



# ANNUAL AUDIT REPORT 2016

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(IN FULFILLING THE CONSTITUTIONAL RESPONSIBILITY)

ROYAL AUDIT AUTHORITY

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## **VISION:**

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

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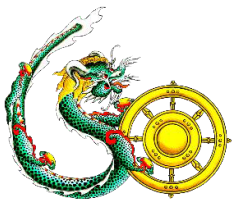
## **MISSION:**

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

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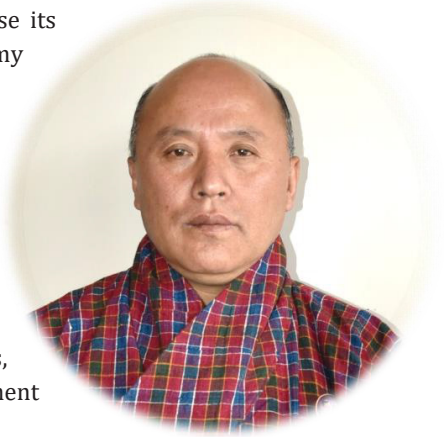




## AUDITOR GENERAL'S PERSPECTIVE



The Royal Audit Authority (RAA) is pleased to release its Annual Audit Report (AAR) 2016. In fulfilment of my responsibilities, it is my pleasure to report to the Nation on the results of audit carried out by the RAA for the year 2016. The AAR 2016 is prepared in line with Section 69 to 73 of the Audit Act of Bhutan 2006 and as required under the Article 25.5 of the Constitution of the Kingdom of Bhutan. It is a consolidated summary of significant unresolved audit findings of the RAA compiled from 815 audit reports issued during the year including seven Performance Audits, which were submitted and tabled in the Parliament separately.



The RAA is committed to further enhance its efforts in delivering its mandates under the benevolent leadership of His Majesty the King, continued support of the Royal Government of Bhutan and sustained cooperation from the audited agencies. The RAA as the Supreme Audit Institution (SAI) of Bhutan has a huge responsibility to audit and report on the economy, efficiency and effectiveness in the use of public resources.

The RAA had carried out the certification audit of the Annual Financial Statements of the Royal Government of Bhutan for the year ended 30<sup>th</sup> June 2016. It was noted that the Government had not utilized capital budget of Nu. 4,770.376 million against the revised budget of Nu. 26,578.232 million. The Ministry of Finance has been recommended to ascertain the reasons for underutilisation of capital budget and initiate remedial measures.

The relevant excerpts of the Draft AAR 2016 were circulated to all the agencies concerned in January 2017 as required under the Audit Act of Bhutan 2006. The draft report had significant issues involving Nu. 3,039.608 million. However, audit findings involving Nu. 2,450.824 million representing 80.63% were either resolved fully or substantially and not considered for inclusion in the AAR 2016 based on the actions taken and responses received from agencies. The total unresolved significant irregularities having financial implication reflected in the AAR 2016 amounted to Nu. 588.784 million as on March 31, 2017 as against Nu. 523.744 million reported in AAR 2015, indicating an increase of 12.42%. *The RAA has considered the Action Taken Report (ATR) duration of three months for those reports issued upto 31<sup>st</sup> December 2016.*

The RAA has made audit recoveries amounting to Nu. 90.037 million in 2016. The amount of audit recoveries made every year can be attributed to focused audits and vigorous follow-up actions initiated at various levels. It also reflects the efforts of audited agencies to settle the outstanding issues by initiating vigorous recovery measures in making good the losses sustained by the government. The audit recoveries from Corporations & Financial Institutions are credited

into the Audit Recoveries Accounts maintained with the corporations and financial institutions and as such, the Audit Recoveries Account maintained by the RAA does not include recoveries made from these agencies. The audit recoveries also do not include recoveries made from on-going Donor Assisted Projects.

A separate chapter on the Joint Audits of Hydropower Project Authorities has been included in the AAR 2016. The RAA had undertaken two joint audits of Mangdechhu Hydroelectric Project Authority and Punatshangchhu-II Hydroelectric Project Authority. The audits were conducted as per the Standard Operating Procedures signed between the RAA and the Comptroller and Auditor General (C&AG), India and the Projects Agreement signed between the Royal Government of Bhutan and the Government of India.

In line with Chapter 8, Section 86 of the Audit Act of Bhutan, four auditors of the ASOSAI, three from Austrian Court of Audit, Austria and one from Board of Audit, Japan conducted the peer review of the RAA as part of the 'SAI Independence Assessment Study'. The RAA had volunteered to be peer reviewed with a view to further improve its professionalism and inculcate best practices. The RAA has accordingly drawn action plans to implement the relevant recommendations.

The RAA finalized and published its second Strategic Plan 2015-2020 and the Operational Plan. With this Strategic Plan in place, the RAA seeks to play vital roles towards the fulfilment of its Constitutional mandates as enshrined in the Constitution of Kingdom of Bhutan and Audit Act of Bhutan 2006, creating positive impact, bring in beneficial changes to the society, thereby realizing His Majesty's Vision of promoting good governance. The RAA will always look up to its key stakeholders for the unstinted support and strive to serve to the best of its abilities.

To promote transparency and accountability and to strengthen internal governance of RAA, the Auditor General, the Deputy Auditors General and respective Assistant Auditors General of Divisions and four Regional Offices signed the Annual Performance Compact Agreement for 2016-2017. The Compact Agreements are aligned with the Annual Performance Targets, which are in line with the RAA's Strategic Plan 2015-2020 and the Operational Plan.

In order to continuously promote awareness amongst RAA's stakeholders on the accountability framework in the overall governance system and to sensitize on common audit issues, the RAA conducted Audit Advocacy and Awareness Programmes for the Ministries, Dzongkhags & Gewogs Administration, Corporations, Financial Institutions, Thromdes, Dratshangs, Armed Forces, Judiciary, Autonomous Agencies and schools.

On the international front, the RAA for the first time hosted the ASOSAI Seminar on the theme *"ISSAI Implementation - Experience and Strategy"* at Paro, from 22 to 26 August 2016 that was attended by 22 participants from 20 ASOSAI member countries. The RAA also signed a Memorandum of Understanding (MoU) with the Office of the Auditor General of Thailand with the aim to establish a transparent framework for cooperation, mutual institutional strengthening and to enhance relationship between the two SAIs in terms of mutual cooperation.

During the year, the RAA towards adoption of the International Standards of Supreme Audit Institution (ISSAI) as the authoritative standards for auditing and reporting, signed the 'Statement of Commitment' with the INTOSAI Development Initiative (IDI). Subsequently, the RAA trained its auditors on ISSAI based audits and initiated ISSAI based pilot audits. The existing audit methodologies and manuals in the three disciplines of financial, compliance & performance audits were also reviewed and updated to align with ISSAIs requirements.

The RAA continued to receive support from the Austrian Development Cooperation and trained ten auditors on '*Auditing from Gender Perspective*'. Further, the RAA secured grant of Nu. 6.924 million from the Bhutan Trust Fund for Environmental Conservation for "*Strengthening Environmental Auditing towards Protection & Conservation of Environment*".

The RAA released the RAA's Policy Guidelines on the Media Communication 2016 to consolidate the existing practices, procedures and provide a formalized system in sharing of information to the stakeholders through the established media protocols.

I would like to acknowledge the support of the Parliament for deliberating our reports and directing the audited agencies to appropriately deal with the issues. This had enabled RAA to resolve most of the pending issues in the recent past. We look forward to receiving similar support in terms of rendering our audit reports effective through appropriate deliberations, directives and follow up mechanisms and providing impetus to our efforts in promoting transparency and accountability in the public operations. I would like to make a humble prayer for the RAA to attain new heights of success in promoting accountability and transparency in public operations and continue to fulfil the aspirations of our King, Country and People.

I would also like to acknowledge the support and cooperation rendered by our audited agencies for providing prompt responses to the draft AAR 2016, which facilitated timely compilation and preparation of the report. I sincerely commend the positive attitude of all audited agencies and facilitating us in delivering our mandates.

Lastly, I would like to offer my humble gratitude to His Majesty the King for the trust and confidence bestowed on me to provide leadership to this august institution. We solemnly pledge to continue committing ourselves to audit without fear, favour or prejudice.



(Tshering Kezang)  
**Auditor General of Bhutan**



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# CHAPTER 1

## ACCOMPLISHMENTS OF THE RAA

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

The RAA was instituted as an autonomous body in 1985 and as a constitutional body in December 2005. Under the Auditor General, the Authority is at the moment manned by 252 staff with diverse professional background. It has four regional offices strategically located across the Kingdom. In line with the provisions of the Constitution of the Kingdom of Bhutan, the RAA started performance audits and theme based audits, besides the routine financial, propriety and compliance audits. A brief account of the activities and initiatives as a part of the accomplishments of the RAA during the year is summarized below:



### 1. Achievements in terms of auditing

The RAA had completed 894 audits during the year as shown in the Table 1.1. The number includes only those audits which were completed within 31<sup>st</sup> December 2016 and excludes those that were already started and under progress at the close of the year. The Annual Audit Plan of the RAA is prepared at the start of every financial year. It contains the Annual Audit Schedules of all Divisions and Regional Offices and the indicative Audit Thrust Areas which are determined on the basis of experiences of the past auditing periods and current audit priorities.

Sl. No.	Types of Audits	No. of Audits
1	Financial Audits	802
2	Compliance Audits	82
3	Performance Audits	10
Total		894

**Table 1.1: Audits completed in 2016**

### 2. Achievements in terms of reporting

Audit Reports are the immediate output of the RAA. The audit report is issued upon completion of the particular audit and is addressed to appropriate authorities to take timely actions on issues contained in the report. The RAA adheres to the prescribed time frame in issuing reports after completion of the field audit to ensure that those responsible initiate timely actions.

During the period, the RAA issued 815 audit reports as shown in the Table 1.2. These comprised of 690 financial audit reports, 118 compliance audit reports and seven performance based audit reports. The financial audit reports pertain to the financial audit of Letter of Credit Accounts, Current

Sl. No.	Type of Audits	No. of Audits
1	Financial Audits	690
2	Compliance Audits	118
3	Performance Audits	7
<b>Total</b>		<b>815</b>
<b>Table 1.2: Audit Reports issued in 2016</b>		

Deposit Accounts, Revolving Fund Accounts, etc. of budgetary agencies and the accounts and operations of non-budgetary agencies such as Corporations and Financial Institutions, Civil Society Organizations, Political Parties, etc. It also includes audit reports for certification of donor-assisted projects implemented by various agencies, both budgetary and non-budgetary.

During the year, the RAA also issued 38 statutory audit reports pertaining to the corporations and financial institutions. The Chartered Accountant Firms empaneled by the RAA carried out the statutory audit of these corporations and financial institutions. As per Section 255 of the Companies Act of the Kingdom of Bhutan 2016, the Auditor General is the ex-officio auditor of the government and government controlled companies. These reports are issued under the signatory of the Auditor General.

Further, the RAA also conducted one Micro Assessment of the Religion & Health Project under Dratshang Lhentshog and five Internal Audits of the Headquarters and four regional offices of the RAA.

In order to ensure that the auditing processes produce appropriate results, and also to expedite the settlement of the outstanding issues, follow-up of audit reports are carried out at various stages and levels. In 2016, the RAA also issued 510 follow up reports by respective follow up sections in the OAAGs and Follow-Up & Clearance Division of the RAA, HQs.

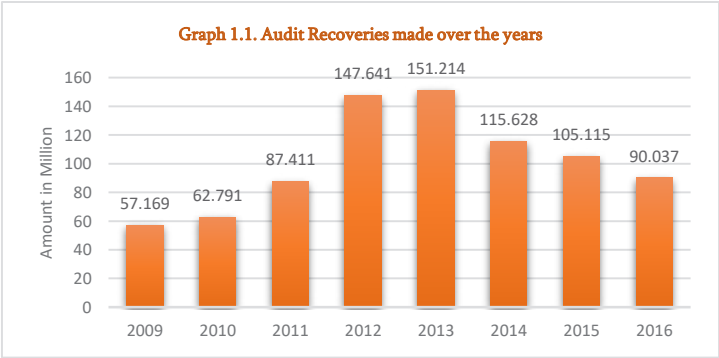
In line with Section 48(b) of the Audit Act of Bhutan 2006, the RAA endorsed ten audit reports containing 16 cases which indicated existence of fraud and corruption to the Anti-Corruption Commission during the period.

During the year, the AAR 2015 was submitted to His Majesty the King and tabled in the Parliament. The Public Accounts Committee in its 8<sup>th</sup> Session of the 2<sup>nd</sup> Parliament presented the issues contained in the AAR 2015 including a set of recommendations on the review reports of the AARs 2009 to 2014 and the implementation status on past resolutions.

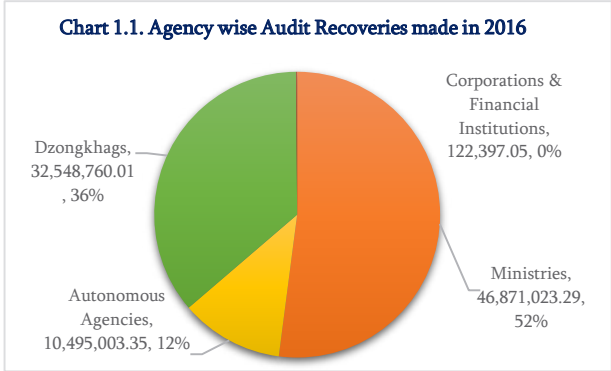
During the year, the Public Accounts Committee also presented the review reports of the Performance Audit Reports from 2010-2015 to the 7<sup>th</sup> Session of the Joint Sitting of the Parliament which were deliberated at length. Further, the RAA tabled three Performance Audit Reports during the 7<sup>th</sup> Session and two during the 8<sup>th</sup> Session.

### 3. Audit Recoveries

The RAA had recovered Nu. 90.037 million in 2016. The recoveries during 2016 had decreased by 14.34% from 2015. While the government expenditure in various sectors keeps increasing, the RAA also ensures that accounts are audited and recoveries made where required by rigorous follow up at various stages & levels. Besides, the Parliamentary directives to impose 24% penalty on overdue outstanding advances and recoverable amounts reflected in the audit reports had expedited settlement of various pending issues. The responsive actions taken by the audited agencies in settling the pending issues also expedited the settlements of audit issues. The decreasing trend of the audit recoveries may be attributed to the old recoverable amounts that have gradually declined with imposition of the 24% penalty and sustained follow-ups.



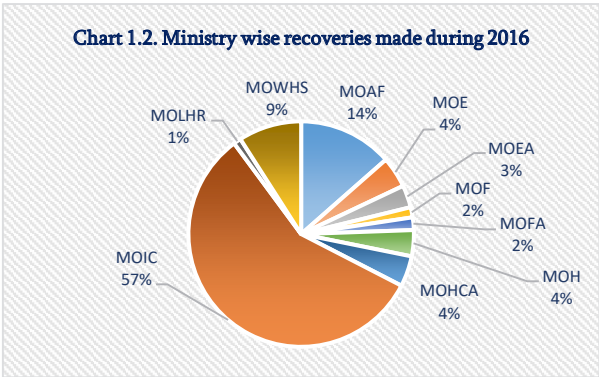
During the year, audit recoveries of Nu. 46.871 million were made from Ministries accounting



for almost 52.06% of the total recoveries. The recoveries from Dzongkhags & Gewogs was Nu. 32.549 million representing about 36.15% and Nu.10.495 million representing about 11.66% were recovered from the Autonomous Agencies and NGOs as depicted in Chart 1.1. The audit recoveries from Corporations & Financial Institutions were negligible as the amounts of audit recoveries are

credited into the Audit Recoveries Accounts maintained with the corporations and financial institutions. As such, the total amount of audit recoveries accounted for in the Audit Recoveries Account maintained by the RAA does not include recoveries made from these agencies.

The highest audit recoveries amongst 10 Ministries was made from Ministry of Information and Communications with Nu. 26.860 million representing 57.31% of the total recoveries. The



Ministry of Agriculture and Forests represented 13.53% with Nu.6.340 million, followed by Ministry of Works and Human Settlements with Nu.4.244 million representing 9.05% as shown in Chart 1.2.

The above three Ministries accounted for over 79.89% of the recoveries amounting to Nu. 37.444 million of the total audit recoveries made during the year.

4.
Achievements in terms of professional & institutional development

The RAA in its efforts to improve performance of auditors and quality of the audit reports, tries to ensure that the auditors are trained to be the most competent professionals which are essential for ensuring the quality of our products and services. While it is important to understand that intuitive qualities are vital for competency, it is nevertheless crucial to set an enabling as well as compelling environment to ensure professionalism in every aspect of our work. The RAA in its pursuit of enhancing institutional and human capabilities of delivering the mandates conducted trainings on a regular basis.

During the year, 182 auditors attended various in-country trainings including a training on 'International Standards of Auditing' conducted by experts from BDO Partners, Sri Lanka. Besides, 117 officials of the RAA availed ex-country training including seminars, workshops and meetings, which included 66 auditors trained for ISSAIs in India, three for Master's Degrees and two for Indian Accounts & Audit Service.

The construction of RAA's Professional Development Center at Tsirang is nearing completion. The progress at the site as of 31<sup>st</sup> March 2017 is well within the schedule. Physical and financial progresses are well on track for all packages as given in Table 1.3.

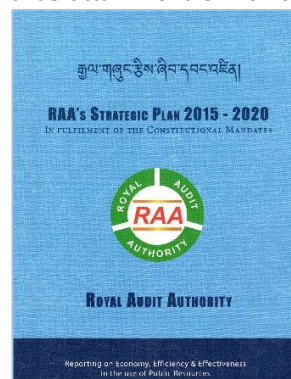
His Holiness the Je Khenpo graced the RAA's Professional Development Centre construction site at Tsirang on 30<sup>th</sup> July 2016.

Package/Progress	Physical Progress	Financial Progress	Nu in Million
Package A (Main Building)	99%	70%	55.000
Package B (Hostels)	78%	60%	44.140
Package 1 (Site Development Works)	33%	10%	6.750
Package 2 (Faculty block & Director's residence)	4%	10%	1.610
Table 1.3: Progress of PDC Construction as on 31/3/2017			



Figure 1: Bird's eye view of the Centre

During the year, the RAA launched its second Strategic Plan 2015-2020 on July 27, 2016. The Strategic Plan document is a roadmap that will guide the RAA towards attainment of newer heights and meeting aspirations of stakeholders, adding value and benefits to the citizens. The Plan was prepared drawing inspiration from His Majesty's address during the 107<sup>th</sup> National Day celebration in 2014 and as per the RAA's oversight audit model formulated towards meeting Constitutional Mandates. The strategic framework was formulated based on the SWOT analysis and the Vision and Mission statements, core values were revised and updated. The RAA's logo was also modified and updated to represent the changes. The Strategic Plan entails two outcomes, three strategic goals and three areas for capacity building. The Operational Plan 2015-2020 was also published.

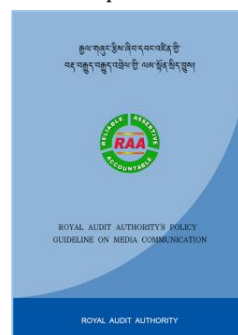


In a move towards professionalizing the auditing and reporting approach through adoption of the ISSAIs as the authoritative auditing standards, a globally accepted standard that ensure highest quality and consistency in audits conducted and reported, the RAA initiated a series of ISSAI implementation activities. The RAA signed the 'Statement of Commitment' with the INTOSAI Development Initiatives (IDI), Norway in April 2016, following which the RAA trained auditors on ISSAI based audits methodologies and also initiated ISSAI based pilot audits. The existing audit manuals in the three disciplines of financial, compliance & performance audits were reviewed and updated to align with ISSAIs requirements. The changes are expected to enhance the professionalism of our auditors and ultimately promote the RAA's credibility and reputation through quality delivery of auditing services.



In line with Chapter 8, Section 86 of the Audit Act of Bhutan, four auditors of the ASOSAI, three from Austrian Court of Audit, Austria and one from Board of Audit, Japan conducted the peer review of the RAA as part of the '*SAI Independence Assessment Study*'. The team assessed the eight principles of independence of the RAA as well as provided recommendations for action for promoting the SAI's independence which included Legal status of independence, Head and members of SAI, Mandate of SAI, Access to information, Reporting audit result, Content, Timing and publishing of audit reports, Follow-up mechanism and Resources.

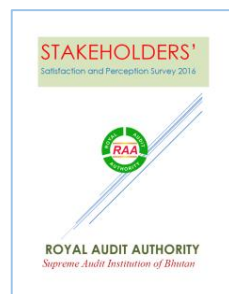
The RAA released its Policy Guidelines on Media Communication on March 28, 2016. The policy guideline aims to consolidate the existing practices and procedures and provides a formalized system in sharing of information to the stakeholders through the established media protocols. It provides an effective and efficient framework to facilitate timely, comprehensive, authoritative and accurate dissemination of information relevant to all aspects of the Authority's functioning.



To enhance capacity building, the RAA continued to receive support from the Austrian Development Cooperation and trained ten auditors on 'Auditing from Gender Perspective'. Further, the RAA signed the grant agreement for "*Strengthening Environmental Auditing towards Protection & Conservation of Environment*" with the Bhutan Trust Fund for Environmental Conservation amounting to Nu. 6.924 million. This would further facilitate the RAA in capacity and institutional building through strengthening of environmental auditing which would contribute towards Environmental Conservation.

The RAA signed the Annual Performance Compact Agreement for 2016-2017 between the Auditor General, the Deputy Auditors General and respective Assistant Auditors General of the eleven Divisions of the Head Quarters and four regional Offices of Assistant Auditor General. The Compact Agreements are aligned with the Annual Performance Target which is in line with the RAA's Strategic Plan and Operational Plan 2015-2020. The agreements were signed on August 10, 2016.

Outlining the progressive developments carried out during the year, the RAA continued to implement various institutional capacity development activities that were initiated in the earlier years. The RAA initiated '*Stakeholders' Satisfaction and Perception Survey*', an independent study carried out by consultants to assess the satisfaction and perception level of the stakeholders availing audit services. As per the survey, 78% of the respondents were satisfied with the RAA's auditing services.



The RAA has finalized and published the list of Agencies under RAA's jurisdiction for 2016-17. It contains agencies falling under the jurisdiction of the RAA as per the Audit Act of Bhutan 2006. The list will be updated annually and shall form basis for preparation of the Annual Audit Schedules and Plans for all Divisions and Regional Offices.

