, declaring dividends placed additional financial burden on the company.

The RAA had noted cost control and certain other remedial measures including price and discount rates, cash collection system, security deposits from parties, advertisements, distribution network, grading of products etc. The management had also assured to take further necessary actions to remedy the situation.

2 Idle/obsolete items of inventory Nu. 7.781 millions.

It was observed that the M/s BBPL had slow moving and obsolete items of spare parts, deco paper and impregnated cut sheets worth over Nu. 7.78 millions. This had not only impinged on the financial resource of the company but also on the spatial and human resources.

The RAA had been informed that adequate measures have been taken to avoid accumulation of unnecessary stocks in future, and of the measures initiated to either use or dispose off the items.

No further measures seem to have been undertaken except that the Board of Directors have written off date expired impregnated cut sheet valued at Nu.1.68 millions.

3 Shortages of raw/finished boards, financial loss of Nu. 40.319 millions.

It was revealed that on every batch of mother board manufactured, certain quantity of boards were issued for miscellaneous use which was not accounted for in any records nor physical/identical usage of these boards were verifiable during audit.

In addition, it was also noted that boards were declared as rejects after sanding and lamination. The rejected boards for the year 1996-1999 comprised of the following:

Table 1.43: Showing the rejected boards quantity and the amount involved (Nu. millions)

Sl. No.	Particulars	Quantity (pieces)	Amount(Nu.)
1	Plain(sanded)	28,744	18.78
2	Lamination	12,639	12.89
	Total rejects	41,383	31.67

The above 41,383 pieces of boards valuing Nu. 31.67 millions as well were not available for physical verification. It was explained that these were used for testing purposes but no records were available to substantiate the explanation.

Board has instructed the management to get proper explanation from those responsible.

The RAA is informed that 24,877 pieces of rejected boards were now accounted in the records. For the balance the RAA is appraised that no records are available.

4 Loss due to improper procurement practices (Nu.5.481 millions).

It has been noted that the annual off take of the Formaldehyde was ranging between 1,530.835 MT in 1997 to 1123.820 MT in 1999. However, the management was procuring the chemicals from the single source, although they were aware of the existence of other manufacturers of the same product. Any constructive efforts made to explore the possibility to obtain the offers for the like item from other manufacturers to establish cost effectiveness was not on record. Comparison of rates of other suppliers indicated a loss of Nu. 5.481 millions sustained by the corporation.

It was also observed that debit notes issued towards rate difference for supply made during the year 1994, for a total sum of Nu. 1.523 millions had been reversed by the management inflating the credit balance favoring the supplier. The case is under litigation.

5 Irregular payment of retirement benefits.

The resignation of Ex. Managing Director was approved by the Board of Directors vide letter No. MOC (M)43A/99/1246 dated 5.10.99. As per the Service rule, clause 13, para No. 13.8, “while settling the accounts of an outgoing employee, the Company is entitled to recover fully or partly its dues out of gratuity, provident fund or any other sum payable to the concerned employee”. Although there were several issues related to the previous audit of the Company, the management had paid the retirement benefit amounting to Nu. 0.817 million to the former Managing Director without obtaining clearances from the Board and the Royal Audit Authority. The case is under litigation.

6 Tendering and Procurement Lapses.

a) Work awarded without inviting tenders Nu. 69.74 millions.

The BBPL had incurred substantial amount of expenditure for afforestation, logging and construction of feeder roads for the period 1.1.1996 to 31.12.2000. On verification of records maintained by Forestry Unit, Tala, it was seen that all the works were carried-out by the contractors. However, the system of calling quotations from the contractors was not adopted to avail the benefit of competition. Majority of the contract works was carried out on work order basis.

As per reply, limited quotations were called. However, it was seen that in spite of limited quotation called, works were awarded to contractors on work order basis based on their past work experiences.

The BBPL Management had represented that the limited quotations were called from the existing contractors and the rates obtained were below the rates of Bhutan Logging Corporation, thereby resulting to reduction in cost and savings to the company.

b) Works worth Nu. 7.304 millions awarded to non-licensed contractor.

The BBPL had awarded works worth over Nu. 7 millions to Non-Bhutanese contractor without holding a valid contract license. The Company did not retain at source the 3% foreign contractor tax.

c) Purchase made without quotations.