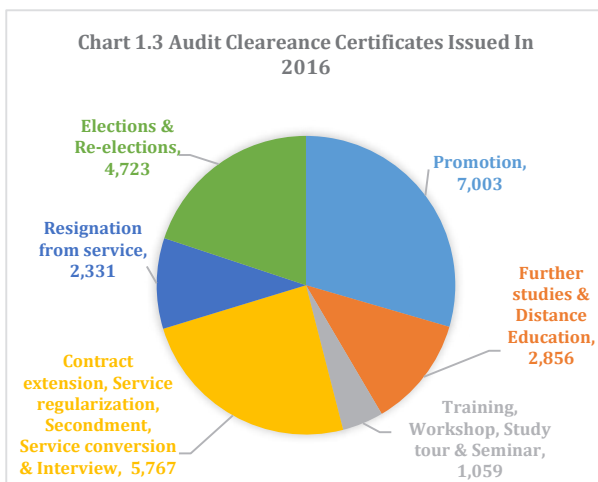
During the year, His Majesty the King appointed Yonten Phuntsho, Chief Audit Officer as *Zimpon Wogma* on November 10, 2016. He joined the Office of the *Gyalpoi Zimpon* on deputation in 2010. Prior to his deputation, he worked in the General Governance Division and later in the Policy, Planning & Annual Audit Report Division of the RAA from 2003 to 2010.

The RAA appointed two new Deputy Auditors General on March 15, 2016. The new DAGs were selected through an open competition conducted jointly by the RAA and RCSC on February 15, 2016. Ugyen Dorji was appointed as Deputy Auditor General of the Department of Follow-ups, Regions & HR Management and Chimi Dorji as Deputy Auditor General for the Department of Performance & Commercial Audits.

The RAA also appointed three senior officers to the post of Assistant Auditors General through an open competition conducted by the RAA and RCSC in January 2016. Narapati Sharma was appointed as the AAG for the Office of Assistant Auditor General, Samdrup Jongkhar, Rinzin Lhamo as AAG for the Office of Assistant Auditor General, Phuentsholing, and Kencho Dorji as AAG for the Research & Quality Assurance Division.

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

During the year, the RAA had issued 23,739 Audit Clearance Certificates for various purposes as shown in Chart 1.3 As required by the Audit Act of Bhutan 2006 and Bhutan Civil Service Rules and Regulations 2012, the RAA is charged with the responsibility of holding the officials accountable until either the recoveries are effected or appropriate actions are taken on the accountable official for the lapses uncovered during auditing. This process of certification of public servants serves as an important tool for RAA to strengthen accountability in the overall governance system and instill a sense of accountability and responsibility in the officials in discharging their duties.



## 6. Achievements in terms of International Cooperation

The RAA in its efforts to keep up with the latest developments in the auditing profession maintains sound professional linkages particularly with peer SAIs around the world. The RAA had further enhanced its efforts in integrating itself into various international forums and organizations.

A three-member delegation led by the Auditor General visited Norway in April 2016 to sign the Statement of Commitment on International Standards for Supreme Audit Institutions (ISSAIs) Implementation Initiative (3i Programme) Phase II with Mr. Per-Kristian Foss, the Auditor General of Norway & Chairman of INTOSAI Development Initiative (IDI) Board in Oslo.

A three-member delegation led by the Chairman of the State Audit Commission, Office of the Auditor General of Thailand, His Excellency Professor Chaisit Trachotham visited RAA in August 2016 upon the invitation of the Auditor General of Bhutan. During the visit the OAG, Thailand and the RAA signed a Memorandum of Understanding (MoU), which establishes a transparent framework for cooperation and aims at institutional strengthening, enhanced relationships between the two SAIs.

A two-member delegation led by Mr. Einar Goerrissen, the Director General of INTOSAI Development Initiatives, Norway visited RAA as part of the ISSAIs Implementation Initiatives in October 2016. The DG, IDI launched RAA's web portal for RAA's move towards ISSAIs Compliant Audits and made presentations on the *International Standards for Supreme Audit Institutions (ISSAIs)* and *SAI Stakeholders Engagement Programme*.

A five-member delegation led by the Auditor General attended the XXII INCOSAI held in Abu Dhabi, United Arab Emirates from 5-11 December 2016. The Congress discussed crucial

developments in the INTOSAI community and reflected on the way forward. The INTOSAI also presented its next strategic plan to the Congress alongside updated statutes of the organization.

A two-member delegation led by the Auditor General attended the international symposium on National Integrity System (NIS) at Chiang Mai, Thailand on 18<sup>th</sup> & 19<sup>th</sup> February 2016. The symposium was organized by the Office of Auditor General of Thailand in celebrating the 100<sup>th</sup> anniversary of its establishment. The theme for the symposium was on building the NIS as envisioned under the Sustainable Development Goals.

A four-member delegation led by the Deputy Auditor General, Department of Sectoral Audits attended the 17<sup>th</sup> INTOSAI Working Group on Environmental Auditing (WGEA) from 24<sup>th</sup> to 27<sup>th</sup> October 2016 in Jakarta, Indonesia. The meeting discussed SDGs, role of Supreme Audit Institutions in implementing SDGs, Multilateral Environmental Agreements, Climate Change, recent Paris Agreement, etc. besides the presentations on activities or projects completed under Work Plan 2014-2016 and also adopted the Work Plan 2017-2019, to be implemented in the coming years.

A two-member delegation led by the Deputy Auditor General, Department of Performance and Commercial Audit attended the Audit Seminar for 'SAIs along the Belt & Road Route' held in Nanjing, China from June 27 to July 6, 2016. The seminar hosted by the National Audit Office of China (CNAO) and the Ministry of Commerce of China aimed to promote good national governance through auditing.

The RAA hosted the Asian Organization of Supreme Audit Institution (ASOSAI) Seminar on '*ISSAI Implementation: Experience and Strategy*' at Paro in August 2016. The Seminar is regularly organized event by ASOSAI but the first in Bhutan. A total of 22 participants from 20 member SAIs attended the Seminar. The Seminar provided an ideal platform for the participants to exchange experiences and good practices in implementing ISSAIs in their respective SAIs.

## **7. Independent external audit of the RAA**

In line with the Audit Act of Bhutan 2006, the accounts and operations of the RAA for the Fiscal Year ended 30<sup>th</sup> June 2016 was audited by S.N. Mukherji & Co., Kolkata. The Auditor's report along with certified Receipts & Payments Statement of the RAA is given in **Exhibit I**. The appointment of auditors was done based on the selection of auditors made by the Public Accounts Committee on behalf of the Parliament as required under the Audit Act.

## **8. Audit advocacy and awareness programmes**

In order to continuously promote awareness amongst RAA's stakeholders on the accountability framework in the overall governance system and to sensitize on common audit issues, the RAA conducted Audit Advocacy and Awareness Programmes for the Ministries, Dzongkhags & Gewogs Administration, Corporations, Financial Institutions, Thromdes, Dratshangs, Armed Forces, Judiciary, other autonomous agencies and schools.

The Auditor General sensitized on the 'Roles and Responsibilities of the RAA in promoting accountability and transparency in the use of Public Resources'. The stakeholders were also sensitized on the ISSAIs and the Financial Resources Management Accountability Index (FRMAI).

# CHAPTER 2

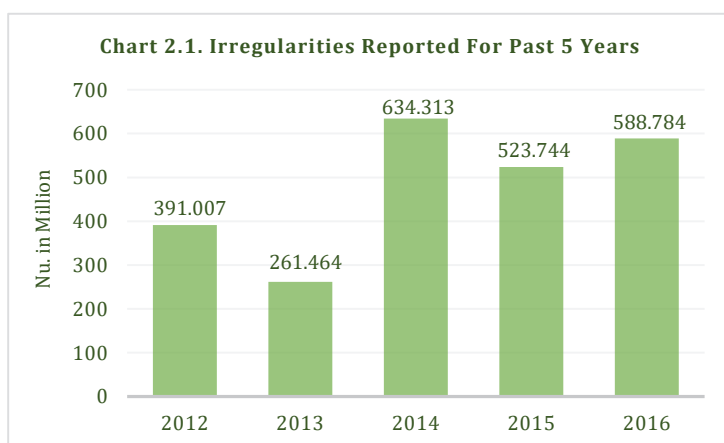
## SUMMARY OF AUDIT FINDINGS

The Annual Audit Report 2016 has been compiled from 815 audit reports issued during the year. The report includes a chapter on the certification of Annual Financial Statements of the Royal Government of Bhutan (RGoB) for the fiscal year ended 30<sup>th</sup> June 2016, significant unresolved observations of reports issued during the year. The report also includes chapters on the audit of accounts and operations of the RAA, accomplishments during the year and a summary on significant issues from the audit of hydropower projects.

In the process of carrying out audit of the Annual Financial Statements, the RAA had also reviewed utilization of the budget approved by the Parliament for the Fiscal Year ended 30<sup>th</sup> June 2016. It was noted that as against the revised capital budget of Nu. 26,578.232 million, the RGoB had utilized Nu. 21,807.856 million resulting in underutilization of capital budget amounting to Nu. 4,770.376 million (17.95%). The Ministry of Finance has been recommended to ascertain the reasons for underutilisation of capital budget and initiate remedial measures.

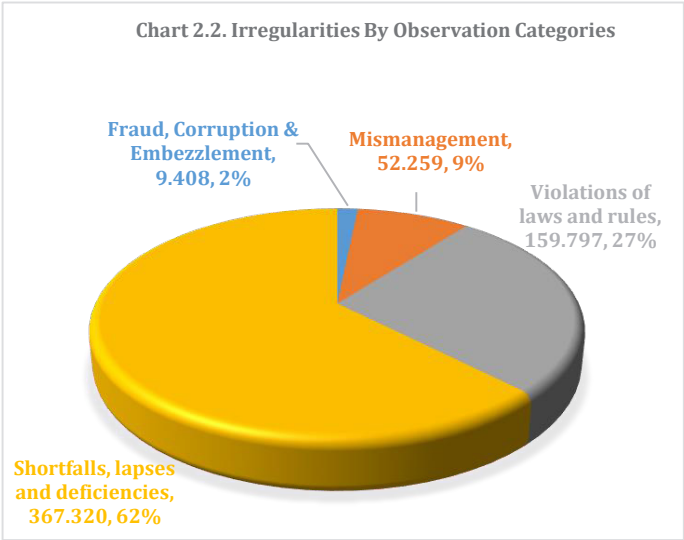
The relevant excerpts of the draft AAR 2016 were circulated to all agencies concerned in January 2017 as required under the Audit Act of Bhutan 2006. The draft report had significant issues involving Nu. 3,039.608 million. However, audit findings involving Nu. 2,450.824 million representing 80.63% were either resolved fully or substantially or not material for inclusion in the AAR 2016 based on the actions taken and responses received from the agencies. The total unresolved significant irregularities with a financial implication of Nu. 588.784 million are reflected in the AAR 2016. The report contains unresolved significant issues pertaining to nine Ministries, 14 Dzongkhags Administration, 20 Gewogs Administration under 13 Dzongkhags, 12 Autonomous Agencies, 12 Corporations, four Financial Institutions and two Non-Governmental Organisations. As compared to the irregularities of Nu. 523.744 million reported in AAR 2015, the irregularities have increased by 12.42%. A comparative figures of irregularities reported over the past five years is given in Chart 2.1.

Under the budgetary agencies, the highest amount of irregularities is reported under Ministry of Works and Human Settlement with Nu. 169.893 million followed by Autonomous Agencies with Nu. 104.296 million and Ministry of Information and Communications with Nu. 69.292 million.



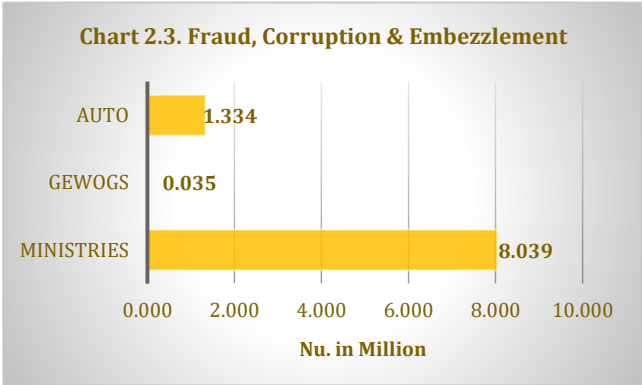
Under the non-budgetary agencies, Bhutan Power Corporation Limited has the largest amount of reported irregularities with Nu. 39.173 million. The Royal Insurance Corporation of Bhutan Limited had irregularities of Nu. 19.388 million followed by Dungsam Cement Corporation Limited with Nu. 18.935 million and Association of Bhutanese Tour Operators with irregularities of Nu. 12.964 million.

The observations in AAR 2016 have been grouped into four broad categories. A summary of the irregularities by categories is given in Chart 2.2 and detailed summary as appended in Tables 2.1 & 2.2 at the end of chapter. The highest amount of irregularities of Nu.367.320 million was reported under the category, Shortfalls, Lapses and Deficiencies followed by Nu.159.797 million under the category, Violations of Laws and Rules and Nu. 52.259 million under the category, Mismanagement. An amount of Nu. 9.408 million is reported under the category, Fraud, Corruption and Embezzlement.



### 1. Fraud, Corruption and Embezzlement

The RAA reported cases with possible elements of fraud, corruption and embezzlement pertaining to some agencies during the year. The total amount reported under this category amounted to Nu. 9.408 million representing 2% of the total irregularities of which Nu. 8.039 million pertained to Ministries representing highest proportion of 85.45%.



The Autonomous Agencies with Nu.1.334 million, represented 14.18% and Gewogs with Nu. 0.035 million represented less than 1% of the total irregularities under this category as shown in Chart 2.3.

### 1.1. Comparison by agencies

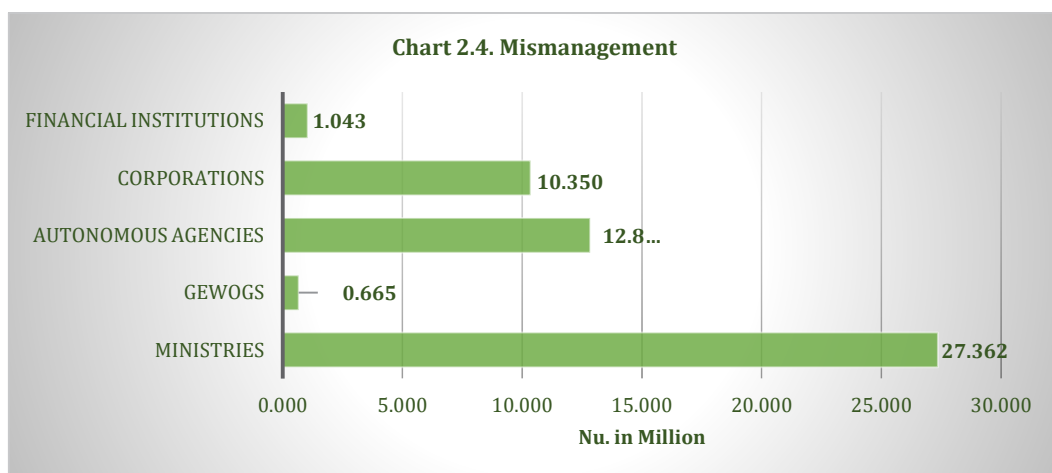
The irregularities amounting to Nu. 7.779 million of the total irregularities reported under the Fraud, Corruption & Embezzlement categories representing 82.68% pertained to the areas of 'malpractice and abuses', followed by 'misappropriation' with Nu.1.369 million representing 10.63% and under 'forgery and tampering of documents', Nu. 0.260 million represented 2.76% of the total irregularities.

Some of the significant issues reported under the category are briefly given below:

- a) The Ministry of Education had misrepresented facts in the International Assisted Project funded construction of retaining wall at the Minjey Middle Secondary School valuing Nu. 6.665 million;
- b) The Institute of Language and Cultural Studies, Taktse had not deposited Nu.1.334 million into the Welfare Account from collections made on account of security deposit, development fund, self-funding fees, paper re-check fees, Distance Education fees, rental from cafeteria, printing and photocopy charges;
- c) The Divisional Forest Office, Lobesa had made payment at inflated amount of Nu.1.015 million in the construction of Forest Management Unit office at Gogona;
- d) The Assistant Engineer of the Gasa Dzongkhag Administration had forged the Bank Guarantee submitted in lieu of 10% Performance Security for Nu. 0.260 million for the World Bank funded construction of Park Range Office at Neptangkha; and
- e) The Divisional Forest Office, Lobesa had made payment of Nu. 0.099 million for items which were actually not executed in the construction of Toilet and Kitchen at Forest Management Unit Office at Gogona.

## 2. Mismanagement

The total irregularities reported under this category amounted to Nu. 52.259 million representing 9% of the total irregularities. The highest irregularities were reported under Ministries with Nu. 27.362 million representing 52.36% followed by Autonomous Agencies with



irregularities of Nu. 12.839 millions representing 24.57% and Corporations with Nu. 10.350 million representing 19.81% under this category.

Financial Institutions had irregularities of Nu. 1.043 million and Gewogs had Nu. 0.665 million under this category as can be seen from Chart 2.4.

### 2.1. Comparison by agencies

The irregularities amounting to Nu. 20.904 million of the total irregularities reported under the mismanagement category representing 40.00% pertained to 'mismanagement of funds'. The 'mismanagement of revenue and taxes' with Nu. 19.899 million representing 38.08% is followed by 'mismanagement of properties' with Nu. 11.372 million representing 21.76% and 'mismanagement of human resources' with Nu. 0.084 represented less than 1% of the total irregularities.

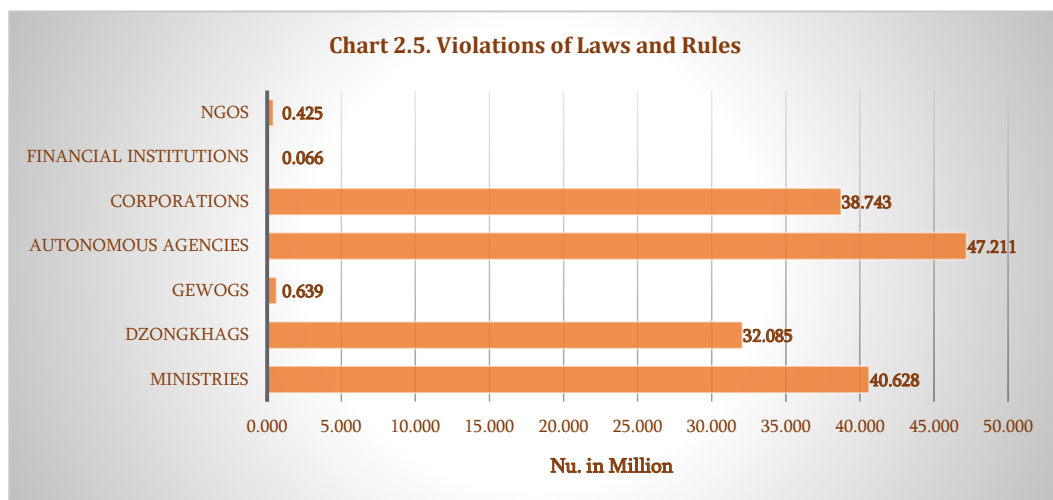
Some of the significant issues reported under the category are briefly given below:

- a) The MoWHS had paid Nu.13.020 million as compensation to the owners for structures affected under Taba Local Area Plan under the Bhutan Second Urban Development Project. However, during the site visit and physical verification, structures valuing Nu.10.577 million were found not removed even after a time lapse of more than 14 months in violation to the notification served by Thimphu Thromde;
- b) The Jigme Namgyel Engineering College, Dewathang had not paid overdue outstanding land taxes amounting to Nu. 7.864 million to the Thromde Administration, Samdrupjongkhar for FY 2011 to 2015;
- c) The MoLHR had a case where M/s Tenzu Overseas Employment Agent had illegally sent 39 candidates without prior approval from the Ministry and had illegally collected Nu. 7.548 million from candidates for visa processing, air tickets, security deposits, transportation charges, hotel and service charges, etc.;
- d) The Dungsam Cement Corporation Limited, Nganglam had not levied penalties amounting to Nu. 5.985 million against M/s Dhenjyud Enterprise for excess content of moisture and ash in coal which did not meet preset quality control parameters during 2013 and 2015;
- e) The MoWHS had incurred wasteful expenditure of Nu.3.738 million by continuing to pay remunerations for four Engineers of the Project Management and Supervision Consultancy although the contract for construction works for two packages B & C under the Netherlands funded ORIO Project for Dalbari-Dagapela Secondary National Highway had been terminated; and
- f) The NRDCL, Monggar had shortages of 973,480.00 cft of crushing stones worth Nu. 3.164 million at Golati River site in Jomotshangkha.

### 3. Violation of Laws and Rules

The total irregularities reported under this category amounted to Nu. 159.797 million representing 27% of the total irregularities. As depicted in Chart 2.5, the irregularities under

Autonomous Agencies with Nu. 47.211 million representing 29.54% and Ministries represented 25.42% with Nu. 40.628 million. Corporations with Nu. 38.743 million representing 24.25% of the total, followed by Dzongkhags Administration had irregularities of Nu. 32.085 million representing 20.08% reported under the category. The Gewogs had irregularities of Nu. 0.639 million, Non-Governmental Organisations with Nu. 0.425 million and Financial Institutions with Nu. 0.066 million and each represent less than 1% of the total irregularities reported.



### 3.1. Comparison by agencies

The highest irregularities reported under the violations of laws and rules category amounted to Nu. 108.415 million of the total irregularities representing 67.85% and pertained to 'violation of procurement norms', followed by 'violation of accounting norms' with Nu. 40.004 million representing 25.03%. The irregularities reported for 'violations of service rules, budgetary norms, acts, directives, policies and other laws and rules' amounted to Nu. 11.378 million representing 7.12% of the total irregularities under the category.