The verification of purchase bills of RTAF, Pasakha revealed materials worth Nu. 11 millions were purchased without quotations. This was contradictory to the Operational Manual of the Company.

The RAA is now intimated with assurances that all their future major purchases would comply with the procurement formalities.

d) Avoidable expenditure of Nu. 1.218 millions.

Verification of bills for the purchases pertaining to RTAF, Pasakha indicated that the rate paid in the years 1998 and 1999 for the same items were much higher (up to 45%) with the quotation rates paid in 2000. The project would have avoided over Nu. 1.2 millions had the management followed the procurement procedure as per the Operational Manual of the Company.

As per Board's decision the excess payment is to be recovered from the concerned officer.

e) Loss arising from purchase of Chemicals from a single source, Nu. 6.932 millions.

The previous management of the BBPL was purchasing the Chemicals required for manufacture of Boards from a single firm in Kolkatta called M/s Global Enterprise. The new management inquiries in the prices of the chemicals from the leading manufacturers, revealed that the prices charged by M/s Global Enterprise was high by 49%. This has resulted to a loss to the company of about Nu. 6.9 millions over five years.

The former works director was asked to make good the losses. The case is stated to be forwarded to the court.

7 Purchase of spare parts for bulldozer (Nu. 0.298 million).

An amount of Nu. 0.298 million were paid to M/s. Morjiwala Machinery Enterprise, Kolkatta in settlement of their bill for supply of Fuel Pump Assembly for bulldozer TD-15. The purchase of such high value item was done without the approval of the management. The cheque was drawn as "self" and it was confirmed that a firm called M/s. Morjiwala Machinery Enterprise did not exist.

The Board has instructed the management to further study the processes involved in releasing payment and establish accountability at the earliest..

8 Excess payment.

It was observed that the BBPL had paid Nu. 0.213 million in excess. It relates to payment of hire charges of bulldozer without following the Bhutan Schedule of Rates. Excess payment made to supplier due to rate difference in the purchase of main shelves assembly and double payment of vehicle hiring charges. It was also observed that the Company had not deducted the cost of material and the amount paid in the first running bill from the final bill of the contractor of the approach road maintenance.

The RAA is informed that the double payment of vehicle hiring charges is already recovered and the excess payment made due to rate differences would be recovered from the official responsible for the lapses.

9 Un-reconciled balance of Nu. 14.575 millions.

An amount of Nu. 14.575 millions stood as un-reconciled balance against the total outstanding credit sales of Nu. 85.945 millions as at 30.06.2001 against various Parties/Customers/Distributors of regions as detailed below:

Table 1.44: Showing the Region wise un-reconciled outstanding credit sales by the type of products.

Region	Unreconciled board balance (Nu.)	Unreconciled (RTAF) balance (Nu.)	Total (Nu.)
East	3.961	0.124	4.086
West	2.163	1.189	3.353
North	0.035	1.679	1.714
South	4.501	0.919	5.420
Total	10.66	3.911	14.573

The Board had reviewed the audit observation and has instructed the management to take appropriate action.

10 Irregular hire of private vehicle.

Despite the management having the company vehicles at their disposal, the management had incurred substantial expenditure amounting to over Nu. 0.84 million towards the hire charges of a private vehicle by the Forestry Unit. The vehicle was found engaged for personal duty of the General Manager. Similarly, mileages amounting to over Nu. 0.090 million were also found paid to Dy. Manager, Logging, for journeys performed between the office and the residence.

As decided by the Board, an equivalent amount is to be recovered from the officials authorizing payment of the mileage.

11 Non accountal of stock.

Loser Dowel machine valuing Nu. 0.201 million of Vebim make, Belgium and one unit Panasonic Fax machine, model KX-F500B costing Nu. 0.020 million were not available during physical verification. Similarly, Furniture worth Nu. 0.110 million issued to BBPL guesthouse in Phuntsholing were not available during physical verification.

As per Board's decision, responsibility has been fixed for the Loser Dowel and fax machine on the former Works Director and the Managing Director respectively.

12 Outstanding advances.

It was seen that outstanding advances to the tune of Nu. 9.70 millions were lying against the official/staff and parties as of 5th September 2001 as summarized below:

Table 1.45: Showing the outstanding advances against various parties

Sl. No.	Particulars	Amount(Nu. millions)	Balance as on 31.3.03
1	Advance to parties	9.26	4.5
2	Advance to staff	0.21	0.07
3	Advance to Co.'s expenses	0.09	0
4	Tour advance(staff)	0.14	0.03
Total		9.70	4.6

The RAA is informed that the latest balance is Nu.4.60 millions.