Some of the significant issues reported under the category are briefly given below:

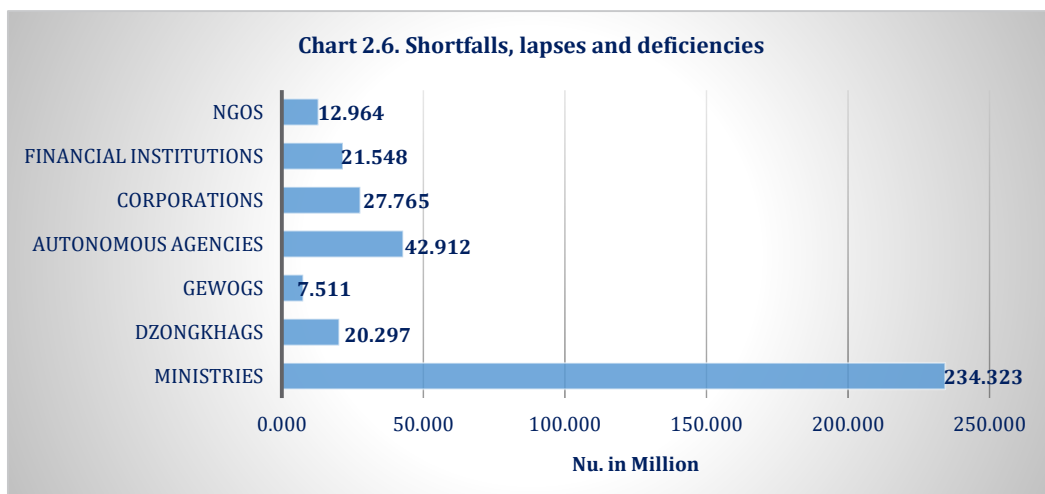
- a) The Bhutan Power Corporation Limited, Phuentsholing had not levied 10% liquidated damages amounting to Nu.38.249 million on the contractor for unwarranted grant of time extensions;
- b) The Dzongkhag Administration, Trashiyangtse had booked Nu. 18.233 million as final expenditure for various incomplete constructions and deposited into Refundable Deposit Account for future payments;
- c) The MoWHS had allowed bidders to include General items of works amounting to Nu. 16.596 million as separate items of works in the BOQs in deviation to the Procurement Rules and Regulations 2009 and the Bhutan Schedules of Rates;
- d) The Royal University of Bhutan had not collected the additional differential amount of Nu.10.633 million as recommended by the Evaluation Committee; and had not levied 10% liquidated damages of Nu.2.820 million for 265 days of inadmissible time extension

granted to the contractor in the construction and site development works for Faculty of Traditional Medicine;

- e) The Royal Civil Service Commission had not penalized and recovered Nu. 9.006 million from five students who had successfully completed their MBBS courses and returned to Bhutan but had not joined service as per the Letter of Undertaking signed between the students and the RCSC;
- f) The Renewable Natural Resources Research & Development Centre, Bajo had not surrendered a fund balance of Nu. 6.229 million to the Ministry in contravention to the financial norms;
- g) The Regional Office, DoR, Thimphu had not rectified defective works in construction of L-drains valuing Nu. 6.516 million at three chainages on the Jyenkana-Gakidling road; and
- h) The Dratshang Lhengtshog had not booked expenditures amounting to Nu.5.151 million in the respective books of accounts, and had also not remitted Nu.4.776 million into the Refundable Deposit Account maintained with the Department of Public Accounts, but reflected in the Receipts & Payments Statement as deposits made to the Refundable Deposit Account.

#### 4. Shortfalls, lapses and deficiencies

The irregularities under shortfalls, lapses and deficiencies amounted to Nu.367.320 million representing 62% of the total irregularities. As depicted in Chart 2.6, the Ministries had the highest amount of irregularities of Nu. 234.323 million representing 63.79% reported under this category followed by Autonomous Agencies with Nu. 42.912 million representing 11.68%. The Corporations with Nu. 27.765 million represented 7.56% followed by Financial Institutions with Nu. 21.548 million representing 5.87% of the irregularities and Dzongkhags Administration with Nu.20.297 million representing 5.53%. The Non-Governmental Organisations had irregularities of Nu. 12.964 million representing 3.53% and Gewogs with Nu. 7.511 million represented 2.04% of the total irregularities under the category.



#### 4.1. Comparison by agencies

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The highest irregularities reported under the shortfalls, lapses and deficiencies category amounted to Nu. 147.106 million of the total irregularities representing 40.05% which pertained to the sub-category 'irregularities in recoveries' followed by 'over/inadmissible/irregular/double payments' with Nu. 101.404 million representing 27.61%. The irregularities reported under 'irregularities in advances' with Nu. 51.835 million representing 14.11%. The remaining sub-categories such as 'non/improper maintenance of records', 'non-reconciliation of balances', 'non/short deductions', etc. amounted to Nu. 66.975 million representing 18.23% of the total irregularities under the category.

Some of the significant issues reported under the category are briefly given below:

- a) The Royal Insurance Corporation of Bhutan, Regional Office, Phuentsholing had overdue outstanding claims amounting to Nu. 19.388 million;
- b) The Royal Court of Justice, High Court of Bhutan had overdue outstanding balances amounting to Nu.17.896 million;
- c) The Royal University of Bhutan had not renewed the bank guarantee as per contract agreements and had also not taken timely actions for irregular release of retention money;
- d) The Association of Bhutanese Tour Operators, Thimphu had overdue outstanding Annual Subscription Fees amounting to Nu. 12.864 million receivables from members; and
- e) The Royal University of Bhutan had not deducted the 5% rebate offered by contractor amounting to Nu. 1.285 million.

Table 2.1: Summary of irregularities with categories and amount involved as reported in Annual Audit Report 2016 with respect to budgetary agencies

Sl. No.	Category	MoWHS	MoIC	MoAF	MoLHR	MoF	MoE	MoFA	MoEA	MoH	Dzong khags	Gewogs	Auto	Total Nu. in million
<b>1</b>	<b>Fraud, Corruption &amp; Embezzlement</b>			<b>1.374</b>			<b>6.665</b>					<b>0.035</b>	<b>1.334</b>	<b>9.408</b>
1.1	Forgery & tampering of documents			0.260										0.260
1.2	Malpractices & abuses			1.114			6.665							7.779
1.3	Misappropriation											0.035	1.334	1.369
<b>2</b>	<b>Mismanagement</b>	<b>14.315</b>	<b>0.946</b>		<b>7.548</b>	<b>4.115</b>	<b>0.140</b>	<b>0.298</b>				<b>0.665</b>	<b>12.839</b>	<b>40.866</b>
2.1	Mismanagement of funds	3.738	0.946		7.548		0.140	0.298				0.665	4.241	17.576
2.2	Mismanagement of properties	10.577												10.577
2.3	Mismanagement of revenue and taxes					4.115							8.598	12.713
<b>3</b>	<b>Violation of laws &amp; rules</b>	<b>24.359</b>		<b>10.204</b>		<b>4.038</b>	<b>1.441</b>	<b>0.586</b>			<b>32.085</b>	<b>0.639</b>	<b>47.211</b>	<b>120.563</b>
3.1	Violation of service rules												9.006	9.006
3.2	Violation of budgetary norms							0.586						0.586
3.3	Violation of accounting norms			10.204			0.157				19.111	0.313	10.219	40.004
3.4	Violation of procurement norms	24.359				4.038	1.284				12.699	0.326	26.966	69.672
3.5	Violation of Acts, Directives and Policies												0.620	0.620
3.6	Violation of other laws, rules & regulations										0.275		0.400	0.675
<b>4</b>	<b>Shortfalls, lapses and deficiencies</b>	<b>131.219</b>	<b>68.346</b>	<b>30.824</b>	<b>1.845</b>	<b>1.162</b>	<b>0.076</b>	<b>0.075</b>	<b>0.776</b>		<b>20.297</b>	<b>7.511</b>	<b>42.912</b>	<b>305.043</b>
4.1	Over/inadmissible/irregular/double payments		62.482	1.263	1.845	0.181					16.923	1.828	4.376	88.898
4.2	Improper maintenance of records								0.204					0.204
4.3	Non/improper recording in books			4.029										4.029
4.4	Non-reconciliation/certification of balances			7.021									1.194	8.215
4.5	Irregularities in advances	0.221		16.638			0.076	0.075	0.572		1.311	0.463	29.412	48.768
4.6	Irregularities in recoveries	130.998	0.260			0.981					0.089		1.466	133.794
4.7	Irregularities in property management		5.604								1.919		1.854	9.377
4.8	Non/short deductions			1.835									1.382	3.217
4.9	Shortfalls & uneconomical operations											5.220		5.220
4.10	Inadequate safeguard of environment												2.357	2.357
4.11	Missing documents/receipts			0.038							0.055		0.871	0.964
		<b>169.893</b>	<b>69.292</b>	<b>42.402</b>	<b>9.393</b>	<b>9.315</b>	<b>8.322</b>	<b>0.959</b>	<b>0.776</b>		<b>52.382</b>	<b>8.850</b>	<b>104.296</b>	<b>475.880</b>

Table 2.2: Summary of irregularities with categories and amount involved as reported in Annual Audit Report 2016 with respect to non-budgetary agencies

Sl. No.	Category	BPCL	DCCL	DGPCL	NRDCL	PCAL	NHDCL	STCBL	BBSCl	BTL	FCBL	CDCL	BBPL	RICBL	BDBL	BNBL	BOBL	ABTO	RENEW	Total Nu. in million
1	<b>Fraud, Corruption &amp; Embezzlement</b>																			
1.1	Forgery & tampering of documents																			
1.2	Malpractices & abuses																			
1.3	Misappropriation																			
2	<b>Mismanagement</b>		7.186		3.164										1.043					11.393
2.1	Mismanagement of funds				3.164										0.164					3.328
2.2	Mismanagement of properties														0.795					0.795
2.3	Mismanagement of human resources														0.084					0.084
2.4	Mismanagement of revenue and taxes		7.186																	7.186
3	<b>Violation of laws &amp; rules</b>	38.249	0.494												0.066				0.425	39.234
3.1	Violation of budgetary norms																		0.425	0.425
3.2	Violation of procurement norms	38.249	0.494																	38.743
3.3	Violation of other laws, rules & regulations														0.066					0.066
4	<b>Shortfalls, lapses and deficiencies</b>	0.924	11.255	9.462	3.949	1.454	0.284	0.181	0.160	0.096				19.388	0.746	1.062	0.352	12.964	0.000	62.277
4.1	Over/inadmissible/irregular/double payments	0.424		9.462	1.663		0.284		0.160	0.096					0.065		0.352			12.506
4.2	Improper maintenance of records							0.181												0.181
4.3	Non/improper recording in books		11.255																	11.255
4.4	Irregularities in advances				2.286										0.681			0.100		3.067
4.5	Irregularities in recoveries					0.284										0.164		12.864		13.312
4.6	Irregularities in property management															0.898				0.898
4.7	Non/short deductions					1.038														1.038
4.8	Shortfalls & uneconomical operations					0.132							19.388							19.520
4.9	Missing documents/receipts	0.500																		0.500
4.10	Pending disputes and court cases																			0.000
		39.173	18.935	9.462	7.113	1.454	0.284	0.181	0.160	0.096				19.388	1.855	1.062	0.352	12.964	0.425	112.904

# CHAPTER 3

## CERTIFICATION OF ANNUAL FINANCIAL STATEMENTS

The Annual Financial Statement (AFS) of the Royal Government of Bhutan for the Fiscal Year 2015-16 was audited by the RAA as required under the Audit Act of Bhutan 2006 and the Public Finance Act of Bhutan 2007. The Audit was conducted in accordance with the RAA's Auditing Standards and the Generally Accepted Auditing Standards (GAAS).

The RAA had carried out the certification of the individual Letter of Credit (LC) accounts of the budgetary agencies in line with the Audit Act of Bhutan 2006. The budgetary agencies included those that were accorded priority based on its categorization and included in the Annual Audit Schedules 2015-2016. The recommendations and observations made at the agency level are considered depending upon the materiality while certifying the consolidated Receipts and Payments Statement.

The approved budget for the Fiscal Year 2015-2016 of the Royal Government was Nu. 45,504.591 million against estimated resources of Nu. 41,017.888 million with a fiscal deficit of Nu. 4,486.703 million. During the year, the outlay was revised to Nu. 48,775.540 million and the resources to Nu. 44,677.102 million. At the end of the Fiscal Year, the actual outlay reported was Nu. 43,603.000 million against the realized resources of Nu. 42,039.298 million resulting into a fiscal deficit of Nu. 2,779.184 million.

As against the revised capital budget of Nu. 26,578.232 million, the actual expenditure was Nu. 21,807.856 million with resultant underutilization of capital budget of Nu. 4,770.376 million, which was 17.95% of the revised capital budget. The underutilised capital budget include Public Works Advances. The Ministry of Finance has been recommended to ascertain the reasons for underutilisation of capital budget and initiate remedial measures.

The government debt as on 30<sup>th</sup> June 2016 was Nu. 160,562.057 million, of which Nu. 4,656.115 million accounts for domestic debt and Nu. 155,905.942 million for external debt.

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



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**ROYAL AUDIT AUTHORITY**  
*Bhutan Integrity House*

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



## Opinion

The Royal Audit Authority (RAA) has audited the accompanying Annual Financial Statements of the Royal Government of Bhutan (RGoB) for the Financial Year ended 30 June 2016 and summary of explanatory information, which comprise of:

- i. *Consolidated Receipts & Payments Statement and schedules forming part of it;*
- ii. *Summary of Original and Revised Budget Estimates and Variations with actual outcome;*
- iii. *Government Consolidated Account Reconciliation Statement;*
- iv. *Statement of Outstanding Loans;*
- v. *Statement of Equity Portfolio of the Government;*
- vi. *Statement of the operations of Refundable Deposits Account, Revolving & Trust Funds; and*
- vii. *Summary Statement of Arrears of Revenue.*

The audit was conducted by the RAA as required under the Audit Act of Bhutan 2006, the Public Finance Act of Bhutan 2007 & Public Finance (Amendment) Act 2012 and Financial Rules & Regulations 2001.

In RAA's opinion, the aforementioned Financial Statements together with schedules attached thereto, including the Notes to Accounts, have been prepared, in all material respect in accordance with the Financial Rules and Regulations 2001, and provide the information required by the said Rules and Regulations.

## Basis of Opinion

The RAA conducted the audit in accordance with RAA's Auditing Standards and Generally Accepted Auditing Standards.

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

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

The Ministry of Finance (MoF) is responsible for preparation and presentation of these financial statements in accordance with the Public Finance Act 2007 and Public Finance (Amendment) Act 2012 and Financial Rules and Regulations 2001. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation of Financial Statements that are free from material misstatements, whether due to fraud or error.

### **RAA's responsibility**

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Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with RAA's Auditing Standards and Generally Accepted Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these consolidated financial statements.

### **Scope of Audit**

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

As per the information made available by the DPA, there are 530 Letter of Credit (LC) Accounts and 119 Project Letter of Credit (PLC) Accounts during the period under review. Of the total, the RAA had audited and issued report for 284 LC Accounts and 123 PLC Accounts as on 20<sup>th</sup> March 2017 for the Fiscal Year ended 30<sup>th</sup> June 2016. However, for the remaining Accounts that are yet to be audited, the RAA had relied on their year-end accounts (un-audited) generated from the PEMS.

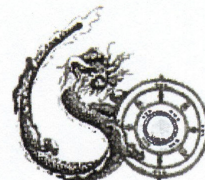
(Tshering Kezang)  
**Auditor General**

**Dated: 17 April 2017**

**Place: Thimphu**



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



23<sup>rd</sup> December 2016

STATEMENT OF RESPONSIBILITY

The Annual Financial Statements (AFS) of the Royal Government of Bhutan (RGoB) for the Fiscal Year 2015-16 have been prepared by the Department of Public Accounts (DPA), Ministry of Finance (MoF) in accordance with the provisions of the Public Finance Act of Bhutan, 2007, Public Finance (Amendment) Act, 2012 and the Financial Rules and Regulations 2001.

The financial statements are prepared based on the monthly accounts of the budgetary bodies recorded in the Public Expenditure Management System (PEMS) and information received from other relevant agencies and organizations. The AFS presents the financial position of the RGoB as at 30<sup>th</sup> June, 2016.

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

(Namgay Dorji)  
Finance Minister  
Ministry of Finance

(Sonam Tobgyel)  
Offtg. Director General  
Department of Public Accounts

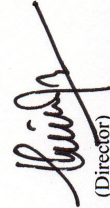
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THIMPHU: BHUTAN, Post Box No. 270, Phone: PABX 322604 / 322641 / 322951, Fax: 334994

**CONSOLIDATED RECEIPTS AND PAYMENTS STATEMENT OF THE ROYAL GOVERNMENT OF BHUTAN FOR THE YEAR ENDED 30th JUNE 2016**

(Nu. in Million)									
Receipts		Schedules	2014-15	2015-16	Payments	Schedules	2014-15	2015-16	
Opening Balance			-	2,562,836	-1,752,450	Expenditure		36,475,848	44,688,448
i) Cash			-	-	57,226	i) Current	10	21,032,044	22,880,591
ii) Bank			-	2,562,836	-1,809,676	ii) Capital	11	15,443,805	21,807,856
Internal Revenue			25,141,030	28,033,812	Repayment of Loans		12	2,771,677	3,034,163
i) Tax Revenue	2		18,387,335	19,884,626	i) Internal		175,302	183,834	183,834
ii) Non Tax Revenue	3		6,753,695	8,149,186	ii) External		2,596,374	2,850,329	2,850,329
External Grants		4	9,955,020	14,889,610	Lendings		13	177,803	214,889
i) Cash			9,391,358	14,341,335	i) To individuals		-	0,000	0,000
ii) Kind			563,663	548,276	ii) To Corporations		177,803	214,889	214,889
Borrowings		6	1,685,268	1,818,681	Other payments		8	6,722,608	8,999,805
i) Internal			-	-	Increase in Advances/Suspense		9	8,459,699	13,063,850
ii) External			1,685,268	1,818,681	Closing Balance			- 1,752,450	-4,531,634
Recovery of Loans		7	2,730,550	2,100,221	i) Cash		57,226	57,943	57,943
Other Receipts		8	7,857,610	8,115,681	ii) Bank		- 1,809,676	-4,589,577	-4,589,577
Decrease in advances/Suspense		9	8,048,543	12,263,965					
TOTAL RECEIPTS			52,855,186	65,469,521	TOTAL PAYMENTS			52,855,186	65,469,521

Summary of variance for FY 2014-15 1  
Notes to Accounts 14

  
(Director)  
Department of Public Accounts  
Ministry of Finance  
Director  
Department of Public Accounts  
Ministry of Finance  
Thimphu : Bhutan

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

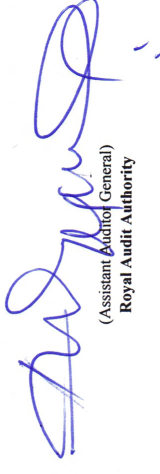
  
(Assistant Auditor General)  
Royal Audit Authority  
RAA  
AUTHORITY

**SUMMARY OF VARIANCE BETWEEN BUDGET ESTIMATES AND ACTUAL OUTCOME FOR THE FY 2015-16**

Application of funds	Budget Estimates		Variation Percentage		Sources of Fund	Budget Estimates		Actual Outcome	Variation Percentage	
	Original	Revised	Original/Revised	Actual		Original	Revised		Original/Revised	Actual
<b>A. Expenditure</b>	<b>47,348,166</b>	<b>50,443,329</b>	<b>13.18%</b>	<b>44,688,447</b>	<b>A. Internal Receipts</b>	<b>26,145,124</b>	<b>26,293,685</b>	<b>28,033,812</b>	<b>9.55%</b>	<b>20.88%</b>
i. Current	23,871,321	23,865,097	-0.03%	22,880,591	i. Tax	19,197,949	18,390,779	19,884,626	-4.20%	3.58%
ii. Capital	23,476,845	26,578,232	13.21%	21,807,856	ii. Non-tax	6,947,175	7,902,906	8,149,186	13.76%	17.30%
<b>B. Repayments</b>	<b>3,023,541</b>	<b>3,034,453</b>	<b>0.45%</b>	<b>3,034,163</b>	<b>B. Recovery of Loans</b>	<b>2,185,575</b>	<b>2,100,529</b>	<b>2,100,221</b>		
i. Internal	185,803	183,835	0.00%	183,834	<b>C. Grants</b>	<b>14,872,764</b>	<b>17,732,228</b>	<b>14,889,610</b>	<b>19.23%</b>	<b>0.11%</b>
ii. External	2,837,738	2,850,618	0.45%	2,850,329	i. In Cash	14,872,764	17,732,228	14,341,335	0.00%	
<b>C. Lending</b>	<b>342,000</b>	<b>432,740</b>	<b>26.53%</b>	<b>214,889</b>	ii. In Kind			548,275	0.00%	
<b>D. Advances</b>			<b>0.00%</b>	<b>799,885</b>	<b>D. Borrowings</b>	<b>3,420,506</b>	<b>2,086,189</b>	<b>1,818,681</b>	<b>-39.01%</b>	<b>-46.83%</b>
					i. Internal			-		
					ii. External	3,420,506	2,086,189	1,818,681	-39.01%	-46.83%
<b>E. Miscellaneous Payments</b>				<b>8,999,805</b>	<b>E. Miscellaneous Receipts</b>		651,189	8,115,681	0.00%	
					<b>F. Advances</b>					
<b>F. Surplus</b>					<b>G. Deficit</b>	<b>(4,089,738)</b>	<b>(5,046,702)</b>	<b>(2,779,184)</b>		
<b>Total Payments</b>	<b>50,713,707</b>	<b>53,910,522</b>		<b>57,737,189</b>	<b>Total Receipt</b>	<b>50,713,707</b>	<b>53,910,522</b>	<b>57,737,189</b>		

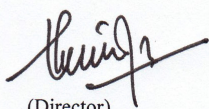
  
(Director)  
Department of Public Accounts  
Ministry of Finance  
Director  
Department of Public Accounts  
Ministry of Finance  
Thimphu : Bhutan

  
(Chief Accounts Officer)  
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Chief Accounts Officer  
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Ministry of Finance  
Thimphu : Bhutan

  
(Assistant Auditor General)  
Royal Audit Authority



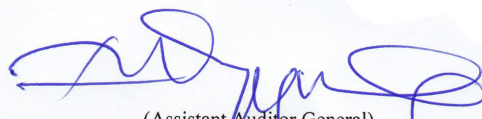
STATEMENT OF RECONCILIATION OF GOVERNMENT CONSOLIDATED FUND ACCOUNT FOR THE FISCAL YEAR 2015-2016		
SL. NO.	PARTICULARS	NU. IN MILLION
1	Opening Balance as on July 1, 2015	-1,931.511
2	RECEIPTS DURING THE YEAR	71,140.488
	Budget Fund Account (DPA)	40,167.974
	Revenue Account (DRC&BOB)	28,541.616
	Non Revenue Account (BOB)	2,430.898
3	LESS: PAYMENTS DURING THE YEAR	73,920.971
	Budget Fund Account (DPA)	21,112.030
	Withdrawals from LC A/c (BOB)	52,301.137
	Withdrawals from Revenue A/c (DRC&BOB)	507.804
4	Closing Balance as on 30 June 2016 (DPA)	-4,711.993
5	RECONCILIATION:	
	Closing Balance as on 30 June 2016 (BoB/RMA)	-4,589.577
	Add: Fund in Transit (Cr.) as on 30.06.2016 - BoB	0.000
	Less: Fund in Transit (Dr.) as on 30.06.2016 - BoB	0.000
6	Closing Balance as on 30 June 2015 (BoB/RMA)	-4,589.577
7	Add:	1.000
	a) Credits (Deposits) as per DPA but not in BoB	1.000
	b) Debits (Payments) as per BoB but not in DPA	0.000
8	Less:	123.416
	a) Credit (Deposits) as per BoB but not in DPA	123.416
	b) Debits (Payments) as per DPA but not in BoB	
9	Closing Bank Balance as on 30 June 2016 (DPA)	-4,711.993



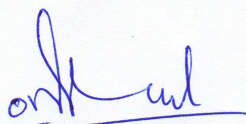
(Director)

Department of Public Accounts  
Ministry of Finance

Director  
Department of Public Accounts  
Ministry of Finance  
Thimphu : Bhutan

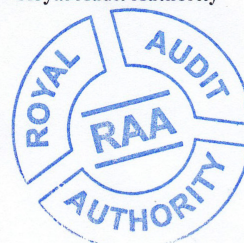


(Assistant Auditor General)  
Royal Audit Authority



(Chief Accounts Officer)  
Department of Public Accounts  
Ministry of Finance

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



SUMMARY STATEMENT OF OUTSTANDING DEBT OF THE GOVERNMENT FOR THE PERIOD ENDED JUNE 30, 2016 (Amounts in Agreement Currencies in Millions)												
W I T H D R A W A L S												
Sl. No.	LENDER AND PROJECTS	Loan Committed		Opening balances as on 01/07/15	Principal (Disbursement)	Interest & Charges accrued during the year		Total Liability incurred during the year	REPAYMENTS DURING THE YEAR			Closing Balances as on 30/06/16
		Curr.	Amount			Interest	Fees & Charges		Principal	Interest & S/Charges	Total	
A	INTERNAL	Nu.	1,828,093	2,106,813	21,015,861	77,998	-	21,093,860	21,124,626	77,998	21,202,624	4,656,115
i	RAMA/BBL/BNBL/DBBL/DPNBL/TBank	Nu.	-	1,931,511	20,940,792	62,715	-	21,003,507	20,940,792	62,715	21,003,507	4,389,577
ii	National Pension and Provident Fund	Nu.	1,138,093	106,302	75,070	11,488	-	86,558	114,834	11,488	126,323	66,538
iii	Bhutan Health Trust Fund	Nu.	690,000	69,000	-	3,795	-	3,795	69,000	3,795	72,795	-
B	EXTERNAL: India	Rs.	171,489,797	81,183,643	36,726,810	1,805,287	-	38,532,077	2,516,638	1,805,287	4,321,905	1,703,858
C	EXTERNAL: Other than India	Nu.	-	40,011,806	1,863,676	590,090	28,604	2,482,370	1,363,354	616,133	1,979,488	40,512,127
i	International Dev. Association (IDA)	XDR	160,278	117,578	16,360	1,398	-	17,758	1,706	1,398	3,104	132,232
ii	Asian Development Bank (ADB)	XDR	192,369	148,561	0,092	2,103	-	2,194	5,012	2,103	7,115	143,640
iii	Asian Development Bank (ADB)	USD	121,000	50,232	2,335	0,275	-	2,809	0,578	0,275	0,853	52,189
iv	International Fund for Agriculture Dev. (IFAD)	XDR	38,496	23,703	0,930	0,206	-	1,137	0,807	0,206	1,014	25,826
v	Government of Austria (GoA)	Euro	95,428	72,382	-	2,642	0,370	3,012	6,867	3,012	9,878	65,516
vi	Government of Denmark (GoD)	Euro	13,008	1,951	-	-	-	-	1,301	-	1,301	0,650
vii	Japan International Cooperation Agency (JICA)	JPY	5,424,604	4,489,016	72,657	2,551	1,365	76,573	-	0,032	0,032	4,561,673
viii	Germany (DEUTSCHE INVESTITIONS - DEG)	Euro	6,300	6,300	-	0,382	-	0,382	-	0,382	0,382	6,300
ix	Grand Total	Nu.	-	123,302,261	59,606,347	2,473,356	28,604	62,108,307	25,004,618	2,499,399	27,504,017	160,562,057
	Note: Exchange rates used for conversion:	USD	-	EURO	JPY(1000)	-	-	-	-	-	-	-
	GDP (Source: NSB)	Nu.	94,5850	74,9750	659,5000	-	-	-	-	-	-	-
	Source: DPA	Nu.	142,107,103	-	-	-	-	-	-	-	-	-

*(Signature)*  
 (Director)  
 Department of Public Accounts  
 Ministry of Finance  
 Director  
 Department of Public Accounts  
 Ministry of Finance  
 Thimphu : Bhutan

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



**STATEMENT OF GOVERNMENT EQUITY PORTFOLIO FOR THE YEAR ENDED 30th June 2016**

Direct Shareholdings		Shareholding as on 30/06/2015				Investment				Divestment/Transfer				Shareholding as on 30/06/2016			
		No. of shares		Value (Nu)	% Holding	Face value		No. of shares		Amount (Nu)		No. of share		No. of shares		Value (Nu)	% Holding
I	Manufacturing			47,135,639												47,875,442	
1	Army Welfare Project	25,000		25,000	100%	1,000								25,200		25,200	100%
2	Bhutan Agro Industries Limited	290,636		29,064	100%	100								290,636		29,064	100%
3	National Housing Development Corp Ltd	2,727,961		2,727,961	100%	1,000								2,727,961		2,727,961	100%
4	Kuensel Corporation	255,000		25,500	51%	100								255,000		25,500	51%
5	Druk Holding & Investments Ltd <sup>1</sup>	443,281,142		44,328,114	100%	100		7,396,027		739,603				450,677,169		45,067,717	100%
II	Trading			15,000												111,000	
6	Food Corporation of Bhutan	15,000		15,000	100%	1,000								15,000		15,000	100%
7	Royal Bhutan Lottery Ltd <sup>2</sup>				100%	100		160,000		16,00				160,000		16,000	100%
8	Bhutan Duty Free Ltd <sup>3</sup>				100%	100		800,000		80,00				800,000		80,000	100%
III	Services			154,430												820,730	
9	Bhutan Postal Corporation	235,952		23,595	100%	100								235,952		23,595	100%
10	Bhutan Broadcasting Service Limited	1,308,351		130,835	100%	100								1,308,351		130,835	100%
11	Royal Bhutan Helicopter Services Ltd <sup>4</sup>							6,000,000		600,000		100%		6,000,000		600,000	100%
12	Farm Machinery Corporation Ltd <sup>5</sup>				100%	100		333,000		33,300		100%		333,000		33,300	100%
13	Green Bhutan Corporation Ltd <sup>6</sup>				100%	100		330,000		33,000				330,000		33,000	100%
IV	Financial Institutions			487,000												487,000	
15	Bhutan Development Bank Ltd			487,000	96.00%	1,000										487,000	96.00%
<b>TOTAL</b>				<b>47,792,069</b>												<b>49,294,172</b>	

*[Signature]*  
(Director)

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

*[Signature]*  
(Chief Accounts Officer)

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

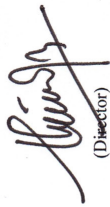
*[Signature]*  
(Assistant Auditor General)  
Royal Audit Authority



Shareholdings through DHI										
Sl. No	Corporations	Shareholding as on 30/06/2015			Investment		Divestment/Transfer share (Nu)	Shareholding as on 30/06/2016		
		No. of shares	Value (Nu)	% Holding	Face value	No. of shares		Amount (Nu)	No. of shares	Value (Nu)
I	Manufacturing		36,692,161						38,470,997	
1	Penden Cement Authority Limited	15,210,740	152,107	44.74%	10				15,210,740	152,107 44.74%
2	Bhutan Board Products Limited	6,683,340	66,833	47.74%	10				6,683,340	66,833 47.74%
3	Bhutan Ferro Alloys Limited	3,859,460	38,595	25.73%	10				3,859,460	38,595 25.73%
4	Natural Resource Development Corp. <sup>8</sup>	300,000	30,000	100%	100	150000	15,000		450,000	45,000 100%
5	Dungsam Cement Corporation <sup>9</sup>	50,739,480	5,073,948	100%	100	13,000,000	1,300,000		63,739,480	6,373,948 100%
6	Dungsam Polymers	4,218,900	42,189	51%	10				4,218,900	42,190 51%
7	DHI Infra	2,000,000	200,000	100%	100				2,000,000	200,000 100%
8	Druk Green Power Corporation <sup>10</sup>	30,508,291	30,508,291	100%	1000	204575	204.58		30,712,866	30,712,866 100%
9	Koufuku International Pvt. Ltd	150,000	15,000	30%	100				150,000	15,000 30%
10	Construction Development Corp. Ltd <sup>11</sup>	4,213,830	421,383	100%	100	2,042,600	204.26		6,256,430.00	625,643 100%
11	Wood Craft Centre Limited <sup>12</sup>		98,815	100%	100				98,815	98,815 100%
12	State Mining Corporation Ltd <sup>13</sup>	450,000	45,000	100%	100	550,000	55.00		1,000,000	100,000 100%
II	Trading		91,760						91,761	
13	State Trading Corporation of Bhutan	9,176,050	91,760	51%	10				9,176,050	91,761 51.00%
III	Services		11,457,865						11,492,792	
14	Druk Air Corporation	22,252,111	2,225,211	100%	100				22,252,111	2,225,211 100.00%
15	Bhutan Telecom Corporation	854,082	854,082	100%	1000				854,082	854,082 100.00%
16	Bhutan Power Corporation <sup>14</sup>	8,190,191	8,190,191	100%	1000	34,927	34.93		8,225,118	8,225,118 100.00%
17	Thimphu TechPark	1,883,812	188,381	100%	100				1,883,812	188,381 100.00%
IV	Financial Institutions		2,079,175						2,079,175	
18	Bhutan National Bank	40,819,960	408,200	11.50%	10				40,819,960	408,200 12.40%
19	Bank of Bhutan	1,200,000	1,200,000	80%	1000				1,200,000	1,200,000 80.00%
20	Royal Insurance Corporation of Bhutan Ltd <sup>15</sup>	47,097,500	470,975	39.25%	10				47,097,500	470,975 39.25%
	TOTAL	-	50,320,961						-	52,134,725

- DHI: 7,342,027 shares allotted to MoF for transfer of WCCL, Equity in KHEL- Nu. 204,575m; BPC take over of Gedu transmission assets- Nu. 34,927m; CDCL- 421.38 transferred to MoF
- RBLL- incorporated on Oct 2, 2015
- BDFL incorporated on Oct 2, 2015
- RBHSL incorporated on July 9, 2015
- FMCL incorporated on March 29, 2016
- GBCL incorporated 14th July 2016
- REDCL incorporated on April 26, 2016

- 8 NRDL- additional capital injection- 150,000 shares
- 9 DCCL- Equity injection of Nu. 1,300 m
- 10 DGPC- Received Nu. 204.575 m from GOI as DGPC's share of equity in KHEL
- 11 CDCL- Additional equity injection- Nu. 204.26 m
- 12 WCCL- includes capital reserve of Nu. 24.73million
- 13 SMC- equity injection - Nu. 55 m
- 14 BPC-allotted sharesworth Nu. 34,927m to DHI on account of distribution assets being taken over by BPC from Gedu College
- 15 RICB shares- includes National Kidu Fund's holdings of 25,000,000 shares

  
(Director)

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



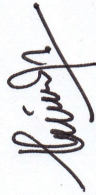
(Chief Accounts Officer)  
Department of Public Accounts  
Ministry of Finance  
**Chief Accounts Officer**  
Department of Public Accounts  
Ministry of Finance  
Thimphu : Bhutan



(Assistant Auditor General)  
Royal Audit Authority



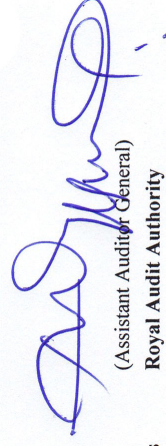
Statement of Operation of Refundable Deposits Account, Revolving Funds and Trust Funds for the FY 2015-16						
Sl. No.	Name of the Accounts	Opening Balance	Receipts	Payments	Closing Balance	Currency
1	Refundable Deposit Account	0.000	1274.375	500.000	774.376	Nu.
2	Bhutan Health Trust Fund	1,403.554	281.642	189.156	1,496.040	Nu.
3	Bhutan Trust Fund for Environment Conservation	47.450	5.526	2.798	50.223	USD
4	Cutural Trust Fund	59.704	4.182	0.000	63.886	Nu.
5	Bhutan Information Communication and Media Authority	323.039	94.002	152.019	265.022	Nu.
6	Revolving Fund for Two Wheelers	10.167	4.732	10.226	4.673	Nu.
	Revolving Fund [National Center for Animal Health]	2.733	9.593	1.243	11.083	Nu.
	Revolving Fund of sales proceeds of NPPC	15.542	37.999	37.128	16.414	Nu.



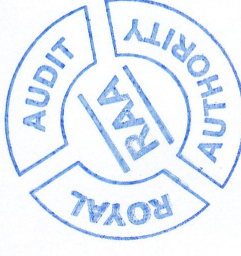
(Director)  
 Department of Public Accounts  
 Ministry of Finance  
 Director  
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(Chief Accounts Officer)  
 Department of Public Accounts  
 Ministry of Finance



(Assistant Auditor General)  
 Royal Audit Authority



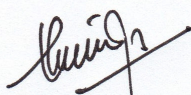
Chief Accounts Officer  
 Department of Public Accounts  
 Ministry of Finance  
 Thimphu : Bhutan

**STATEMENT OF REVENUE ARREARS FOR FY 2015-16**

Account code	Head of Account	Opening Balance	Collections during the year	Deposits during the year	Balance	Remarks
<b>A</b>	<b>Tax Revenue</b>	<b>1.730</b>	<b>20,365.330</b>	<b>20,367.060</b>	<b>0.000</b>	
<b>A1</b>	<b>Direct Tax</b>	<b>1.730</b>	<b>12,485.400</b>	<b>12,487.130</b>	<b>0.000</b>	
A1.01	CIT		7,477.555	7,477.555		
A1.02	BIT	0.981	1,191.868	1,192.849	0.000	
A1.03	PIT	0.004	1,881.643	1,881.647	0.000	
A1.04	Other Direct Tax	0.745	1,934.335	1,935.080	0.000	
<b>A2</b>	<b>Indirect Tax</b>	<b>0.000</b>	<b>7,879.929</b>	<b>7,879.929</b>	<b>0.000</b>	
A2.01	ST		3,737.113	3,737.113		
A2.03	ED		2,483.068	2,483.068		
A2.05	OIDS		20.469	20.469		
A2.06	CD		626.422	626.422		
A2.07	GT		1,012.857	1,012.857		
<b>B</b>	<b>Non-Tax Revenue</b>	<b>0.265</b>	<b>8,174.240</b>	<b>8,174.557</b>	<b>-0.052</b>	
B1	Adm fees&charges	0.002	714.421	714.423	0.000	
B2	Capital Revenue		120.450	120.450	0.000	
B3	Revenue from Govt Dept	0.263	517.555	517.870	-0.052	
B4	Profit Transfer		788.678	788.678		
B5	Dividend		3,785.694	3,785.694	0.000	
B6	Other non tax revenue		92.488	92.488	0.000	
B7	Int. receipts		2,154.954	2,154.954	0.000	
	<b>Grand Total</b>	<b>1.995</b>	<b>28,539.569</b>	<b>28,541.616</b>	<b>-0.052</b>	

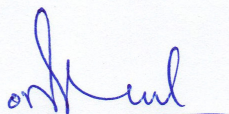
**Note**

1. Opening balance of Nu.1,995,359.050 (after adjusting Nu. 140,750. 370 which was deposited vide challan number 2103520 dated 11/12/2014 as per court verdict vide letter no. OAG/PLD/1057 dt.02.12.2014).
2. Closing balance of Nu.51,500 pertains to the Range Office, Tshimasham under RRCO Pling which is under process to be written



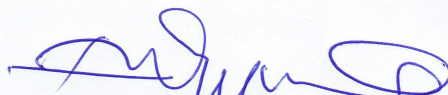
(Director)  
Department of Public Accounts  
Ministry of Finance

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



(Chief Accounts Officer)  
Department of Public Accounts  
Ministry of Finance


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




(Assistant Auditor General)  
Royal Audit Authority



Statement of Sovereign Guarantee issued by Government as of 30th June 2016							
Sl.No	Name of the beneficiary	Date of issue	Issued to	Purpose of Issue	Original Guaranteed Amount		Remarks
					Foreign Currency	Nu. million	
1	Bhutan Ferro Alloys Limited	11-12-04	EKSPORT FINANS, Norway	Import of furnace	NOK 59,500 m (Nu.424,235 m)	FOREX 0.00	Balance NoK 2,761,680.80(@8.0055) equivalent to Nu.47 692 m and NoK 62,552.07 ( interest) fully liquidated on 31/05/2016.
2	Dharma Industries, Social 3, People's Projects	30th July 2007	Bhutan National Bank Limited	Working Capital for establishment of industry to manufacture statues		15.00	Sanctioned Nu.9,988,042.98 against the guaranteed amount
3	Bhutan Development Bank Ltd.	2nd April 2008	National Pension and Provident Fund	Rural Credit including SME		400.00	Principle repayment will start from Mar 2014. Total Loan Nu. 500 million. Guaranteed Amount is Nu. 400 million
	<b>Total</b>					<b>839.24</b>	<b>202.329</b>

  
 (Director)  
 Department of Public Accounts  
 Ministry of Finance  
 Thimphu

  
 (Chief Accounts Officer)  
 Department of Public Accounts  
 Minister of Finance  
 Department of Public Accounts  
 Ministry of Finance  
 Thimphu : Bhutan



# CHAPTER 4

## DETAILED AUDIT FINDINGS

### 4.1 MINISTRIES

#### 4.1.1. Ministry of Works & Human Settlement

During the period, the RAA had issued 21 audit reports of the Ministry of Works & Human Settlement (MoWHS) and its Departments, Divisions and Units. There were 78 observations pointed out in the reports involving Nu. 406.886 million, out of which 33 observations amounting to Nu. 10.596 million were either resolved prior to the compilation of the draft AAR 2016 or were not material enough for inclusion in the draft AAR 2016. The total unresolved significant observations reflected in the draft AAR 2016 amounted to Nu. 396.290 million.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the Ministry and its Departments, Divisions and Units, observations amounting to Nu.226.397 million were resolved. The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 169.893 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Mismanagement	14.315	3
2	Violations of laws and rules	24.359	4
3	Shortfalls, lapses and deficiencies	131.219	5
	<b>Total</b>	<b>169.893</b>	

#### 1. Mismanagement - Nu. 14.315 million

There were cases of mismanagement involving Nu. 14.315 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
1.1	Non-demolishing of structures despite payment of cash compensation in Taba LAP	10.577
1.2	Infructuous expenditure on Termination of Contract Packages B & C for Construction, Operation & Maintenance of Dalbari-Dagapela Secondary National Highway	-
1.3	Payments to Project Management and Supervision Consultancy resulting into wasteful expenditure	3.738
	<b>Total</b>	<b>14.315</b>

The cases of mismanagement are as indicated below:

### 1.1 Non-demolishing of structures despite payment of cash compensation in Taba LAP - Nu.10.577 million

The Bhutan Second Urban Development Project, Thimphu under the MoWHS had paid Nu.13.020 million against the activity “41.02: Compensation for Structures & Others affected under Taba LAP” funded by RGoB as compensation to the owners in Taba. Along with the compensation payment, the ‘Notice of Vacation’ was served to affected individuals/owners requiring them to remove structures and fruit trees within two months from the date of notification/the date of payment of compensation and any delay after the notification period were to be dealt with as per the DCR rules and regulation of Thimphu Thromde.

However, during the site visit and physical verification on 21st October 2016, the structures for which compensation of Nu.10.577 million paid were found not removed even after time lapse of more than 14 months in violation to the notification. (AIN: 14216; Para 1; Accountabilities: Direct: Leki Wangmo, Sociologist, CID No.12001001258; Supervisory: Gelay Norbu, Chief Urban Planner, EID No. 200201100)

### 1.2 Infertuous expenditure on Termination of Contract Packages B & C for Construction, Operation & Maintenance of Dalbari-Dagapela Secondary National Highway

The MoWHS had awarded the construction works for Operation & Maintenance of 80.58 km Dalbari-Dagapela Secondary National Highway under the Netherlands funded ORIO Project “Poverty Alleviation through road Development in Southern Bhutan” implemented by the Department of Roads in three packages as under:

Sl. No.	Name of Section of Work	Name of Bidder	Bid Price (BTN)	Remarks
1	Section A: Dalbari-Odalhang	M/s Kalika (Nepal) - Yangkhil (Bhutan) JV	355,456,712.09	Bid price inclusive of PS
2	Section B: Odalhang-Gesarling	M/s Tundi Construction (Nepal)	378,483,277.07	Bid price inclusive of PS
3	Section C: Gesarling-Dagapela	M/s SPML (India) - Gaseb (Bhutan) JV	358,222,414.50	Bid price inclusive of PS

Following the publication of the winning bidders, two aggrieved bidders had sought clarifications for Packages B & C. The Ministry without resolving the issues with the contractors as well as taking cognizance of the concerns raised by the Ministry of Finance, the Hon’ble Prime Minister and the intervention of the oversight body ACC had gone ahead with the signing of contract agreement on 12<sup>th</sup> September 2014. The work order was issued to the winning bidders on 22<sup>nd</sup> September 2014, site was handed over on 11<sup>th</sup> October 2014 and the Project Kick off Meeting held on 17<sup>th</sup> & 18<sup>th</sup> October 2014.

Subsequently the contract packages B & C were terminated upon the directive of the Government. The contractors had been paid Nu. 74.728 million towards mobilisation advance and value of work done at the time of termination. The contractors claimed for compensation of

Nu. 431.693 million of which Nu. 21.713 million was approved by the government as recommended by the Multi-Sectoral Committee. The final settlement of compensation claim is yet to be intimated to RAA. *(AIN: 13816; Para: 1; Accountabilities: Ministry failed to provide the signed accountability statement on the ground that various stakeholders were involved and cannot squarely hold individuals accountable for the lapses)*

### **1.3 Payments to Project Management and Supervision Consultancy resulting into wasteful expenditure - Nu. 3.738 million**

The MoWHS had incurred wasteful expenditure of Nu.3.738 million in the Netherlands funded ORIO Project “Poverty Alleviation through road Development in Southern Bhutan” by continuing to pay remunerations for two Supervising Engineers and two Junior Engineers to the Project Management and Supervision Consultancy (PMSC), M/s Chaitanya Projects Consultancy Pvt. Ltd. and M/s Himalaya Engineering & Management Consultancy. The remunerations were paid till August 2015, although the contract for construction works for two packages B & C had been terminated on 28<sup>th</sup> January 2015.