Bhutan Post

Table 1.46: Showing audit observations by different categories and the amount involved

Sl.No	Nature of Observations	Amount (Nu. millions)	%
1	Outstanding advances	14.53	24
2	Outstanding revenue	3.5	6
3	Slow moving stocks	28.88	48
4	Outstanding international mail revenue	13.59	22
	Total	60.5	100

Major Findings

1 Outstanding advances of Nu. 14.535 millions.

It was observed that huge amount of Nu. 14.535 millions were outstanding against employees, suppliers and others as of 5.3.2001 as summarized below.

Table 1.47: Showing the outstanding advances

Sl.No	Payees	Amount (Nu. millions)
1	Advance to employees	6.00
2	Advance to suppliers/contractors	8.52
3	Advance to others	0.004
	Total	14.52

2 Huge outstanding balances against the supply of stamps (Nu. 1.82 millions).

It was observed that huge amount of revenue earned against the supply of stamps to agents, local buyers and supply of T-shirts to post shops and post offices were lying unadjusted as of 31.12.2000 as summarized below:

Table 1.48: Showing the outstanding revenue

Sl.No.	Debtors	Amount (Nu. millions)
1	Agents	1.10
2	Local buyers	0.67
3	Post shop and post offices	0.05
	Total	1.82

3 Slow moving stamps of Nu. 28.88 millions.

It was noticed that huge stocks of various issues of stamps since 1974 to 1989 are identified as slow moving and lying unsold.

4 Outstanding International mail revenue of Nu. 13.59 millions.

It was observed that huge amount of revenue from air conveyance, parcel post, terminal dues, EMS air conveyance and EMS imbalance from various countries amounting to Nu. 13.59 millions (226,555 SDR X Nu. 60), including outstanding revenue of SDR 5,775.00 of 1994 to 1996 was lying outstanding.

The management of Bhutan Post had stated that it would not be possible to dispose of the entire old stock due to market saturation.

However, the RAA required the Board of Directors to decide on an appropriate measure on the matter.

CHAPTER XI

Armed Forces

The Royal Audit Authority conducted the special audits of the Royal Bhutan Army and the Royal Bhutan Police. The audit mainly focused on the critical areas such as the constructions and procurement. The report also includes observations on the audit of Uniform procurements of the RBA and the RBP. The RAA observed the following irregularities:

Royal Bhutan Army

Table 1.49: Showing the nature of observations by different categories.

Sl.No	Nature of observations	Amount (Nu. millions)	%
1	Purchase of uniform materials without inviting quotations	5.16	25
2	Purchase of materials in excess of actual requirement resulting in blockade of funds.	1.93	9
3	Non-deduction of tax from suppliers	0.77	4
4	Non-accountal of stock	1.016	5
5	Payment without supporting bills	0.152	1
6	Estimates:was it unrealistic?	2.60	13
7	Award of work without floating open tender	7.735	37
8	Irregular exemption of import duty	1.10	5
9	Urgent purchases: an excuse to purchase materials without observing purchase formalities	0.225	1
Total		20.688	100

Major Findings

1 Purchase of uniform materials worth Nu. 5.16 millions without inviting quotations.

It was observed that the RBA purchased uniform materials worth over Nu. 5.16 million from M/s Siliguri Trading House without calling quotations. The rate per meter of uniform materials was more by Nu. 110.00 as compared to that of ODIA. Similarly, non-ordnance clothing items worth over Nu. 0.4 million were purchased from the same firm without following the procurement formalities.

Services of all officers involved in these transactions were terminated.

2 Purchase of materials in excess of actual requirement resulting in blockade of funds (Nu.1.94 millions).

Physical verification of uniform materials revealed that materials worth over Nu. 1.94 millions were purchased in excess of requirement, which resulted in blockade of funds.

The RBA had informed the RAA about the action being taken to dispose off the excess materials.

The RBA still have to justify why excess materials were purchased in the first place beside fixing responsibility on those officials responsible for procuring without assessing the realistic requirement.

3 Non accountal of stock.

It was observed that timbers worth Nu. 0.626 million purchased for the renovation of the guesthouse at Phuntsholing was not physically available during the physical verification. Similarly, champ wood worth Nu. 0.272 million sent to Phuntsholing from Tencholing were found short during the physical verification. Crockery items valuing Nu. 0.118 million were not available during physical verification at guesthouse, Tencholing.

The RAA is informed that the M/s Green Wood Manufacturing Company would be asked to account for 957 Cft after confirmation of the rate amongst RBA, RAA and GWMC.

The responses further stated that the services of officers involved in some of these transactions were terminated and therefore, do not wish to punish them twice for the same offence.

The response also stated that the crockery items were taken into proper account.

The RAA regrets the failure of RBA to account for government properties and resources even after lapse of more than 3 years.

4 Payment without supporting bills.

Bills for miscellaneous items worth Nu. 0.051 million purchased for the renovation of guesthouse, Phuntsholing were not produced for verification.

Nu.0.02 was deposited into Audit Recoveries Account and the bills for the balance amount was submitted to the RAA.

5 Purchases made from outside Bhutan.

The RBA had made procurements for guesthouse at Phuntsholing from outside Bhutan disregarding the government rules and regulations.

It is intimated that such procurements are prohibited.

6 Uneconomical expenditure on transportation.

It was observed that 600.86 cft teakwood was transported from Sarpang to Phuntsholing via Wangdue for sawing and fabrication in spite of sawing and fabrication facilities available at Wangdue and Thimphu.

The justifications provided by the RBA were to reduce wastage and to cut the logs into the required specifications for fabrication works.

7 Estimates: was it unrealistic?

The profile of the guesthouse at Tencholing prior to dismantling were not drawn up and kept on record to assess the extent of renovation and the requirement of materials. A comparative analysis of DNP's estimates made with reference to RBA's revised estimate showed that the RBA's cost estimate was higher by Nu. 2.60 millions.

The RBA had stated that this observation would be given due consideration in all their similar activities in future. Here too, services of officers involved were terminated.

8 Award of work without floating open Tender.

The RBA awarded the renovation of guesthouse, Tencholing to M/s H. & K. Co. on the revised estimate without approval and without having negotiated the rates. Similarly, the contract for construction of prefabricated accommodation was also awarded to M/s H. & K. Co. without calling quotations. Non-compliance of required procedures and lack of transparency of process of awarding contract resulted in poor accountability, disregard to economy and significant overpricing by Nu. 3.025 millions. Deviation and changes in plinth area for construction of the prefabricated accommodation at Bangtar from the original estimate had resulted in extra cost of Nu. 4.71 millions.

The RBA had assured that future procurement of goods, works and services would be strictly in terms of Guidelines in the Procurement Manual.

9 Irregular exemption of import duty.

The Royal Bhutan Army procured over Nu. 6 million worth of GI pipes from M/s Goma Enterprise, Phuntsholing. Exemption of import duty was neither provided in the NIQ or in the supply order. However, the RBA issued import duty exemption certificate worth over Nu. 1.10 millions which was irregular. The tendering process for the GI pipes was not transparent and competitive since the NIQ was limited to only 6 firms. Whereas the NIQ was found issued on 31st July 1999, M/s Goma

Enterprise submitted their bids on 1st August 1999 indicating the use of inside information for bidding to their advantage. Quotations were also found to be unsealed.

The RAA is informed that the officers involved in this case were either compulsorily retired or terminated from services.

As the matter has been found not attended for more than 3 years and that the exemption was processed through Ministry of Finance, the RBA is advised to provide a concrete justification for the Import Duty Exemption. The failure to take appropriate action would warrant recovery with commercial interest.

10 Exorbitant prices paid for the GI pipes.

A comparative analysis of prevailing market rates obtained from STCB and the Central Store, Phuntsholing to that of rates quoted by M/s Goma Enterprise for the GI pipes revealed huge variations between the rates. The rates quoted by M/s Goma Enterprise were high by more than 100% in some pipes. Therefore by not using the services of the STCB, the RBA had paid substantial cost difference to M/s Goma Enterprises.

The RAA is informed that the officers involved in this case were either compulsorily retired or terminated from services.

The RAA expects the RBA to comply with government rules and orders.