The Ministry responded that the services of the two Supervising Engineers and two Junior Engineers of the PMSC were retained to assist the client to complete the post termination formalities and procedures. *(AIN: 13816; Para: 3; Accountabilities: Ministry failed to provide the signed accountability statement on the ground that various stakeholders were involved and cannot squarely hold individuals accountable for the lapses)*

## **2. Violations of laws and rules - Nu. 24.359 million**

There were cases of violations of laws and rules involving Nu. 24.359 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
2.1	Inclusion of General Items of works as a separate item in BOQ	16.596
2.2	Defective works	6.516
2.3	Non-conduct of Hydrostatic testing for water retaining structures as per the technical specifications	0.605
2.4	Non-recovery of insurance from the contractor	0.450
2.5	Indication of risk in online tendering for procurement of Bitumen Emulsion	-
2.6	Settlement of final bill without execution of work	0.192
	<b>Total</b>	<b>24.359</b>

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

### **2.1 Inclusion of General Items of works as a separate item in BOQ - Nu. 16.596 million**

The MoWHS had allowed bidders to include General items of works amounting to Nu. 16.596 million as separate items of works in the BOQs in the Netherlands funded ORIO Project “Poverty

*Alleviation through road Development in Southern Bhutan". This was in deviation to the Procurement Rules and Regulations 2009 (PRR) and the Bhutan Schedules of Rates (BSR).*

The General items such as insurance and site establishment activities are not recognized as items of work and are required to be quoted in the bidder's final all-inclusive net price including all incidental costs for carrying out the contract in unit rates and prices for all items of the works described in the BOQs. *(AIN: 13816; Para: 4; Accountabilities: Ministry failed to provide the signed accountability statement on the ground that various stakeholders were involved and cannot squarely hold individuals accountable for the lapses)*

## **2.2 Defective works - Nu. 6.516 million**

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The Regional Office, DoR, Thimphu had not rectified defective works in construction of L-drains valuing Nu. 6.516 million at three chainages 0-5 km, 10-15 km and 15-20 km on the Jyenkana-Gakidling road. The defective works was apparently due to poor workmanship and inadequate supervision and monitoring. *(AIN: 14156; Paras 1.3, 2.1, 3.1; Accountabilities: Direct: Choden, AE, EID No.9401084, Dago Lham, JE, EID No. 200508178; Supervisory: Sangay Tenzin, EE, EID No.200607203, Dorji, EE, EID No. 2007044)*

## **2.3 Non-conduct of Hydrostatic testing for water retaining structures as per the technical specifications - Nu. 0.605 million**

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The Bhutan Second Urban Development Project, Thimphu under the MoWHS had constructed 420 cum capacity reservoir. During physical inspection of the completed water supply network works, the reservoir was found with seepages and leakages due to execution of substandard work. The Hydrostatic test was not conducted as per the technical specifications prior to taking over of the reservoir. *(AIN: 14242; Para 1.1; Accountabilities: Direct: Karsang Norbu, CID No. 10101001736, Shashi Kala, EID No. 200507194; Supervisory: Ashok Sunar, Offt. Project Manager, EID No. 200601106)*

## **2.4 Non-recovery of insurance from the contractor - Nu. 0.450 million**

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The Regional Office, DoR, Zhemgang had paid insurance cost for the constructions of Pantang-Zam over Mangdechu at Pantang; Tikrichu-Zam on Gomphu-Pangbang Highway; and Rindeygang-Zam over Gomphu - Panbang Highway as per the clause of the contract documents vis-à-vis price quoted by the contractor. The review of documents revealed that as against the premium of Nu. 0.350 million paid for Rindeygang zam, the contractor had been paid Nu. 0.800 million as quoted in the BoQ with resultant undue benefit of Nu. 0.450 million to the contractor. *(AIN: 14179; Para 3; Accountabilities: Direct: I. N. Chettri, Project Engineer, EID No.8401039; Supervisory: Karma Dorji, Chief Engineer, EID No.9107122)*

## **2.5 Indication of risk in online tendering for procurement of Bitumen Emulsion**

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The Regional Office, DoR, Phuentsholing had invited online tenders for procurement of Bitumen Emulsion worth Nu. 175.953 million. The following lapses were observed in the online tendering process:

- ✓ The manufacturers' pricelist and catalogue were not obtained;
- ✓ Only a few committee members were involved in the online enquires on the offers from the various bidders, which impeded transparency;
- ✓ The rate quoted by firms were found obtained through BoQ prepared by RO, DoR, P/ling and not supported and authenticated by original Performa Invoice of the bidding firms; and
- ✓ The suppliers/bidders were identified based on the verbal information and past records and not through media advertisements, which is not appropriate for such huge procurement.

The above facts indicate the risk of not receiving valid and competitive offers. Considering the huge amount of procurement, the limited bidding process followed was not appropriate which undermined the procurement system. *(AIN: 14081; Para 1; Accountabilities: Direct: Em Nath Chettri, Executive Engineer, EID No.8401039; Supervisory: Dorji Wangdi, Chief Engineer, EID No.8601100)*

## **2.6 Settlement of final bill without execution of work - Nu. 0.192 million**

The Regional Office, DoR, Trashigang had booked Nu. 0.192 million as final expense on account of up-gradation of transformer and LV extension for the Sub-Division Office at Rangjung without execution of works. The booking of expenditure without executing the work was not appropriate and in violation of the Financial Rules and Regulations. *(AIN: 13752; Para 3; Accountabilities: Direct: Ugen Dorji, AE, EID No. 9207049, Tshering Deki, JE, EID No. 20140704525; Supervisory: Karma Wangdi, Chief Engineer, EID No.200507201)*

## **3. Shortfalls, lapses and deficiencies - Nu. 131.219 million**

There were cases of shortfalls, lapses and deficiencies involving Nu. 131.219 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
3.1	Non-realization of compensation cost and other receivables from the contractor upon termination of contract	4.307
3.2	Non-application of 24% penalty on the unused mobilization advance	0.221
3.3	Outstanding Advances	126.691
	<b>Total</b>	<b>131.219</b>

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

### **3.1 Non-realization of compensation cost and other receivables from the contractor upon termination of contract - Nu. 4.307 million**

The Regional Office, DoR, Trashigang had not realized the compensation cost and other receivables of Nu. 4.307 million from the contractor for the blacktopping of 20.5 km Riju-Bartsham Gewog Centre Road upon termination of contract. The case is subjudice. *(AIN: 13752;*

*Para 1.1; Accountabilities: Direct: Ugen Dorji, AE, EID No. 9207049, Tenzin Dema, JE, EID No. 20120100015; Supervisory: Karma Wangdi, Chief Engineer, EID No. 200507201)*

### **3.2 Non-application of 24% penalty on the unused mobilization advance - Nu. 0.221 million**

The Regional Office, DoR, Trashigang had not applied 24% penalty on the unused mobilization advance of Nu. 0.221 million on the contractor in accordance with the Ministry of Finance's circular No. MoF/R-Circular/2012-13/2647 dated 01.02.2013. The contract was terminated for breach of contract terms & conditions, and the case is subjudice. *(AIN: 13752; Para 1.2; Accountabilities: Direct: Ugen Dorji, AE, EID No. 9207049, Tenzin Dema, JE, EID No. 20120100015; Supervisory: Karma Wangdi, Chief Engineer, EID No. 200507201)*

### **3.3 Outstanding Advances - Nu.126.691 million**

- a) The Regional Office, DoR, Lingmethang had overdue outstanding PW advances of Nu.0.087 million against a party. *(AIN: 13712; Para 1; Accountabilities: Direct: Chenga Dorji, Junior Engineer, EID No.201101247; Supervisory: Thinley Tenzin, Project Engineer, EID No.9207046)*
- b) The Department of Engineering Services had overdue outstanding PW advances of Nu.36.983 million against the parties. *(AIN: 13896; Para 2; Accountabilities: Direct: Karma Tenzin, Site Engineer, EID No.: 2007082, Sangay Tenzin, EID No.: 8808028 and Bhakta Ram Dhungana, Site Engineer, EID No.: 200507212; Supervisory: Tashi Gyeltshen, Dungpa, EID No.9208036, Dawala, Dzongda, EID No.8304041, Pema, Executive Engineer, EID No.9801096)*
- c) The Regional Office, DoR, Zhemgang had overdue outstanding PW advances of Nu.89.621 million against the parties. *(AIN: 14179; Para 6; Accountabilities: Direct: Tenzin Wangchuk, Accountant II, EID No. 9404031; Supervisory: Karma Dorji, Chief Engineer, EID No.9107122)*

#### **4.1.2. Ministry of Information & Communications**

During the period, the RAA had issued 27 audit reports of the Ministry of Information & Communications (MoIC) and its Departments, Divisions and Units. There were 28 observations pointed out in the reports involving Nu. 85.561 million, out of which 8 observations amounting to Nu. 0.090 million were either resolved prior to the compilation of the draft AAR 2016 or were not material enough for inclusion in the draft AAR 2016. The total unresolved significant observations reflected in the draft AAR 2016 amounted to Nu. 85.471 million.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the Ministry and its Departments, Divisions and Units, observations amounting to Nu.16.179 million were resolved. The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 69.292 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Mismanagement	0.946	3
2	Violation of laws and rules	-	4
3	Shortfalls, lapses and deficiencies	68.346	5
	<b>Total</b>	<b>69.292</b>	

## 1. Mismanagement - Nu. 0.946 million

There was a case mismanagement as indicated below:

### 1.1 Unrealized annual renewal fees - Nu. 0.946 million

The Road and Safety Transport Authority, Regional Office, Thimphu had not realized annual renewal fees amounting to Nu. 0.946 million against the owners of various types of motor vehicles. Nu. 1.610 million was recovered from the initially reported amount of Nu. 2.556 million. *(AIN: 13707; Para 1; Accountabilities: Direct: Dawa Penjor, Motor Vehicle Inspector, EID No. 201105038 Dhan Bdr. Gurung, Motor Vehicle Inspector, EID No.200507002; Supervisory: Ugyen Lhamo, Offgt. Regional Transport Officer, EID No.2107109)*

## 2. Violation of laws and rules

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

Sl. No.	Observation in Brief	Nu. in million
2.1	Flaws in Tender Evaluation and award of construction contract to a technically non-responsive bidder	-
2.2	Acceptance of Defective works in construction of new Terminal building at Gelephu Domestic Airport	-
2.3	Wet Mix Macadam (WMM) materials produced at site failed the gradation test	-
	<b>Total</b>	<b>-</b>

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

### 2.1 Flaws in Tender Evaluation and award of construction contract to a technically non-responsive bidder

The ADB funded "Air Transport Connectivity Enhancement Project" implemented by the Department of Air Transport, Paro had floated NIQ for the construction of new Terminal Building at Gelephu Domestic Airport estimated for Nu.8.536 million. Ten bidders had purchased the bidding documents and had submitted their bids. In line with the decision of the Tender Committee, the contract was awarded to M/s Dee Gee Construction, Paro on the basis of the lowest evaluated bid at a contract amount of Nu.9.882 million which was 13.62% above the departmental estimated cost.

However, M/s Dee Gee Construction, Paro did not satisfy “Evaluation and Qualification Criteria” of Standard Bidding Documents of the ADB project and the bid Evaluation Committee even failed to recognize such criteria resulting in flawed bid evaluation and decision making due to a) non-compliance to the requirement of Historical Financial Performance and b) Non-compliance to the Personnel Requirements. The lapses had occurred as the Evaluation Committee had failed to evaluate the tender fairly as the winning bidder despite its failure to comply with the defined evaluation criteria.

The department reported of having taken administrative actions against the Tender Evaluation Committee members and action against the consultant is awaited. *(AIN: 13616; Para 1; Accountabilities: Direct: Sonam Tshering, Gyeltshen Consultancy, CID No.11410003876; Supervisory: Ugyen Dorji, Principal Engineer, EID No.8908106, Karma Wangchuk, Director, EID No.9004059)*

## **2.2 Acceptance of Defective works in construction of new Terminal building at Gelephu Domestic Airport**

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The ADB funded “Air Transport Connectivity Enhancement Project” implemented by the Department of Air Transport, Paro had accepted defective works in construction of new Terminal building at Gelephu Domestic Airport. The Gypsum ceiling board were found broken and fallen off at level two, the ply lining in eaves ceiling showed dampness & corrosion indicating leakage in roofing, and the aluminum components for windows in VIP room were not functioning properly. The defective works indicated inadequate supervision and monitoring by the project management and failure to rectify the defective works within the defect liability period. *(AIN: 13616; Para 2; Accountabilities: Direct: Palden Dorji Lepcha, Gyeltshen Consultancy, CID No. 21213000353, Jamyang T Dorji, Engineer, EID No.201101166; Supervisory: Ugyen Dorji, Principal Engineer, EID No.8908106, Karma Wangchuk, Director, EID No.9004059).*

## **2.3 Wet Mix Macadam materials produced at site failed the gradation test**

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The Asian Development Bank funded “Air Transport Connectivity Enhancement Project” implemented Department of Air Transport, Paro had used Wet Mix Macadam (WMM) materials worth Nu.9.846 million which had failed the gradation test. The Wet Mix Macadam (WMM) work consisted of laying and compacting clean, crushed, graded aggregates and granular material, premixed with water, to a dense mass on a prepared sub grade/sub-base.

The joint verification team during the visit to WMM production site had found that all surface materials including the fines were being passed through the crushing machine. The materials stacked at site for WMM production contained more fines and oversized materials. The gradation test conducted for the WMM stock piled at quarry sites found oversized materials and the production of aggregates and fines together from the crushing machine was not proper. The best practice was to stock different sized aggregates and mix in proportion as per the mix design. *(AIN: 14202; Para 1.3; Accountabilities: Direct: Jamyang T Dorji, Deputy Executive Engineer, EID No. 201101166; Supervisory: Karma Wangchuk, Director, EID No. 9004059)*

### 3. Shortfalls, lapses and deficiencies – Nu. 68.346 million

There were cases of shortfalls, lapses and deficiencies involving Nu. 68.346 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
3.1	Payment of excavation of formation/trace/box cutting without conducting topography survey	60.486
3.2	Damage of Retaining walls by landslides and excavated materials	5.604
3.3	Incomplete construction of storm water drainage	1.488
3.4	Double payment for RRM perimeter fencing wall	0.388
3.5	Excess payment	0.120
3.6	Irregular booking of expenditure	-
3.7	Outstanding Advances	0.260
	<b>Total</b>	<b>68.346</b>

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

#### 3.1 Payment of excavation of formation/trace/box cutting without conducting topography survey - Nu. 60.486 million

The Department of Air Transport had made payment of Nu.60.486 million to the contractor on account of earth excavation based on RA Bills submitted against the provisional earth cut volume quantified during the initial survey carried out by the consultant for the preparation of the Bill of Quantities for the construction of the Yonphula Domestic Airport.

It was apparent from the technical specification that accurate control of lines and levels were required to be provided by the contractor at all stages and frequently checked. Thus, the RA Bills should have been based on the basis of measured quantities of execution of earthwork, and not merely on the basis of provisional quantities. In addition, topography survey should have been conducted and the payments regulated based on the actual quantity derived after the survey. It was not appropriate to release the payment based on the provisional quantities/estimates. *(AIN: 14202; Para 1.1; Accountabilities: Direct: Jamyang T Dorji, Deputy Executive Engineer, EID No. 201101166; Supervisory: Karma Wangchuk, Director, EID No. 9004059)*

#### 3.2 Damage of Retaining walls by landslides and excavated materials - Nu.5.604 million

The Department of Air Transport had constructed RRM walls worth Nu.5.604 million, which were found totally damaged by landslides and excavated materials. This was an indication of poor planning and uneconomical decisions with resultant wasteful expenditures. The management justified that the damaged walls would be restored at contractor's cost. *(AIN: 14202; Para 1.2; Accountabilities: Direct: Jamyang T Dorji, Deputy Executive Engineer, EID No. 201101166; Supervisory: Karma Wangchuk, Director, EID No. 9004059)*

### **3.3 Incomplete construction of storm water drainage - Nu. 1.488 million**

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The Department of Air Transport had awarded the contract for construction of storm water drainage at Paro International Airport to M/s Gaana Builders at a contract price of Nu. 3.972 million which was 40.61% below the departmental estimate of Nu. 6.688 million. The contractor was asked to deposit the difference between the estimated amount and the bid price as differential security money, in addition to Performance Security of 10% of the quoted amount. The contractor had submitted Bank Guarantee of Nu. 3.113 million.

As against 1,800 meters of storm water drainage works, only 552 meters was constructed even after lapses of 5 months from the scheduled date of completion, leaving 1,248 meters unexecuted as on 29<sup>th</sup> September 2016. On the failure of the contractor to complete the work, the Department terminated the work for the construction of storm water drainage. *(AIN: 14249; Para 1.5; Accountabilities: Direct: Jamyang T Dorji, Deputy Executive Engineer EID No. 201101166; Supervisory: Ugyen Dorji, Principal Engineer EID No. 8908106)*

### **3.4 Double payment for RRM perimeter fencing wall - Nu. 0.388 million**

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The Department of Air Transport had made double payment of Nu. 0.388 million for RRM perimeter fencing wall on the construction of perimeter fencing and access road to Gelephu Domestic Airport. The double payment had occurred due to repeated measurement of the RRM front wall running 50.75 meters in length with width of 0.85 meters followed by another claim with average width of 1m and the quantity imported from measurement sheet to the abstract cost measured for 391.09 meters<sup>3</sup> instead of 328.89 meters<sup>3</sup> as per the measurement. *(AIN: 14249; Para 1.1; Accountabilities: Direct: Jamyang T Dorji, Deputy Executive Engineer, EID No. 201101166; Supervisory: Ugyen Dorji, Principal Engineer, EID No. 8908106)*

### **3.5 Excess payment- Nu. 0.120 million**

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The ADB funded project "Air Transport Connectivity Enhancement Project" implemented by the Department of Air Transport, Paro had made excess payment of Nu. 0.120 million for the construction of perimeter Fencing, Access Road, Apron Taxiway and Car parking at Bumthang Bapalathang Domestic Airport. The excess payment had occurred due to wrong application of formula for computation of volume of work done for semi-circle works and the wrong counting of 2.5 meters long HDPE pipe in breast wall for the car parking by the Site Engineer. *(AIN: 13616; Para 3; Accountabilities: Direct: Bhawani Nirola, Gyeltshen Consultancy, CID.No.21108000029; Supervisory: Ugyen Dorji, Principal Engineer, EID No.8908106, Jamyang T Dorji, Engineer, EID.No.201101166)*

### **3.6 Irregular booking of expenditure**

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The Department of Air Transport had awarded work for the construction of two numbers of billboards of Nu. 0.988 at Paro International Airport to M/s. Rinson Construction Company Pvt. Ltd as an additional work on the strength of the approval by the Officiating Secretary of Ministry of Information and Communications, Thimphu. The supply and installation of the GRC Cornice

Profile works for the construction was awarded to M/s. Bhutan GRC, Thimphu for Nu. 0.208 million.

The contract works worth Nu. 1.196 million, although not started was found booked under closed works Account as on 30<sup>th</sup> June 2016 against the related provisions of the Financial Rules and Regulation 2001. Further, the expenditures were booked under the object code 15.06 *Maintenance of Property* as 'current expenditures' instead of 'capital expenditure' in violation of the budgetary and financial norms. (AIN: 14249; Para 2; Accountabilities: Direct: Jamyang T Dorji, Deputy Executive Engineer EID No. 201101166; Supervisory: Ugyen Dorji, Principal Engineer EID No. 8908106)

### 3.7 Outstanding Advances - Nu. 0.260 million

The Department of Air Transport had overdue outstanding advances of Nu. 0.260 million against Dasho Dzongda, Bumthang for carrying out works "laying stone boulders along the bank at Bumthang Domestic Airport and M/s. Bhutan GRC, Thimphu vide Voucher No. 143 dated 21.06.2016 for the supply of GRC Planter & Billboard at Paro International Airport. (AIN: 14249; Para 4; Accountabilities: Direct: Jamyang T Dorji, Deputy Executive Engineer, EID No. 201101166; Supervisory: Ugyen Dorji, Principal Engineer, EID No.8908106)

#### 4.1.3 Ministry of Agriculture and Forests

During the period, the RAA had issued 97 audit reports of the Ministry of Agriculture and Forests (MoAF) and its Departments, Divisions and Units. There were 107 observations pointed out in the reports involving Nu. 339.036 million, out of which 49 observations amounting to Nu. 11.493 million were either resolved prior to the compilation of the draft AAR 2016 or were not material enough for inclusion in the draft AAR 2016. The total unresolved significant observations reflected in the draft AAR 2016 amounted to Nu. 327.543 million.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the Ministry and its Departments, Divisions and Units, observations amounting to Nu.285.141 million were resolved. The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 42.402 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Fraud, Corruption & Embezzlement	1.374	1 & 2
2	Violation of laws and rules	10.204	4
3	Shortfalls, lapses and deficiencies	30.824	5
	<b>Total</b>	<b>42.402</b>	

#### 1. Fraud, Corruption & Embezzlement – Nu.1.374 million

There were cases of possible elements of fraud, corruption and embezzlement involving Nu. 1.374 million as summarized below:

Sl. No.	Observation in Brief	Nu. in million
1.1	Payments of inflated amount	1.015
1.2	Forged Bank Guarantee in lieu of Performance Security and non-recovery of penalty	0.260
1.3	Payment made for items not provided at site	0.099
	<b>Total</b>	<b>1.374</b>

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

### **1.1 Payments of inflated amount - Nu. 1.015 million**

The Divisional Forest Office, Lobesa had made payment at inflated amount of Nu.1.015 million in the construction of Forest Management Unit office at Gogona. This had occurred due to double booking of wooden cornices, other excess payments and payment booked but not disbursed to contractor in final bills and deviated items for clearing of jungle and joist for ceiling and flooring for which no approval was accorded. *(AIN: 14086; Para 1.6; Accountabilities: Direct: Thinley Gyeltshen, Principal Engineer, EID No.8602085, Sherub Dorji, Chief Accountant, EID No.9908301; Supervisory: Kencho Dukpa, CFO, EID No.8711039)*

### **1.2 Forged Bank Guarantee in lieu of Performance Security and non-recovery of penalty - Nu.0.260 million**

The Assistant Engineer of the Gasa Dzongkhag Administration had forged the Bank Guarantee submitted in lieu of 10% Performance Security for Nu. 0.260 million of M/s T.D. Dendup Construction for the construction of Park Range Office at Neptangkha funded by World Bank Project (HANAs-I). There were no records indicating that Committees such as opening, evaluation and awarding were constituted for execution of works, except for the soft copy of the draft Evaluation Report with the AE. The construction work was supposed to complete by 17<sup>th</sup> May, 2016 and could not meet the deadline. The forestry Officials working under the Range Office had been deprived of the intended facilities on time for effective delivery of the public services as the construction was not completed in time and had been rendered waste of limited government resources. *(AIN: 14209; Para 1.1; Accountabilities: Direct: Karma, AE, Gasa Dzongkhag, EID No. 201001736; Supervisory: Lhendup Tharchen, Park Manager, EID No.200801028)*