11 Urgent purchases: an excuse to purchase materials without observing purchase formalities.

It was observed that the RBA had purchased galvanized concertina wires, angle iron posts, barbed wires and U nails worth over Nu. 2.7 millions from M/s Goma Enterprises and M/s Sharma Engineering Works without inviting quotations. The purchases were made based on the quotes of previous years for different works at different places. Nature of the work being very urgent was cited by the RBA as the reason for not observing the purchase formalities. However, it was observed that the reasons submitted by the RBA for not calling fresh quotations were not true since the suppliers did not supply the materials on the time agreed and that penalties/liquidated damages were not levied by the RBA. The purchase of concertina wires without calling fresh quotations had resulted to an excess payment of Nu. 0.225 million to M/s Goma Enterprise.

The RBA had stated that such procurements were made in 1999 but on the basis of quoted rate called by RBP in 1997. The response further stated that the liquidated damages were waived off by competent authority in the RBA, Headquarters.

Royal Bhutan Police

Table 1.50: Showing audit observations by different categories and the amount involved

Sl.No.	Nature of Observations	Amount (Nu. million)	%
1	Award of contracts on cut off point basis	70.58	94
2	Procurement of Ammunition boots on negotiated	1.69	2
3	Purchase without floating tenders	0.99	1
4	Loss arising from purchases made from other than the lowest bidder	2.09	3
	Total	75.35	100

Major Findings

1 Procurement of Ammunition boots on negotiated rates.

It was observed that the RBP had called the quotations for the uniforms valid for five consecutive years during the financial year 1997-98. The bid for the supply of ammunition boots was won by M/s Delhi Store, Phuntsholing that was later revoked due to firm not being able to supply on the time agreed. Although M/s Kumar & Sons were the second lowest bidder, purchase of ammunition boots worth Nu. 1.697 million were made from M/s Anil Stores whose initial bid was rejected by the purchasing committee on the ground that sample produced by the firm was of inferior quality. Notwithstanding the rejection of the initial bid of M/s Anil Stores, the RBP entered into negotiation with the firm without resorting to re-tendering procedures on the grounds of urgency. The negotiated rate was higher than the initial quotes submitted by the firm, which resulted in excess payment of Nu. 0.29 million. The excess payment was not contested and was repaid by the firm to the RAA account.

The excess payment was deposited into Audit Recoveries Account.

2 Purchase without floating tenders.

It was observed that prisoner's uniform worth over Nu. 0.99 million were purchased during the financial year 1999/2000 based on the 1998/1999 quotations. The RBP stated that procurement formalities could not be fulfilled due to the urgent requirement of uniforms.

The RAA is informed that the RBP shall comply with the procurement formalities as laid down in the Procurement Manual in its entire future contract works.

3 Award of contract based on Cut off points.

The Tender Committee of the Royal Bhutan Police awarded majority of the contract works based on the cut off points set by the committee. As a result contracts were not awarded to the lowest bidders but to the nearest bid to the cut off point. The RBP did not have a system of technical and administrative sanctions. The budget estimates and the final bills were often adopted as sanctions. The financial implication of the adoption of such a system was over Nu. 2 millions as detailed below:

Table 1.51: Showing instances of works awarded on Cut Off Point basis.

Sl.No	Name of the contract	Work awarded at Nu.	Lowest Bid Nu.	Difference	Name of the Contractor
1	Renovation of old CHPC quarters	3.25	2.99	0.26	Druk Chapchap Construction
2	Const. of PS cum lock up at Lhuntsi	1.98	1.97	0.01	Jigme Dorji Construction
3	Const of class room at J T	3.22	2.83	0.39	Druk Chapchap Construction
4	Const of Dinning hall at Jigmeling	2.32	2.21	0.11	Gyeneen Construction
5	Const of Reservoir, Intake tank and external water supply at J/ling	0.95	0.93	0.02	Chanda Construction
6	Renovation of Ors quarter and retaining wall at Dagana	0.33	0.32	0.01	Lungten Construction
7	Const of 5 units Ors qrs at Samtsi	0.99	0.93	0.06	Tenzin Construction
8	Construction of external water supply facilities at Chamgang	0.29	0.29	-	Druk Tiger Construction
9	Construction of external drainage system at Chamgang	0.21	0.19	0.02	Lhakar Construction
10	Construction of 3 blocks double storey jail at Chamgang	22.84	22.84	-	Samdrup Norbu Construction
11	construction of compound fencing and duty room at S/Jongkhar	1.08	1.08	-	K P Construction
12	Const of barrack for RBAP at Tashigatsel	0.86	0.86	-	Phurba Construction
13	Const of 5 units Ors qrs at Panbang	2.04	2.04	-	Druk Chapchap Construction
14	Construction of 2 blocks of 24 units Ors quarters at Thimphu	9.63	9.33	0.30	Tshenden Const.
15	Const of General Office at Thimphu	5.12	4.97	0.15	Phub Brothers
16	Const of 20 units Ors qrs at C/kothi	6.09	5.95	0.14	K Dorji Const.
17	Construction of external water supply facilities at Chamgang	0.90	0.90	-	Dophu Const
18	Const of 5 units Ors qrs at Duksum	1.82	1.82	-	Tenzin Construction
19	Const of 5 units Ors qrs at Duksum	1.86	1.72	0.14	D Kuenden Const
20	Const of Ors qrs at Dechencholing	1.64	1.58	0.06	Jabab Const
21	Construction of Ors qrs at Lhuntse	3.10	2.47	0.63	Rabgay Const.
	Total financial implication	70.52	68.22	2.30	

The Royal Bhutan Police (RBP) had intimated the RAA that all the future contract works shall not be awarded on “Cut off Point” basis.

Action taken on individuals responsible for lapses is yet to be intimated to RAA.

4 Loss arising from purchases made from other than the lowest bidder.

Under the five consecutive years quotation arrangements, the RBP procured uniforms of Police personnel for the years 1998-1999 and 1999-2000. It was however observed that purchases were not regulated as per the quotations/comparative statements as the purchases were not made from the lowest bidder. This had resulted in an excess expenditure of Nu. 2.095 millions.

The RBP stated that the selection criteria of uniforms were based on the quality and not the rates quoted by the suppliers. The RBP, however, had undertaken to put in every effort to improve the systems and follow the procedure.

The RAA is yet to be intimated on the administrative actions taken by competent authorities on officers responsible for the above several lapses.

CHAPTER XII

Autonomous Agencies

The Royal Audit Authority issued the audit reports of the following autonomous agencies during the year 2001.

1. Bhutan Olympic Committee;
2. Royal Bhutan Polytechnic;
3. National Driving Training Institute;
4. National Women Association of Bhutan;
5. National Commission for Cultural Affairs;
6. Dzongkha Development Commission;
7. Royal Institute of Management; and
8. Royal Technical Institute

Total observations (Nu. millions)

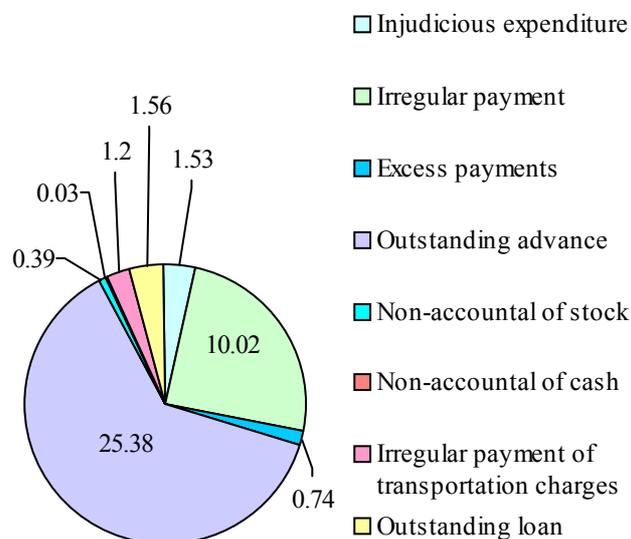


Table 1.52: Showing audit observations by different categories and the amount involved

Sl.No	Nature of Observations	Amount (Nu. million)	%
1	Injudicious expenditure	1.5	2
2	Excess payment	0.7	1
3	Outstanding advances	25.4	25
4	Purchases made from other than the lowest bidder	4.1	4
5	Purchases made without inviting quotations/tenders	1.4	1
6	Wasteful expenditure	0.2	0
7	Execution of extra works without prior approval	11.5	11
8	Non-enforcement of contract clauses	2.7	3
9	Irregular award of contract	46.0	46
10	Outstanding Revenue	4.2	4
11	Non accountal of cash	0.0	0
12	Irregular payment	1.2	1
13	Outstanding loan	1.6	2
	Total	100.5	100

Major Findings.