### **1.3 Payment made for items not provided at site - Nu. 0.099 million**

The Divisional Forest Office, Lobesa had made payment of Nu.0.099 million for items which were actually not executed by the contractor in the construction of Toilet and Kitchen at Forest Management Unit Office at Gogona. The payment for items not provided had occurred as the bills were passed without actually verifying the items of work executed at site. *(AIN: 14086; Para 1.4; Accountabilities: Direct: Thinley Gyeltshen, Principal Engineer, EID No.8602085, Sherub Dorji, Chief Accountant, EID No.9908301; Supervisory: Kencho Dukpa, CFO, EID No.8711039)*

## 2. Violation of laws and rules – Nu. 10.204 million

There were cases of violation of laws and rules involving Nu. 10.204 million as summarized below:

Sl. No.	Observation in Brief	Nu. in million
2.1	Non-surrender of fund balance for Deposit Works	6.229
2.2	Wrong booking of expenditure	2.689
2.3	Non-surrender of budgetary fund balance to budget fund account	1.012
2.4	Excess deposit of 10% retention money into Refundable Deposit Account	0.144
2.5	Refund of 10% retention money without obtaining Refundable Releases	0.130
2.6	Excess procurement of Electric Fencing System (EFS) Energizers	-
	<b>Total</b>	<b>10.204</b>

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

### 2.1 Non-surrender of fund balance for Deposit Works - Nu. 6.229 million

The Renewable Natural Resources Research & Development Centre, Bajo had received Nu. 20.499 million for the Deposit Works during the financial years 2013-2015. Against this, expenditure of Nu. 14.270 million was incurred leaving a fund balance of Nu. 6.229 million not surrendered to the Ministry in contravention to the financial norms. (AIN: 14044; Para 1.3; Accountabilities: Direct: Tenzin, Accounts Asstt. V, EID No. 9807023; Supervisory: Ngawang, Program Director, EID No. 9901073)

### 2.2 Wrong booking of expenditure – Nu. 2.689 million

The World Bank funded Project HANAS-II under Jigme Dorji National Park, Damji had wrongly booked and diverted Nu. 2.689 million from the 'Installation of Milk Processing and Dairy Product (52.08)' to capital activities of HANAS-I & current activity of salary (RGoB) in contravention to the financial norms which states "Re-appropriation from Capital to Capital is permitted provided there is approval and budget line obtained from the MoF. Diversion of fund from Capital to Current is not at all permissible as per the financial norms". (AIN: 14208; Para 1.1; Accountabilities: Direct: Tshering Wangchuk, Accountant, EID No. 200207191; Supervisory: Lhendup Tharchen, Park Manager, EID No. 200801028)

### 2.3 Non-surrender of budgetary fund balance to budget fund account - Nu. 1.012 million

The Renewable Natural Resources Research & Development Centre, Bajo had not surrendered budgetary fund balance of Nu. 1.012 million to budget fund account. The fund balances were diverted to non-revenue accounts (Deposit Work Account) and refundable deposit accounts in contravention to the financial norms. (AIN: 14044; Para 1.1; Accountabilities: Direct: Tenzin, Accounts Asstt. V, EID No. 9807023; Supervisory: Ngawang, Program Director, EID No. 9901073)

## **2.4 Excess deposit of 10% retention money into Refundable Deposit Account - Nu. 0.144 million**

The Renewable Natural Resources Research & Development Centre, Bajo had made excess deposit of 10% retention money of Nu. 0.144 million recovered from the contractor into Refundable Deposit Account in contravention to the financial norms. *(AIN: 14044; Para 1.5; Accountabilities: Direct: Tenzin, Accounts Asstt.-V, EID No.9807023; Supervisory: Ngawang, Program Director, EID No.9901073)*

## **2.5 Refund of 10% retention money without obtaining Refundable Releases - Nu. 0.130 million**

The Renewable Natural Resources Research & Development Centre, Bajo had refunded 10% retention money of Nu. 0.130 million to the contractor without obtaining refundable releases from the DPA in contravention to the financial norms. *(AIN: 14044; Para 1.4; Accountabilities: Direct: Tenzin, Accounts Asstt. -V, EID No. 9807023; Supervisory: Ngawang, Program Director, EID No. 9901073)*

## **2.6 Excess procurement of Electric Fencing System (EFS) Energizers**

The National Plant Protection Centre had procured 662 nos. of Electric Fencing System (EFS) energizers valuing Nu. 4.498 million during 2015-16, while there was stock balance of 200 numbers from 2014-15 which had not been sold as on date of audit exit meeting (8<sup>th</sup> April 2016). The EFS Energizers were for further distribution to public at purchase cost. The management reported the balance of 446 numbers of energizers as on 20<sup>th</sup> October 2016. *(AIN: 13758; Para 1; Accountabilities: Direct: Pema Lhaden, Administrative Officer, EID No.200211042; Supervisory: Yeshey Dema, Program Director, EID No.9602028)*

## **3. Shortfalls, lapses and deficiencies – Nu. 30.824 million**

There were cases of shortfalls, lapses and deficiencies involving Nu. 30.824 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
3.1	Non-maintenance of inventory registers	-
3.2	Excess deposit of fund into Non-Revenue Deposit Account for the deposit works	6.798
3.3	Payment made without certification of RA Bills	2.592
3.4	Irregularities in the construction of Eco Lodge at Laya	1.835
3.5	Excess payment	0.999
3.6	Execution of sub-standard works	0.979
3.7	Non-renewal of bank Guarantee	0.458
3.8	Double payment	0.264
3.9	Unreconciled funds	0.223
3.10	Write-off approval for loss of cash and money receipts not accorded	0.038

3.11	Huge variation in closing bank balances between Cash Book and Bank Statements	-
3.12	Outstanding Advances	16.638
	<b>Total</b>	<b>30.824</b>

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

### 3.1 Non-maintenance of inventory registers

The Market Access & Growth Intensification Project (MAGIP) under the Ministry of Agriculture and Forests had not maintained inventory registers as per the provisions of the Property Management Manual 2001, for civil infrastructures valuing Nu. 273.189 million pertaining to new construction, renovation and monsoon restoration of farm roads, irrigation channels and buildings from July 2011 to June 2016. *(AIN: 14152; Para 1; Accountabilities: Direct: Khando Tshering, Executive Engineer, EID No. 9107093; Supervisory: Tashi Wangdi, Project Director, EID No. 9901078)*

### 3.2 Excess deposit of fund into Non-Revenue Deposit Account for the deposit works Nu.6.798 million

The Renewable Natural Resources Research & Development Centre, Bajo had made excess deposit of fund for deposit works into Non-Revenue Deposit Account of Nu. 6.798 million. The excess deposit had occurred due to the failure of the accounts personnel to segregate and carry out periodic reconciliation of budgetary, Non-Revenue Deposit (Deposit Work) and Refundable Deposit accounts for the two financial years 2013-2014 & 2014-2015. *(AIN: 14044; Para 1.2; Accountabilities: Direct: Tenzin, Accounts Asstt. V, EID No.9807023; Supervisory: Ngawang, Program Director, EID No.9901073)*

### 3.3 Payment made without certification of RA Bills – Nu. 2.592 million

The Jigme Dorji National Park, Damji had made irregular payment of Nu. 2.592 million for the construction of Park Range Office cum residence and retaining wall at Dangojong, Soe. The irregular payment had occurred due to disbursement of the Running Account Bill without certification by the Site Engineer. *(AIN: 13431; Para 1a(1); Accountabilities: Direct: Dorji Tshering, Engineer, EID No. 200608004; Supervisory: Phuntsho Thinley, Former Chief Forestry Officer, EID No.200301023)*

### 3.4 Irregularities in the construction of Eco Lodge at Laya - Nu. 1.835 million

The Jigme Dorji National Park, Damji under the support of Laya-Sephu Project, Wildlife Conservation Division (WCD), DoFPA, MoAF had constructed two numbers of Eco Lodge and two toilets which were designed and approved by MoAF at Laya. The works had the following irregularities:

- The payments for Random Rubble Masonry wall in foundation for two partitions were made without deductions for openings provided in the wall with resultant excess payment of Nu. 0.007 million.
- The management had not levied liquidated damages of Nu. 0.026 million as per the terms of contract from the contractor for delay in completion of works.
- The payments were made without deducting 2% TDS, 10% retention money and advances amounting to Nu. 1.115 million due to recording of net amounts payable instead of gross amounts.
- The list of Outstanding Advances generated by the system did not reflect secured advance of Nu. 0.687 million representing 75% of cost of materials brought to site.

*(AIN: 14210; Para 1.1; Accountabilities: Direct: Choki, AE, Gasa Dzongkhag, EID No. 200507217, Tshering Wangchuk, Accountant, EID No. 200207191; Supervisory: Lhendup Tharchen, Park Manager, EID No. 200801028)*

### **3.5 Excess payment - Nu. 0.999 million**

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- a) The Jigme Dorji National Park, Damji had made excess payment of Nu. 0.759 million for the construction of Park Range Office cum residence and retaining wall at Dangojong, Soe. The excess payment had occurred due to disbursement of Nu. 4.579 million in the Running Account Bills against the value of work done of Nu. 3.820 million computed by the Site Engineer. *(AIN: 13431; Para 1a; Accountabilities: Direct: Dorji Tshering, Engineer, EID No. 200608004; Supervisory: Phuntsho Thinley, Former Chief Forestry Officer, EID No. 200301023)*
- b) The Divisional Forest Office, Samtse had made excess payment of Nu. 0.038 million to the contractor for the construction of Park Range Office and staff Quarter at Dorokha. The excess payment had occurred due to non-deduction of doors, windows, RCC lintels and ventilations from the brick works in superstructure, and excess earthwork excavation. *(AIN: 13666; Para 1.1; Accountabilities: Direct: Karma Gyeltshen, Asst. Engineer, DoA, EID No.: 200211001; Supervisory: Sonam Wangdi, Chief Forestry Officer, EID No. 200801033)*
- c) The Divisional Forest Office, Lobesa had made excess payment of Nu. 0.042 million to the contractor due to non-deduction of lintel beam from the CRM wall in the construction of FMU Office at Phobjikha. *(AIN: 14086; Para 1.2; Accountabilities: Direct: Thinley Gyeltshen, Principal Engineer, EID No.8602085, Sherub Dorji, Chief Accountant, EID No.9908301; Supervisory: Kencho Dukpa, CFO, EID No.8711039)*
- d) The World Bank funded Project (HANAS-II) under Jigme Dorji Wangchuck National Park, Damji had made excess payment of Nu. 0.160 million on design and dimension of flooring joist and providing and fixing of eaves board for roofing for the construction of Laya Park Range Office. The excess payment had occurred due to deviation in quantum of work done by 92% above the bill of quantities and payment without prior approval for deviated quantity from the approving authority and improper measurement by the site engineer and the handing taking team. *(AIN: 14208; Para 1.2; Accountabilities: Direct: Karma, AE Gasa Dzongkhag, EID No. 201001736; Supervisory: Lhendup Tharchen, Park Manager, EID No. 200801028)*

### 3.6 Execution of sub-standard works - Nu. 0.979 million

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- a) The Jigme Dorji National Park, Damji had executed sub-standard works on the wood works of Nu. 0.979 million for the construction of Park Range Office cum residence. The execution of sub-standard works had occurred due to poor workmanship and laxity of the concerned site engineer and failure on the part of the Supervising Engineer to exercise necessary checks to ensure quality of work done by the contractor. (AIN: 13431; Para 1b; Accountabilities: Direct: Dorji Tshering, Engineer, EID No.200608004; Supervisory: Phuntsho Thinley, Former Chief Forestry Officer, EID No. 200301023)
- b) The Divisional Forest Office, Samtse had executed sub-standard works in the ceiling ply board, painting works and fixation of toilet pots for the construction of Park Range Office and staff Quarter at Dorokha. The execution of sub-standard works had occurred due to poor workmanship and laxity of the concerned site engineer and failure on the part of the Supervising Engineer to exercise necessary checks to ensure quality of work done by the contractor. (AIN: 13666; Para 1.2; Accountabilities: Direct: Karma Gyeltshen, Asst. Engineer, DoA, EID No. 200211001; Supervisory: Sonam Wangdi, Chief Forestry Officer, EID No. 200801033)

### 3.7 Non-renewal of Bank Guarantee - Nu. 0.458 million

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The Jigme Dorji National Park, Damji had initially retained Nu. 0.458 million as 10% retention money as per the Procurement Rules and Regulations 2009 and the conditions of contract but had later released to the contractor upon production of unconditional Bank Guarantee. However, the validity of Bank Guarantee had expired and was not renewed, and the work was not taken over by the management as of 15<sup>th</sup> October 2015 against the due date of completion of 18<sup>th</sup> June 2013. (AIN: 13431; Para 1c; Accountabilities: Direct: Dorji Tshering, Engineer, EID No. 200608004; Supervisory: Phuntsho Thinley, Former Chief Forestry Officer, EID No. 200301023)

### 3.8 Double payment - Nu. 0.264 million

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The Divisional Forest Office, Lobesa had made double payment of Nu. 0.264 million for same wooden cornices through different running bills. The double payment had occurred as a result of making payment for the same item twice due to laxity and failure on the part of site engineers to exercise due diligence while verifying contractor's claims. (AIN: 14086; Para 1.1; Accountabilities: Direct: Thinley Gyeltshen, Principal Engineer, EID No.8602085, Sherub Dorji, Chief Accountant, EID No.9908301; Supervisory: Kencho Dukpa, CFO, EID No.8711039)

### 3.9 Unreconciled funds - Nu. 0.223 million

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The Ministry of Agriculture and Forests had unreconciled funds of Nu. 0.223 million on the deposits against the collections from the two wheelers allotment of 2010, 2012 and 2016. The unreconciled amount had occurred due to the concerned individuals not having made the timely deposits in keeping with the agreements and some of the defaulters being expired. (AIN: 14185; Para 1; Accountabilities: Direct: Pema Lhamo, Accounts Officer, EID No.:200901070, Pema Dendup, Forester, EID No.200807131, Pema Lepcha, Extension Supervisor, EID No.8405046, Yeshe Peldon,

*Forester, EID No.200507163, Tshering Wangchuk, Extension Supervisor, EID No.200807107, Ugyen Tshering, Sr. Lab Technician, EID No.8805119; Supervisory: Sonam Dorjee, CAO, EID No.9808205)*

### **3.10 Write-off approval for loss of cash and money receipts not accorded – Nu.0.038 million**

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The Divisional Forest Office, Lobesa had not informed the Department of Revenue and Customs for write-off approval on loss of cash of Nu. Nu. 0.038 million and Money Receipt No. 32502/325010-3250200 as per the provisions of the Revenue Management Manual. *(AIN: 14086; Para 3.1; Accountabilities: Direct: Lakjey, Forester, EID No.9604026; Supervisory: Thukten, Forest Ranger I, EID No. 200807129)*

### **3.11 Huge variation in closing bank balances between Cash Book and Bank Statements**

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- a) The Renewable Natural Resources Research & Development Centre, Bajo had not conducted timely reconciliation of accounts which resulted in huge variation in closing bank balances between Cash Book and Bank Statements of Nu. 2.767 million as on 30<sup>th</sup> June 2014. *(AIN: 14044; Para 1.7; Accountabilities: Direct: Tenzin, Accounts Asstt. V, EID No.9807023; Supervisory: Ngawang, Program Director, EID No.9901073)*
- b) The Jigme Dorji Wangchuck National Park, Damji had not segregated and carried out periodic reconciliations of budgetary releases for its Project viz. HANAS-I, HANAS-II, UNDP, WWF and RGoB funding for the financial year 2015-2016 which resulted in huge variations in closing bank balances between Cash Books and Bank Statements of Nu. 0.322 million as on 30<sup>th</sup> June 2016. *(AIN: 14210; Para 2.2; Accountabilities: Direct: Tshering Wangchuk, Accountant, EID No. 200207191; Supervisory: Lhendup Tharchen, Park Manager, EID No.200801028)*

### **3.12 Outstanding Advances - Nu. 16.638 million**

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- a) The Jigme Dorji National Park, Damji had overdue outstanding advances of Nu. 4.360 million against the officials (Nu. 0.109 million) and parties (Nu. 4.251 million). *(AIN: 13431; Para 5; Accountabilities: Direct: Tshering Wangchuk, Accountant, EID No.2002207191, Supervisory: Lhendup Tharchen, CFO, EID No. 200801028)*
- b) The Ministry of Agriculture and Forests had overdue outstanding Public Works (PW) Advances of Nu. 0.090 million against the officials and parties. *(AIN: 13923; Para 1; Accountabilities: Direct: Karma Tenzin, Coordinator, EID No. 200701022, Wangdi, Dy. CFO, EID No. 8506057; Supervisory: Karma Tenzin, Co-ordinator, EID No. 200701022)*
- c) The Ugyen Wangchuck Institute for Conservation and Environment, Bumthang had overdue outstanding PW advances of Nu. 1.831 million against parties. *(AIN: 14041; Para 1; Accountabilities: Direct: Ugyen, Forester, EID No.200406116, Tshewang Dorji, Head, AFD, EID No. 9410038, Sangay Pelzang, ICT Officer, EID No. 20130101217, Tashi Dendup, Research Officer, EID No. 2013010119, Sangay Wangchuk, Dy.CFO, EID No.200701028, Tshering Dorji, BES, EID No.10704000189; Supervisory: Ngawang Norbu, Director, EID No.9901090)*

- d) The Department of Agriculture had overdue outstanding PW advances of Nu. 0.632 million against a party. (AIN: 13929; Para 1; Accountabilities: Direct: Nima Dorji, Dy. Executive Engineer, EID No.200801074; Supervisory: Chimi Rinzin, Chief Agriculture Officer, EID No.2001027, Karma Tshethar, Chief Engineer, EID No. 9901079)
- e) The Renewable Natural Resources Research & Development Centre, Bajo had outstanding advances of Nu. 0.180 million against the officials (Nu. 0.049 million) and parties (Nu. 0.131 million). (AIN: 14044; Para 2; Accountabilities: Direct: Tenzin, Accounts Asstt. V, EID No.9807023; Supervisory: Ngawang, Program Director, EID No.9901073)
- f) The Madanjeet Singh Centre for South Asia Forestry Studies Fund under Ugyen Wangchuck Institute for Conservation and Environment, Bumthang had outstanding advances of Nu.3.360 million against the officials (Nu. 2.267 million) and parties (Nu. 1.093 million). (AIN: 14101; Para 1; Accountabilities: Direct: Sonam Phuntsho, Sr. Forestry Officer, EID No. 9608055; Sangay Wangchuk, PD, UMCSAFS, EID No. 200701028; Tashi Dendup, Research Officer, EID No. 20130101195; Galeymo, HRO, MoAF, EID No.201001001; Namgay Dema, Adm. Asst. III, 201012003; Kezang Seldon, Adm. Asst., HRD, MoA, EID No. 20140103459; Tshewang Dorji, Head, AFD, EID No. 9410038; Rinchen Wangchuk, Forestry Officer, EID No. 2008091; Rinchen Drakpa, Sr. Forest Ranger II, EID. No. 200208033; Supervisory: Ngawang Norbu, Director, EID No.9901090)
- g) The BTFEC funded Project “Natural Resource Management in the Highland for Sustainable Livelihood and Green Economy” implemented by WCD had outstanding advances of Nu.0.360 million against an official on account of co-financing for printing of the Department's publication “The Glimpses of Bhutan”. (AIN: 14130; Para 3; Accountabilities: Direct: Nawang Norbu, Director, UWICE, EID No.9901090, Sonam Wangdi, Sr. Forest Officer, EID No.200801033; Supervisory: Sonam Wangchuk, Chief Forestry Officer, EID No.8805210)
- h) The HANAS-II of Jigme Dorji National Park, Damji had outstanding PW advances of Nu. 2.206 million against parties. (AIN: 14208; Para: 1.2; Accountabilities: Direct: Tshering Wangchuk, Accountant, EID No. 200207191; Supervisory: Lhendup Tharchen, Park Manager, EID No. 200801028)
- i) The HANAS-I of Jigme Dorji National Park, Damji had outstanding PW advances of Nu. 1.066 million against the parties. (AIN: 14209; Para 2.2; Accountabilities: Direct: Tshering Wangchuk, Accountant, EID No. 200207191; Supervisory: Lhendup Tharchen, Park Manager, EID No. 200801028)
- j) The Jigme Dorji National Park, Damji had outstanding advances of Nu. 2.553 million against the officials (Nu. 0.096 million) and parties (Nu. 2.457 million). (AIN: 14210; Para 3.1; Accountabilities: Direct: Tshering Wangchuk, Accountant, EID No. 200207191; Supervisory: Lhendup Tharchen, Park Manager, EID No. 200801028)

#### 4.1.4. Ministry of Labour & Human Resources

During the period, the RAA had issued 17 audit reports of the Ministry of Labour & Human Resources (MoLHR) and its Departments, Divisions and Units. There were 20 observations pointed out in the reports involving Nu. 35.453 million, out of which one observation amounting to Nu. 0.692 million was either resolved prior to the compilation of the draft AAR 2016. The total

unresolved significant observations reflected in the draft AAR 2016 amounted to Nu. 34.914 million.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the Ministry and its Departments, Divisions and Units, observations amounting to Nu. 25.521 million were resolved. The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 9.393 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Mismanagement	7.548	3
2	Violations of laws and rules	-	4
3	Shortfalls, lapses and deficiencies	1.845	5
	<b>Total</b>	<b>9.393</b>	

## 1. Mismanagement - Nu. 7.548 million

There was a case of mismanagement as indicated below:

### 1.1 Illegal collection of fees and non-refunds - Nu. 7.548 million

The MoLHR had received many applications from the candidates seeking support from the Ministry to get refunds of the amounts deposited with the agent during the period of the agent's suspension of ten months for breaching of provisions of the overseas regulations. The review of the related documents revealed that M/s Tenzu Overseas Employment Agent had illegally sent 39 candidates without prior approval from the Ministry and had illegally collected Nu. 7.548 million from candidates for visa processing, air tickets, security deposits, transportation charges, hotel and service charges, etc.