1 Injudicious expenditure of Nu.1.529 millions.

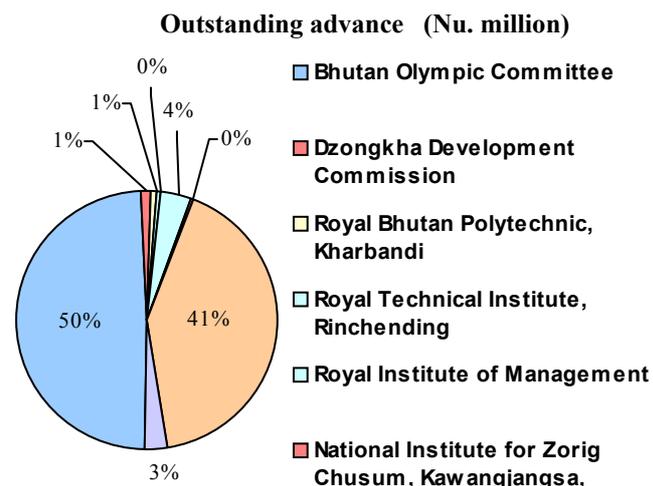
The National Driving Training Institute had incurred over Nu. 1.5 millions for the repair and maintenance of two old and obsolete vehicles for three years. No cost benefit analysis were carried out to determine the

alternative of purchasing new vehicles rather than spending huge amounts on the repair and maintenance of very old and obsolete vehicles.

2 Excess payment of Nu. 0.738 million.

It was observed that the National Commission for Cultural Affairs had paid over Nu. 0.29 million on account of works not executed by the contractors. Payment amounting to Nu. 0.337 million were also made by the management of the Royal Bhutan Polytechnic on account of the excise duty which were not included in the bids of the suppliers. Excess payments were also observed during the audit of Bhutan Olympic Committee, Royal Bhutan Polytechnic and the Royal Technical Institute pertaining to payment of DSA, excess payment due to wrong application of exchange rate and hire charges etc.

Those responsible agencies have been depositing the excess payments on a case by case basis. After the issue of the draft of this report approximately Nu.0.36 million is deposited into the Audit Recoveries Account.



3 Outstanding Advances of Nu. 25.386 millions.

As on the date of audit, advances to the tune of Nu. 25.386 millions were outstanding in the books of accounts of various autonomous agencies as detailed in the table below.

Table 1.53: Showing the outstanding advance against various agencies

Sl.No	Name of the Agency	Amount(Nu. millions)		
		Total amount	Recovered	Balance
1	Bhutan Olympic Committee	12.55	12.35	0.20
2	Dzongkha Development Commission	0.31	0.31	-
3	Royal Bhutan Polytechnic, Kharbandi	0.19	0.16	0.03
4	Royal Technical Institute, Rinchending	0.09	0.07	0.02
5	Royal Institute of Management	1.06	0.01	1.05
6	National Institute for Zorig Chusum, Kawangjansa, Thimphu	0.06	-	0.06
7	National Commission for Cultural Affairs Secretariat	10.39	8.16	2.23
8	NWAB	0.73		0.73
Total		25.38	21.06	4.32

4 Irregularities in contracting and procurement processes

a) Purchases made from other than the lowest bidder, Nu. 4.13 millions.

The Royal Bhutan Polytechnic procured educational equipment valuing over Nu. 4.13 millions from bidders other than the lowest. Reasons for non-acceptance of the lowest bid were not on record. Similarly, the Royal Technical Institute awarded the work to the 6th lowest bidder and as a result suffered a loss of Nu. 0.046 million.

b) Purchases made without inviting quotations/tenders.

The Bhutan Olympic Committee had procured computers and sports goods worth over Nu. 0.85 million without following the prescribed procurement formalities. This had deprived the BOC of the competitive market rates. Similarly the BOC awarded contract of the maintenance of sports complex worth Nu. 0.24 million without inviting tender. Tenders and quotations were also not called by the Royal Bhutan Polytechnic in the purchase of Kelvinator dehumidifier worth Nu. 0.445 million from M/s Bhutan Automobile, P/ling.

c) Wasteful expenditure.