The case was reported to the MoLHR and accordingly the Ministry filed criminal complaint against the proprietor of M/s Tenzu Overseas Employment Agent to the Royal Bhutan Police, Thimphu for committing the fraud and deceptive practices. The Ministry could not initiate court proceeding against the proprietor as his whereabouts was not known. *(AIN: 13694; Para 2a(3); Accountabilities: Direct: Tshewang Rinchen, Program Officer, EID No.201001013; Supervisory: Kinley Dorji, Chief Employment Officer EID No.9507333)*

## 2. Violations of laws and rules

There were cases of violations of laws and rules as summarised below:

Sl. No.	Observation in Brief	Nu. in million
2.1	Irregularities in the operation and functioning of the Bhutanese Overseas Employment Agents	-
2.2	Non-payment of salaries and other packs as per the terms and conditions	-
2.3	Irregularities in the implementation of Youth Employment Skills Program	-
2.4	Irregularities in the implementation of Graduate Skills Program	-
	<b>Total</b>	<b>-</b>

There were cases of violations of laws and rules as indicated below:

## **2.1 Irregularities in the operation and functioning of the Bhutanese Overseas Employment Agents**

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The MoLHR had received verbal complaint against the agent for illegal deployment of the candidates in various countries, collection of fees and making advertisement of job vacancies in the social network without prior permission of the Ministry. Based on the complaints received, the Department of Employment had conducted Special Inspection of the agent's related documents and submitted special inspection report on the following violation of the provisions of the Regulation on Bhutanese Overseas Employment Agent 2013:

- a) List of candidates was illegally sent to Korea without any approval from the Administration.
- b) Illegal collection of money from the candidates amounting to not less than Nu.18 lakhs.
- c) In the list of candidates sent to Malaysia, one additional candidate Chenzom Dorji was sent without approval of the Ministry.

From the inspection report, it was noted that the agent had violated clauses 11.2.1, 11.2.5, 11.2.12, 11.2.15 and 11.2.16 of the "Regulation on Bhutanese Overseas Employment Agent, 2013". The penalty for violation of each clause was suspension of license for two months to six months for 1st offence committed.

The Ministry had initiated action against the Agent by issuing suspension of license for 10 months for breaching provisions of the overseas regulations. The above irregularities had occurred due to non-enforcement of the provisions of the Regulation on Bhutanese Overseas Employment Agent, 2013. The agent's arrest has not materialized although arrest warrant had been issued by the Royal Court of Justice, Paro as his whereabouts was not known. *(AIN: 13694; Para 2a(1); Accountabilities: Direct: Tshewang Rinchen, Program Officer, EID No. 201001013; Supervisory: Kinley Dorji, Chief Employment Officer, EID No. 9507333)*

## **2.2 Non-payment of salaries and other packs as per the terms and conditions**

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The MoLHR had received complaint against the business associate of M/s Tenzu Overseas Employment Agent in Malaysia for not adhering to the salary and other terms and conditions notified in the job vacancy announcement dully approved by the Ministry.

The Ministry based on the complaint received had written to the Agent instructing the agent and the counterpart in Malaysia to solve the issues at the earliest possible and report to the Ministry.

Further, the Ministry had written to the Superintendent of Police, Royal Bhutan Police, Thimphu informing that the MoLHR received written complaint against M/s Tenzu Overseas Employment Agent from the candidates, who were sent to various countries for employment. The official from Department of Employment, MoLHR, after investigation on the complaint found out that Tenzu Overseas Employment Agent has committed Fraud and Deceptive practice which are graded as criminal offence as per the Bhutan Penal Code, 2004. The Ministry could not initiate court

proceeding against the proprietor as his whereabouts was not known. (AIN: 13694; Para 2a(2); Accountabilities: Direct: Tshewang Rinchen, Program Officer, EID No. 201001013; Supervisory: Kinley Dorji, Chief Employment Officer, EID No. 9507333)

### **2.3 Irregularities in the implementation of Youth Employment Skills Program**

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The Department of Human Resources in line with the commitment of the RGoB, the Ministry of Labour & Human Resources had adopted various strategies and program to address the issues of youth unemployment in Bhutan under the Economic Stimulus Plan (ESP) fund. It has implemented employment based training program through Youth Employment Skills (YES) Program in partnership with local registered training providers where a total of more than 200 youth were to be employed under this program in the economic sectors of Construction, Hospitality and Tourism, Service and Trading and Education and Training in the country. In order to curb the Youth unemployment concern, the Royal Government of Bhutan had committed to bring down the youth unemployment to 5% by July 2015. Accordingly, Nu.16.602 million was paid to local registered training providers under the scheme.

YES Program was a need based HRD intervention to address the immediate shortages in the labour market through short term skills training program. The overall objective of the program was to promote “gainful employment of Bhutanese and achieve full employment target set by the Royal Government of Bhutan”. Due to inadequate supervision and monitoring mechanism put in place, it has not only failed to ensure course completions by the candidates, quality delivery of courses and employments on regular basis by the employers and Industries but also impeded effective implementation of the program. The training providers had failed to ensure regular employment of the candidates after the trainings thus defeating the very essence of the clauses of the YES program thereby non achievement of the program objectives to promote “gainful employment of Bhutanese and achieve full employment target set by the Royal Government of Bhutan” and the commitments of the Royal Government of Bhutan to bring down the youth unemployment to 5% by July 2015.

The Ministry reported having initiated remedial measures including amendment of guidelines, improving supervision and monitoring through development of forms, instituting course registration system, development of employment tracking system of the job seekers, etc. (AIN: 14247; Para 3; Accountabilities: Direct: Jit Bahadur Bandari, Program Officer, EID No. 20100102; Supervisory: Kinley Wangdi, Director, EID No. 9107113, Tenzin Choden, Officiating Program Officer, EID No. 200501036)

### **2.4 Irregularities in the implementation of Graduate Skills Program**

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The Department of Human Resources in line with the commitment of the RGoB, the Ministry of Labour & Human Resources had adopted various strategies and program to address the issues of youth unemployment in Bhutan under the Economic Stimulus Plan (ESP) fund. It has implemented employment based training program through Graduate Skills Program (GSP) in partnership with local registered training providers where a total of 100 youth were to be

employed. The Royal Government of Bhutan had committed to bring down the youth unemployment to 5% by July 2015.

As per the Term of Reference (ToR), the Graduate Skills Program (GSP) is designed specifically for graduate jobseekers aspiring to set up their own business or seek employment in Private Sector having two core elements:

- ✓ Core Skills: which will provide specific skill set to the graduates (Eg: software/ application development, web development, food processing, furniture making, noodle making, agriculture, fishery, etc.)
- ✓ Soft Skills: which will provide soft skills such as communication, business management, marketing, accounting, resource management and procurement skills.

The training is to be imparted in collaboration with the Registered Training Provider in the country and as per the Rapid Market Appraisal (RMA) or Area Potential Survey (APS) study and be either institution based or industry based. The overall objective of the program is to promote gainful employment and achieve full employment target set by the Royal Government of Bhutan. Accordingly, Nu.7.027 million was paid to local registered training providers under the scheme.

Due to inadequate supervision and monitoring mechanism put in place, it has not only failed to ensure course completions by the candidates, quality delivery of courses and employments on regular basis by the employers and Industries but also impeded effective implementation of the program. No measures were put in place to ensure that the employers/Industry did not violate the agreement and relieve employed candidates on various grounds after the Training Providers were paid the final employment cost, and candidates were retained for a minimum agreed period of three years by the employers/Industries as stipulated in the contract agreement.

The training providers had failed to ensure regular employment of the candidates after the trainings thus defeating the very essence of the clauses of the GSP program thereby non achievement of the program objectives to promote “gainful employment of Bhutanese and achieve full employment target set by the Royal Government of Bhutan” and the commitments of the Royal Government of Bhutan to bring down the youth unemployment to 5% by July 2015.

The ministry reported of having developed database system to record all details of the candidates under YES and GSP, and to deregister the non-performing training providers. *(AIN: 14247; Para 4; Accountabilities: Direct: Jit Bahadur Bandari, Program Officer, EID No. 20100102; Supervisory: Kinley Wangdi, Director, EID No. 9107113, Tenzin Choden, Officiating Program Officer, EID No. 200501036)*

### **3. Shortfalls, lapses and deficiencies – Nu. 1.845 million**

There were cases of shortfalls, lapses and deficiencies involving Nu. 1.845 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
3.1	Inadmissible payment	1.845
3.2	Non-evaluation of the services rendered by the Training Providers	-
	<b>Total</b>	<b>1.845</b>

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

### 3.1 Inadmissible payment - Nu. 1.845 million

The GoI funded “Construction of Vocational Training Institute” under the Department of Human Resources had made inadmissible payment of Nu.1.845 million to the contractor on account of additional works for retaining walls and drains, brick works and electrical works. The inadmissible payment had occurred as the additional works were within the scope of works covered under Lump-sum Contract and in context to Addendum issued. (AIN: 13773; Para 1; Accountabilities: Direct: Choki Wangmo, Engineer, EID No.200807226; Supervisory: Sangay Dorji, Chief Program Officer, EID No. 9109013)

### 3.2 Non-evaluation of the services rendered by the Training Providers

The Department of Human Resources had not carried out any form of evaluation of the service providers except that as envisaged in the TOR and the contract agreement, the training providers were required to submit the ‘Employment Record along with the final training report and the appointment order of the candidate’ and that too for release of the final 40% /60% training and employment cost. No mechanism was instituted for evaluating the types of services and outputs delivered to ensure that intended objective and value for money were achieved vis-à-vis the actual impact created in addressing the Youth unemployment problems and achieving full employment target set by the Royal Government of Bhutan.

The ministry has reported improvement in the modality of training implementing process, increase in the percentage of employment, and mechanism instituted to deregister the non-performing training providers. (AIN: 14247; Para 6; Accountabilities: Direct: Jit Bahadur Bandari, Program Officer, EID No. 20100102; Supervisory: Kinley Wangdi, Director, EID No. 9107113, Tenzin Choden, Officiating Program Officer, EID No. 200501036)

#### 4.1.5. Ministry of Finance

During the period, the RAA had issued 19 audit reports of the Ministry of Finance (MoF) and its Departments, Divisions and Units. There were 18 observations pointed out in the reports involving Nu. 15.207 million, out of which eight observations amounting to Nu.4.059 million were either resolved prior to the compilation of the draft AAR 2016 or were not material enough for inclusion in the draft AAR 2016. The total unresolved significant observations reflected in the draft AAR 2016 amounted to Nu. 11.148 million.

Based on actions taken by the Ministry and its Departments, Divisions and Units, observations amounting to Nu. 1.833 million were resolved. The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 9.315 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Mismanagement	4.115	3
2	Violation of laws and rules	4.038	4
3	Shortfalls, lapses and deficiencies	1.162	5
	<b>Total</b>	<b>9.315</b>	

## 1. Mismanagement - Nu. 4.115 million

There was a case of mismanagement as indicated below:

### 1.1 Short levy of sales tax and green tax – Nu. 4.115 million

The Regional Revenue and Customs Office, Phuentsholing had short levied sales tax and green tax of Nu. 8.700 million during the year 2015 from the imported vehicles. The less selling price of vehicles reflected in the bills of the dealer as compared with Excise Invoice of the manufacturer/dealer had led to less amount declared by the importer resulting in short collection of BST and Green tax. Subsequently, Nu. 4.585 million was recovered/adjusted leaving a balance of Nu. 4.115 million. The case is subjudice. *(AIN: 13606; Para 1; Accountabilities: Direct: Kesang Yeshay, Asstt. Collector, EID No.200801145; Supervisory: Dhendup, Joint Collector, Customs, EID No. 200601043)*

## 2. Violation of laws and rules - Nu. 4.038 million

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

Sl. No.	Observation in Brief	Nu. in million
2.1	Short-levy of liquidated damages	4.038
2.2	Non-achievement of required thickness of premix carpeting	-
2.3	Pending Desk Assessment of PIT	-
	<b>Total</b>	<b>4.038</b>

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

### 2.1 Short-levy of liquidated damages – Nu. 4.038 million

The Regional Revenue and Customs Office, Gelephu had short levied liquidated damages of Nu.4.038 million against the contractor, M/s Taju Construction, Paro who had been awarded the construction of five storied RRCO building and related works at the tendered amount of Nu.135.434 million for delay in completion of works despite the lapse of successive extended deadlines and failure to hand over the work to the agency. Out of the total recoverable liquidated damages amounting to Nu. 10.990 million, the RRCO had levied Nu. 6.952 million resulting in short levy of Nu. 4.038 million. *(AIN: 13906; Para 1.2; Accountabilities: Direct: Wangchuk Namgay, Site Engineer, CID No.:10709002514, Kezang, Sr. Adm. Assistant/PM, EID No. 2107120; Supervisory: Ugyen Norbu, Regional Director, EID No. 9711003)*

## 2.2 Non-achievement of required thickness of premix carpeting

The required thickness of premix carpeting was not achieved in the construction of parking area of the Regional Revenue and Customs Office, Gelephu. As per the provision of Bill of Quantities, 50 mm thick premix carpeting was to be laid mechanically for the parking area with standard thickness of seal coat against which the contractor provided only 40mm thick on average, thus compromising the quality of parking area. The non-achievement of the required thickness had occurred apparently due to inadequate supervision and improper verification and certifying of contractor's bills for payments by the site engineer/supervising engineer. (AIN: 13906; Para 1.4; Accountabilities: Direct: Wangchuk Namgay, Site Engineer, CID No.10709002514, Kezang, Sr. Adm. Assistant/PM, EID No.2107120; Supervisory: Ugyen Norbu, Regional Director, EID No.9711003)

## 2.3 Pending Desk Assessment of PIT

The Regional Revenue and Customs Office, Samtse had pending Desk Assessment of PIT for 635 number of tax filers in contravention to Chapter 2 Clause 1.2 of the General Provision on rules on the Income Tax Act of the Kingdom of Bhutan 2001 which stipulates that “Desk Assessment shall be carried out when the tax return is submitted or within 90 days thereafter (CIT/BIT on 31<sup>st</sup> March and PIT on 1<sup>st</sup> March)”, where CIT and BIT should be completed on June 30, 2016 and PIT on May 01, 2016 respectively.

The management reported that 281 cases had been assessed leaving a balance of 354. (AIN: 14200; Para 1; Accountabilities: Direct: Sonam Dorji, Joint Collector, EID No. 8709021; Supervisory: Wangdi Drugyel, Regional Director, EID No. 9610059)

## 3. Shortfalls, lapses and deficiencies - Nu. 1.162 million

There were cases of shortfalls, lapses and deficiencies involving Nu.1.162 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
3.1	Acceptance of defective estimates and execution of work without providing the expansion joints as specified in drawing	-
3.2	Excess payment	0.530
3.3	Payment made without receipt of office furniture	0.181
3.4	Outstanding advances	0.451
	<b>Total</b>	<b>1.162</b>

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

### 3.1 Acceptance of defective estimates and execution of work without providing the expansion joints as specified in drawing

The Regional Revenue and Customs Office, Gelephu had accepted defective works in the construction of RRCO building awarded to M/s Taju Construction, Paro at a tendered amount of

Nu. 135.434 million. The item 'Rubber expansion joints' as specified in drawing was not incorporated in the estimate/BoQ and also not provided at site during the execution. This clearly indicated the lack of professional and technical competency of the consultants hired at huge cost, and the site supervisor's failure to bring such inadequacies in the BoQ to the notice of the Department at the time of execution of the work so as to incorporate remedial measures. (AIN: 13906; Para 1.1; Accountabilities: Direct: Wangchuk Namgay, Site Engineer, CID No.:10709002514, Kezang, Sr. Adm. Assistant/PM, EID No.2107120; Supervisory: Ugyen Norbu, Regional Director, EID No.9711003)

### **3.2 Excess payment- Nu. 0.530 million**

The Regional Revenue and Customs Office, Gelephu had made excess payment of Nu.0.530 million to the contractor for the construction of RRCO building. The excess payment had occurred due to higher payment made in PCC and RRM wall for footing pads and at base of wall laid under the plinth beam not conforming to the dimension specified in the drawing and deviating the quantum of work from the scope of work. (AIN: 13906; Para 1.3; Accountabilities: Direct: Wangchuk Namgay, Site Engineer, CID No.:10709002514, Kezang, Sr. Adm. Assistant/PM, EID No.2107120; Supervisory: Ugyen Norbu, Regional Director, EID No.9711003)

### **3.3 Payment made without receipt of office furniture - Nu. 0.181 million**

The Regional Revenue and Customs Office, Gelephu had made payment of Nu.0.181 million to M/s. Bhutan Furniture House, Thimphu without receipt of furniture, even after a lapse of ten months as observed during physical verification conducted by the audit team which was in violation of financial and budgetary norms. (AIN: 13906; Para 4; Accountabilities: Direct: Kezang, Sr. Adm. Assistant/PM, EID No.2107120; Supervisory: Ugyen Norbu, Regional Director, EID No.9711003)

### **3.4 Outstanding advances - Nu. 0.451 million**

- a) The Liaison and Transit Office, Royal Bhutan Customs, Kolkata had granted personal advances of Nu. 0.364 million to employees from Subsidiary Budget Account in contravention to Chapter IV, sub-section 4.1.4.2 (d) Financial Rules and Regulation 2001 on Temporary Advances. (AIN: 14203; Para 1; Accountabilities: Direct: Ugyen Namgyel, Commissioner, LTO, EID No.:9101155, Ram Chandra Mohat, Local Recruit, CID: LXQ0179218; Supervisory: Ugyen Namgyel, Commissioner, LTO, EID No.: 9101155)
- b) The Liaison and Transit Office, Royal Bhutan Customs, Kolkata had overdue outstanding advances of Nu. 0.087 million against the officials. (AIN: 13781; Para: 2.3; Accountabilities: Direct: Mon Bahadur Ghalay, Sr. Accountant, EID No. 8412022; Supervisory: Ugyen Namgyel, Commissioner, EID No. 9101155)

#### **4.1.6. Ministry of Education**

During the period, the RAA had issued 30 audit reports of the Ministry of Education and its Departments, Divisions, Units and Central Schools. There were 56 observations pointed out in

the reports involving Nu. 20.759 million, out of which 36 observations amounting to Nu. 9.409 million were either resolved prior to the compilation of the draft AAR 2016 or were not material enough for inclusion in the draft AAR 2016. The total unresolved significant observations reflected in the draft AAR 2016 amounted to Nu. 11.350 million.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the Ministry and its Departments, Divisions and Units, observations amounting to Nu. 3.028 million were resolved. The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 8.322 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Fraud, Corruption & Embezzlement	6.665	1 & 2
2	Mismanagement	0.140	3
3	Violations of laws and rules	1.441	4
4	Shortfalls, lapses and deficiencies	0.076	5
<b>Total</b>		<b>8.322</b>	

## **1. Fraud, Corruption & Embezzlement - Nu. 6.665 million**

There was a case with possible elements of fraud, corruption and embezzlement involving Nu. 6.665 million as indicated below:

### **1.1 Serious misrepresentation of facts - Nu. 6.665 million**

The MoE's International Assisted Project funded the construction of Retaining wall (130 m long & 6 m height) along the school football field of the Minjey Middle Secondary School valuing Nu.6.665 million awarded to M/s T.K Construction. The work was insured with Bhutan Insurance Limited in line with the contract terms.

The work was completed on 25<sup>th</sup> September 2014 and taken over on 3<sup>rd</sup> December 2014 by Committee comprising of the officials from the Dzongkhag Administration, Gewog Administration & SPBD. The review of records in relation to the contract documents and payments vis-a-vis joint physical verification of the work at site revealed that there was only some remains of one end of the wall at the site. On inquiry, the school principal had informed that the said retaining wall was washed away by the slide while the work was in progress and the contractor had never reconstructed the wall thereafter.

The management accepted that the wall was damaged and justified that the Project management had disposed off the issue on the ground that the construction of retaining wall was not felt necessary on reorientation of the layout of the football ground instead of taking appropriate steps to make good the huge investment of Nu.6.665 million through either reconstruction of the walls or insurance claims as the works were already insured by the contractor in terms of item of work of the BOQs. The inaction on the part of the Project Management indicated possible existence of collusion with the contractor. It is apparent that the payments had been made in entirety although the works were in progress giving doubt on the accuracy of claims and payments.