The Bhutan Olympic Committee had paid Nu. 0.24 million towards the consultancy fees for the construction of a stadium at Chang Lingmethang, which was later decided to be abandoned in the meeting of the executive members. The expenditure of Nu. 0.24 million was therefore a waste of resources.

d) Execution of extra works without prior approval and estimates.

The management of the Royal Bhutan Polytechnic allowed the contractors to execute extra works worth over Nu. 11.46 millions without the prior approval from the competent authority. The management explained the approval for additional works as substitute for the approval of extra works.

The issue in question was regularized with ex-post facto approval accorded by the competent authority.

e) Non-enforcement of contract clauses.

During the audit of the Royal Bhutan Polytechnic observed that the management had not enforced the contract clause on the forfeiture of 10% performance security of over Nu. 1.4 millions although the suppliers had breached the terms of the contract. Similarly, the management did not enforce clauses on the levy of liquidated damages for the delay in supply of materials by the suppliers. This amounted to about Nu. 1.28 millions.

f) Irregular award of contract.

It was observed that educational equipment and administrative support equipment in package-II, III.V, VI, VII, VIII, and IX valued Nu. 46.00 millions were procured based on bids submitted by one or two suppliers.

Re-tenders as required by the Financial Manual were not invited and such purchases were mostly carried out at the end of the financial year.

5 Outstanding Revenue Nu. 4.182 millions.

The books of accounts of the National Women Association of Bhutan revealed outstanding sale proceeds of yarns amounting to over Nu. 4 millions. These are old debts and realization of outstanding sale proceeds looks doubtful. Salary tax and health contributions amounting to Nu. 0.14 million were not deducted by the Royal Technical Institute.

6 Catering Services: Charging too much?

It is observed that hotels and restaurants providing catering services to the government agencies besides charging 10% Bhutan Sales Tax and 10% service charge also levy 10% catering and 30% out catering charges. This impinges on the limited government resources. A clear cut policy is needed to be issued by the concerned authorities.

7 Non accountal of stock.

It was observed that artifacts and radiator heaters worth Nu. 0.33 million were not accounted by the National Commission for Cultural Affairs during physical verification. Similarly, physical verification revealed shortages of finished products and yarns worth Nu. 0.058 million.

The NWAB had informed the RAA that finished products and yarns to the tune of Nu.0.03 million had been accounted for thereby leaving a balance of Nu.0.03 million.

8 Non accountal of cash.

Physical count of the cash with the management of NWAB revealed cash shortages of Nu. 0.038 million.

The NWAB had informed the RAA that the above figure included Nu.0.024 million issued in the form of Cheque by the Ministry of Foreign Affairs which eventually was dishonored. The money must be deposited in the ARA.

9 Irregular payment of transportation charges.

Over Nu. 1.2 millions were incurred as transportation charges to export back the materials and items used during the expo 2000 held in Hanover, Germany. It was observed that transportation charges of personal effects of the officials who attended the expo 2000 were also paid from the expo 2000 fund.

10 Outstanding loan Nu. 1.566 millions.

The NWAB had granted loans to rural people from the IFAD and ACB funds. As on the date of audit, a sum of Nu. 1.566 millions were not recovered from the beneficiaries of the loan.

CHAPTER XIII

Royal Audit Authority

One of the common issues raised in any forum is: "Who audits the Audit?" With a view to promote greater accountability amongst auditors and improving RAA's own house keeping, an independent professional firm of Chartered Accountants conducts the audit of accounts of the RAA. Besides external audit conducted by an independent professional firm, internal audit is also carried out on a rotation basis by the Divisions/Branch Offices of the RAA.

A copy of the Audited Receipt and Payment Statement of the RAA for the Financial Year 2000-2001 and report thereon of the external auditors, M/s Nag & Associates, Chartered Accountants together with management audit report and also indication of action taken by the RAA on the deficiencies/lapses are presented in this report.

The RAA would also like to report that advances outstanding reflected against the staffs and officers of this authority were all adjusted with exception to those advances reflected in the name of Mr. R.P. Zutshi and Karma Wangdi. Mr. Zutshi was paid estimated traveling expenses while he was repatriated upon completion of his deputation tenure on the understanding that he would submit the adjustment claims back from India. Despite RAA's continuous effort and repeated reminders he had failed to submit.

Karma Wangdi, an Ex-employee of the RAA was terminated from the service and possibility of recovery is very remote.

Therefore, in both the cases the Administration and Finance Division is processing the write-off.