Subsequently, in their second response, the SPBD has contradicted the initial response by indicating that the wall was intact, but covered under the soil due to re-orientation of the football ground and backfilling. (AIN: 14079; Para 1; Accountabilities: Direct: Phuntsho Tobgay, Engineer, EID No.200407005; Supervisory: Diwakar Lama, Project Engineer, EID No.8808002)

## **2. Mismanagement - Nu. 0.140 million**

The case of mismanagement is as indicated below:

### **2.1 Unjustified cash withdrawal and retention of huge cash - Nu. 0.140 million**

The Bjishong Central School, Damji, Gasa had made unjustified cash withdrawals amounting to Nu.0.500 million between December 2014 to June 2015, out of which the management had retained cash balances amounting to Nu. 0.211 million and had not adjusted or carried forward the cash balance to the next financial year 2015-2016. While the withdrawals were made for meeting expenses related to utilities, school events, fuel for School bus and official tours, the actual expenses only amounted to a total of Nu.0.289 million during the period. A sum of Nu. 0.071 million was deposited into Audit Recoveries Account leaving a balance of Nu. 0.140 million. (AIN: 13924; Para: 1; Accountabilities: Direct: Sonam Wangchuk, Account Assistant VI, EID No.200807278; Supervisory: Karma Sangay, Principal, EID No. 9908305)

## **3. Violations of laws and rules - Nu. 1.441 million**

There were cases of violations of laws and rules involving Nu. 1.441 million as indicated below:

Sl. No.	Observation in Brief	Nu. in million
3.1	Expenditure Booked without Vouchers	0.157
3.2	Deficiencies in the supply and installation of Statues	-
3.3	Materials not yet received by the School Management	1.284
	<b>Total</b>	<b>1.441</b>

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

### **3.1 Expenditure Booked without Vouchers - Nu.0.157 million**

The Damphu Central School, Tsirang had booked expenses amounting to Nu.0.157 million in the General Cash book without preparing proper vouchers for the payments in absence of which authenticity of expenditures could not be ascertained. This was also in violation to the accounting norms. (AIN: 14063; Para: 2; Accountabilities: Direct: Karma Choney Dorji, Accountant, CID No. 11601002873; Supervisory: Dawa Tshering, Principal, EID No. 200207377)

### **3.2 Deficiencies in the supply and installation of Statues**

The Damphu Central School, Tsirang had directly awarded the supply and installation of statues worth Nu.0.160 million to supplier without adhering to the procurement formalities and financial norms. The supplier was also liable for 10% liquidated damages of Nu.0.016 million for delay in supply/completion of works. (AIN: 14063; Para: 3; Accountabilities: Direct: Karma

*Choney Dorji, Accountant, CID No. 11601002873; Supervisory: Dawa Tshering, Principal, EID No. 200207377)*

### **3.3 Materials not yet received by the School Management - Nu.1.284 million**

The Damphu Central School, Tsirang had not received supplies worth Nu.1.284 million from suppliers within the agreed time of 30<sup>th</sup> May 2016. Despite time extensions granted by the School Procurement Committee till 23<sup>rd</sup> July 2016, the materials had not been received by the school as of 19<sup>th</sup> August 2016. Time extension was granted without any valid reasons and management had agreed to levy liquidated damages from 1<sup>st</sup> June 2016. *(AIN: 14063; Para: 4; Accountabilities: Direct: Karma Choney Dorji, Accountant, CID No. 11601002873; Supervisory: Dawa Tshering, Principal, EID No. 200207377)*

## **4. Shortfalls, lapses and deficiencies - Nu.0.076 million**

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

### **4.1 Non-adjustment of advances on time - Nu.0.076 million**

The Damphu Central School, Tsirang had overdue outstanding advances of Nu.0.076 million against officials. *(AIN: 14063; Para: 1; Accountabilities: Direct: Karma Choney Dorji, Accountant, CID No. 11601002873; Supervisory: Dawa Tshering, Principal, EID No. 200207377)*

#### **4.1.7. Ministry of Foreign Affairs**

During the period, the RAA had issued seven audit reports of the Ministry of Foreign Affairs (MoFA) and its Departments, Divisions and Units. There were 24 observations pointed out in the reports involving Nu. 4.956 million, out of which seven observations amounting to Nu. 2.535 million were either resolved prior to the compilation of the draft AAR 2016 or were not material enough for inclusion in the draft AAR 2016. The total unresolved significant observations reflected in the draft AAR 2016 amounted to Nu. 2.421 million.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the Ministry and its Departments, Divisions and Units, observations amounting to Nu.1.462 million were resolved. The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 0.959 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Mismanagement	0.298	3
2	Violation of laws and rules	0.586	4
3	Shortfalls, lapses and deficiencies	0.075	5
<b>Total</b>		<b>0.959</b>	

### **1. Mismanagement – Nu. 0.298 million**

There was a case of mismanagement is as indicated below:

### 1.1 Short accountal and deposit of revenue and penal interest - Nu.0.298 million

The Secretariat, MoFA had short accountal and deposits of Nu. 0.077 million and Nu. 0.221 million on account 24% penal interest for late deposits of revenue collections pertaining to Passport Fees. There were discrepancies in revenue collections and deposits as recorded in the Revenue Accounting System (RAS) against actual deposit made into the RGR bank account. (AIN: 14111; Para: 1.1; Accountabilities: Direct: Tashi Tshering, Accounts Assistant, EID No.9807016; Supervisory: Yeshey Zangmo, Accounts Officer, EID No.200501093)

## 2. Violation of Laws & Rules – Nu. 0.586 million

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

### 2.1 Booking of prior year advances without budget line - Nu. 0.586 million

The Royal Bhutanese Consulate, Kolkata had not rectified prior period errors in the system for expenditure amounting to Nu.0.586 million on account of Deposit Work of constructing boundary wall in Rajgir during the financial year 2012-13. (AIN: 13704; Para: 3; Accountabilities: Direct: Nim Dorji, Consul (Finance), EID No. 7905009; Supervisory: Nim Dorji, Consul (Finance), EID No. 7905009)

## 3. Shortfalls, lapses and deficiencies – Nu. 0.075 million

There were cases of shortfalls, lapses and deficiencies involving Nu. 0.075 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
3.1	In-admissible payment of drinking water charges	-
3.2	Outstanding advances	0.075
3.3	Missing of Revenue Receipt Booklet	-
	<b>Total</b>	<b>0.075</b>

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

### 3.1 In-admissible payment of drinking water charges

The Royal Bhutanese Embassy, Dhaka had made in-admissible payments for drinking water charges for the diplomats at their residences in contravention to the decision taken in the tri-partite meeting of the RAA, Ministry of Finance and Ministry of Foreign Affairs. (AIN 13703; Para 3; Accountabilities: Direct: Tashi Jamtsho, Dy. Chief Accounts Officer, EID No.9711013; Karma S Tshosar, Chief, IOD, MoFA, EID No.9612009; Kinzang Dorji C, Desk Officer, MoFA, EID No.200601114; Yonten Gyamtsho, Counselor (Trade), EID 9901087; Karma Wangmo, PA, EID No.200611095; Supervisory: Aum Pema Choden, Ambassador, EID No.8905094; Karma S Tshosar, Chief, IOD, MoFA, EID No.9612009)

### 3.2 Outstanding advances - Nu.0.075 million

The Royal Bhutanese Embassy, Bangkok had overdue outstanding balance of Nu. 0.075 million on account of personal advance to employee. *(AIN: 14103; Para: 1; Accountabilities: Direct: Thinley Norbu, HoC, EID No. 20021105; Supervisory: Thinley Norbu, HoC, EID No. 200211057)*

### 3.3 Missing of Revenue Receipt Booklet

The Secretariat, MoFA had not produced Revenue Receipt Booklet bearing serial No. 3255301 to 3255400 for audit verification. In absence of which collections made if any could not be verified. *(AIN: 14111; Para: 7; Accountabilities: Direct: Tashi Tshering, Account Assistant, EID No.: 9807016; Supervisory: Yeshey Zangmo, Accounts Officer, EID No.:200501093)*

#### 4.1.8. Ministry of Economic Affairs

During the period, the RAA had issued 23 audit reports of the Ministry of Economic Affairs (MoEA) and its Departments, Divisions and Units. There were 15 observations pointed out in the reports involving Nu. 4.476 million, out of which 17 observations amounting to Nu.0.143 million were either resolved prior to the compilation of the draft AAR 2016 or were not material enough for inclusion in the draft AAR 2016. The total unresolved significant observations reflected in the draft AAR 2016 amounted to Nu. 4.333 million.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the Ministry and its Departments, Divisions and Units, observations amounting to Nu. 3.557 million were resolved. The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 0.776 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Fraud, Corruption & Embezzlement	-	1 & 2
2	Violation of laws and rules	-	4
3	Shortfalls, lapses and deficiencies	0.776	5
Total		0.776	

#### 1. Fraud, Corruption & Embezzlement

There was a case with possible elements of fraud, corruption and embezzlement as indicated below:

##### 1.1 Possible fronting case of license

The Asian Development Bank funded Project “Rural Renewable Energy Development” implemented by Department of Renewable Energy had booked the expenditure for conducting detailed survey of grid electrification of potential off-grid households in the name of M/s Norlha Engineering, but the payment was released in the name of M/s ChhimiD Consulting upon request by Chhimi Dorji, the Authorized Representative and Coordinator of M/s ChhimiD Consulting,

Thimphu. The reason stated was that M/s Norlha Engineering and Management Consultant do not have bank account maintained with the BoB.

The payment of cheque in the name of M/s ChhimiD Consulting, Thimphu instead of M/s Norlha Engineering and Management Consulting was a clear indication that the work was executed by the M/s ChhimiD Consulting Firm and M/s Norlha Engineering and Management Consultant had only submitted the bids. Further, it was also noticed that in the letter of Authorization, Chhimi Dorji, Environment Specialist was appointed as the focal person and coordinator of M/s Norlha Engineering and Management Consultant, whereas the powers of Attorney issued specifically mentioned that Mr. Chhimi Dorji is a Managing Partner of M/s Norlha Engineering and Management Consultant, which is clear indication of possible fronting case.

Further, Mr. Chimmi Dorji had signed the Integrity Pact as a proprietor and the original bidder, Mr. Yeshi Dorji, the proprietor of M/s Norlha Engineering and Management had signed as a witness, which was not appropriate. *(AIN: 14118; Para 1.2; Accountabilities: Direct: Galey Dorji, Project Manager, EID No. 20140103273; Supervisory: Satchi, Chief Engineer, EID No.200201108)*

## 2. Violation of Laws and Rules

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

### 2.1 Submission of wrong information in key professional staff

M/s Norlha Engineering and Management Consultancy had wrongly submitted the information of its key professional staff for the tender evaluation to conduct detailed survey for grid electrification of potential off-grid households under Asian Development Bank funded Project “Rural Renewable Energy Development” implemented by Department of Renewable Energy.

Mr. Chhimi Dorji, proprietor of M/s ChhimiD Consulting Firm was shown as Environment Specialist of M/s Norlha Engineering and Management consultant scoring 10 points in the technical evaluation. Similarly, the Curriculum Vitae of Ms. Gaki, Sociologist of M/s ChimmiD Consulting firm was changed to show her as Sociologist of M/s Norlha Engineering and Management Consultancy firm scoring 8 points in the technical evaluation. The amended CV was signed by Mr. Chhimi Dorji, but did not have the signature of Ms. Gaki. Due to the inclusion of the above professionals in the bidding documents, the firm had been awarded 18 points extra and qualified for the financial bid. *(AIN: 14118; Para 1.1; Accountabilities: Direct: Galey Dorji, Project Manager, EID No. 20140103273; Supervisory: Satchi, Chief Engineer, EID No. 200201108)*

## 3. Shortfalls, Lapses and Deficiencies – Nu. 0.776 million

There were cases of shortfalls, lapses and deficiencies involving Nu. 0.776 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
3.1	Non-refund of balance fund	0.204
3.2	Outstanding Advances	0.572
	<b>Total</b>	<b>0.776</b>

The cases of shortfalls, Lapses and Deficiencies are as indicated below:

### 3.1 Non-refund of balance fund - Nu. 0.204 million

The Department of Geology and Mines had not refunded unspent fund balance of Nu.1.438 million to the concerned clients against the deposit works for the financial year 2014-15. The unutilized fund balance had not been refunded to the clients apparently due to non-submission of work completion report to the accounts section by the respective divisions for making necessary adjustments and payments accordingly. The agency reported of having refunded Nu. 1.234 million to clients leaving a balance of Nu. 0.204 million. (AIN: 13726; Para 1; Accountabilities: Direct: Sangay Tshering, Offtg. Chief Mining Engineer, EID No.200401042; Supervisory: Ugyen Wangda, Chief Geologist, EID No.7905030)

### 3.2 Outstanding Advances - Nu. 0.572 million

The World Bank funded Project 'Bhutan Regional Trade and Transport Studies' implemented by the Department of Trade had overdue outstanding advances of Nu. 0.572 million against an official. (AIN: 14013; Para 1; Accountabilities: Direct: Sonam Phuntsho, Dy. Chief ICT Officer, EID No. 200601082; Supervisory: Jigme Thinley Namgyal, Director, EID No. 9306026)

#### 4.1.9. Ministry of Health

During the period, the RAA had issued 23 audit reports of the Ministry of Health (MoH) and its Departments, Divisions and Units. There were 31 observations pointed out in the reports involving Nu. 28.974 million, out of which 15 observations amounting to Nu. 6.117 million were either resolved prior to the compilation of the draft AAR 2016 or were not material enough for inclusion in the draft AAR 2016. The total unresolved significant observations reflected in the draft AAR 2016 amounted to Nu. 22.857 million.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the Ministry and its Departments, Divisions and Units, observations amounting to Nu. 22.857 million were resolved. The total unresolved significant irregularities reflected in the AAR 2016 are as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Mismanagement	-	3
2	Violation of laws and rules	-	4
3	Shortfalls, lapses and deficiencies	-	5
	<b>Total</b>	-	

#### 1. Mismanagement

The case of mismanagement is as indicated below:

## 1.1 Non-operational Chiller Machines lying idle for more than 5 years due to non/inappropriate repairs

The MoH had installed four Chiller machines at a cost of Nu. 21.000 million in the construction of the 350-Bedded Jigme Dorji Wangchuck National Referral Hospital. The machines commissioned in August 2010 had stopped working after four months and were found defunct and non-operational. The management had not ensured commissioning of machines on time and adequate testing of chiller machines. The contractor also failed to provide adequate repairs during the defect liability period due to which the chiller kept breaking down and have been found lying idle for more than five years, resulting into wastage of government scarce resources. The President, JDWNRH has stated that the chiller machines were procured and installed as part of the 350-Bedded Hospital Construction Project implemented by the Health Infrastructure Development Division under the Ministry of Health. (AIN: 13992; Para: 8.1; Accountabilities: Direct: Sonam Tshering, Executive Engineer, CID No. 11607002058; Kencho Zangmo, Asstt. EE, EID No. 9907142; Supervisory: Jamphel Dorji, Dy. EE, EID No. 9101145)

## 2. Violation of laws and rules

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

Sl. No.	Observation in Brief	Nu. in million
2.1	Ineligible award of training	-
2.2	Non-rectification of defective works within the Defect Liability Period and non-enforcement of the provisions of the contract	-
2.3	Non-delivery of Operating instructions & maintenance manual and On-Site Training	-
2.4	Inadequate property safeguards	-
	<b>Total</b>	-

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

### 2.1 Ineligible award of training

The Human Resource Committee, MoH had nominated an Administrative Assistant of Department of Public Health for Training on 'Database Management System with MS Access and SQL Application' at Flex-Sharp in Bangkok, Thailand from the Global Fund Support to National Aids Control Program under New Funding Module (NFM). The expenditure incurred on the training was ineligible in terms of the Global Fund Guidelines for Grant Budgeting and Annual Financial Reporting 2014. Also, the training was not as per the NFM-Annual Work plan and not budgeted. The expenditure was met from the three PLC accounts viz, GFATM-NFM-HIV/AIDS Programme, GFATM-NFM-TB Control Programme and WHO Programme. (AIN: 14122; Para 1; Accountabilities: Direct: Phub Zam, Adm. Assistant, EID No.2004078007; Namgay Tshering, Program Officer, NACP, DoPH, MoH, EID No. 200501166; Supervisory: Dr. Ugyen Dopu, DG, EID No.2901064; Dr. Pandup Tshering, Director, EID No.9009097; Sonam Jamtsho, Director, EID No.9306020; Sonam Yangchen, Offtg. CPO, 20091016; Namgay Wangchuk, CHRO, EID

No.200201047; Tshering Dema, CAO, EID 200501094; Dr. Dorji Wangchuk, Secretary, EID No.8503033)

## **2.2 Non-rectification of defective works within the Defect Liability Period and non-enforcement of the provisions of the contract**

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The MoH had failed to enforce various provisions of the contract agreement with regard to repair, maintenance and rectifications of work within the defect liability period for the four Chiller machines installed at the hospital premise during the construction of the 350-bedded Jigme Dorji Wangchuck National Referral Hospital. The management had not only allowed breach of contract but also made payments for repairs work carried out only after the expiry of the defect liability period. (AIN: 13992; Para: 8.2; Accountabilities: Direct: Sonam Tshering, Executive Engineer, CID No. 11607002058; Kencho Zangmo, Asstt. EE, EID No. 9907142; Supervisory: Jamphel Dorji, Dy. EE, EID No. 9101145)

## **2.3 Non-delivery of Operating instructions & maintenance manual and On-Site Training**

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The MoH had failed to ensure that the contractor supplied and delivered the Operating Instructions & Maintenance Manuals and Log Books, as well as to impart On-Site Training for maintenance of machines to the JDWNRH technicians as agreed in the contract agreement with regard to the four Chiller machines installed at the hospital premise in the construction of the 350-bedded Jigme Dorji Wangchuck National Referral Hospital. (AIN: 13992; Para: 8.3; Accountabilities: Direct: Sonam Tshering, Executive Engineer, CID No. 11607002058 Kencho Zangmo, Asstt. EE, EID No. 9907142; Supervisory: Jamphel Dorji, Dy. EE, EID No. 9101145)

## **2.4 Inadequate property safeguards**

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The MoH had not accounted for equipment i.e. chillier plants worth Nu.21.000 million in the inventory register during the construction of the 350-bedded Jigme Dorji Wangchuck National Referral Hospital. (AIN: 13992; Para: 8.4; Accountabilities: Direct: Sonam Tshering, Executive Engineer, CID No. 11607002058; Kencho Zangmo, Asstt. EE, EID No. 9907142; Supervisory: Jamphel Dorji, Dy. EE, EID No. 9101145)

# **3. Shortfalls, lapses and deficiencies**

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## **3.1 Damages to equipment due to defunct chillers**

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The MoH in the construction of the 350-bedded Jigme Dorji Wangchuck National Referral Hospital, had installed four chiller plants that were not functioning/working which resulted in non-maintenance of required temperatures for various equipment and in the laboratories. A number of fridges/freezers were also damaged due to increase in room temperature and had affected effective service delivery. (AIN: 13992; Para: 8.5; Accountabilities: Direct: Sonam Tshering, Executive Engineer, CID No. 11607002058; Kencho Zangmo, Asstt. EE, EID No. 9907142; Supervisory: Jamphel Dorji, Dy. EE, EID No. 9101145)

## 4.2. DZONGKHAGS

### 4.2.1. Dzongkhag Administration, Trashiyangtse

During the period, the RAA had issued two audit reports of the Dzongkhag Administration, Trashiyangtse. There were 17 observations pointed out in the reports involving Nu. 54.415 million, out of which 10 observations amounting to Nu. 0.355 million were either resolved prior to the compilation of the draft AAR 2016 or were not material enough for inclusion in the draft AAR 2016. The total unresolved significant observations reflected in the draft AAR 2016 amounted to Nu. 54.060 million.

Based on the responses received after the issue of the draft AAR 2016 and action taken by the Ministry and agencies under it, observations amounting to Nu. 33.928 million were resolved. The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 20.132 million as summarized below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Violations of laws and rules	20.132	4
	<b>Total</b>	<b>20.132</b>	

#### 1. Violations of laws and rules – Nu. 20.132 million

There were cases of violations of laws and rules involving Nu. 20.132 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
1.1	Incomplete work booked under closed work	19.111
1.2	Non-levy of liquidated damages	0.524
1.3	Non-levy of liquidated damages	0.497
	<b>Total</b>	<b>20.132</b>

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

#### 1.1 Incomplete work booked under closed work - Nu. 19.111 million

- a) The Market Access and Growth Intensification Project (MAGIP) under Dzongkhag Administration, Trashiyangtse had booked expenditure on closed work valuing Nu. 0.878 million for the construction of Pump Irrigation Scheme without completing the works. The amount was deposited into refundable deposit account for future payments in violation of budgetary norms. (AIN: 13392; Para 1.1; Accountabilities: Direct: Nima Tshering, AE, EID No.201001720; Supervisory: Tshering Wangchuk, DE, EID No. 9307023)
- b) The Dzongkhag Administration, Trashiyangtse had booked Nu. 18.233 million as final expenditure for various incomplete constructions and deposited into Refundable Deposit Account for future payments. The lapses had occurred due to booking of final expenditure before completion of the work in violation of budgetary norms. (AIN: 13391; Para 1;

*Accountabilities: Direct: Nima Tshering, AE, EID No. 201001720, Sonam Wangdi, Dzongrab EID No. 9612007, Ugyen Zangmo, EID No. 200507220; Supervisory: Tshering Wangchuk, DE, EID No.9307023, Sonam Wangdi, Dzongrab EID No.9612007)*

## 1.2 Non-levy of liquidated damages – Nu. 0.524 million

The MAGIP under Dzongkhag Administration, Trashiyangtse had not levied liquidated damages of Nu. 0.524 million for delay in completion of Pump Irrigation Scheme beyond time extension granted by the tender committee. *(AIN: 13392; Para 1.2; Accountabilities: Direct: Nima Tshering, AE, EID No.201001720; Supervisory: Tshering Wangchuk, DE, EID No.9307023)*

## 1.3 Non-levy of liquidated damages – Nu. 0.497 million

The Dzongkhag Administration, Trashiyangtse had not levied liquidated damages of Nu. 0.497 million for delayed completion of contract by 17 days. The Dzongkhag Administration instead granted time extension after the completion of the work in violation to the terms and conditions of the contract. *(AIN: 13391; Para 3.2; Accountabilities: Direct: Ugen Zangmo, AE, EID No.200507220; Supervisory: Tshering Wangchuk, DE, EID No. 9307023)*

### 4.2.2. Dzongkhag Administration, Lhuentse

During the period, the RAA had issued two audit reports of the Dzongkhag Administration, Lhuentse. There were seven observations pointed out in the reports involving Nu. 10.375 million, out of which one observation amounting to Nu.0.033 million was resolved prior to the compilation of the draft AAR 2016. The total unresolved significant observations reflected in the draft AAR 2016 amounted to Nu. 10.342 million.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the agency, observations amounting to Nu. 0.858 million were resolved. The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 9.484 million as summarized below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Violations of laws and rules	9.484	5
	<b>Total</b>	<b>9.484</b>	

### 1. Violations of laws and rules – Nu. 9.484 million

There were cases of shortfalls, lapses and deficiencies involving Nu. 9.484 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
1.1	Direct award of additional works	9.484
1.2	Gradient not maintained as required in specification	-
	<b>Total</b>	<b>9.484</b>

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

## 1.1 Direct award of additional works - Nu. 9.484 million

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The Dzongkhag Level Tender Committee of the Dzongkhag Administration, Lhuentse had awarded the major renovation of Khawchung Lhakhang under Gangzur Gewog to M/s T Norbu Construction, Thimphu at a contract price of Nu.12.044 million based on competitive bidding.

Subsequently, to restore the site to its full functionality and utility within the campus, the additional works valuing Nu.9.484 million, which exceeded 20% of the original contract value, was directly awarded to the same contractor without the approval of competent authority as required under the PRR 2009 which stipulates as “*In case of additional works provided that the value of the additional work shall not exceed twenty percent (20%) of the original contract amount, or the maximum threshold value for the use of Limited Tender whichever is lower. Additional works exceeding twenty percent (20%) of the original contract price and subject to availability of budget within the same program, special approval must be sought from the competent authority*”. (AIN: 14157; Para 1.1; Accountabilities: Direct: Rinchen Nidup, Assistant Engineer, -111, 200407015; Supervisory: Pema Wangchuk, Assistant Accounts Officer, EID No. 20130101092, Kelzang Lhundrup, District Engineer, EID No. 9707074, Kelzang Lhundup, Dzongkhag Engineer, EID No.9707074, Tashi Phuntsho, Ex. Cultural Officer, EID No. 20050311, Tashi Dawa, EID No. 2010005009, Sonam Wangyel, Dzongdag, EID No.9308041, Lamdra Wangdi, Sr. Dzongrab, EID No. 9507335)

## 1.2 Gradient not maintained as required in specification

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The Dzongkhag Tender Committee of the Dzongkhag Administration, Lhuentse based on the site report had approved re-alignment of road at Murmur due to high cliff and rock which might entail additional budget. However, during site verification, the gradient of road at two particular places, Murmur and Phatila were found too steep, apparently not within the gradient specified in the Farm Road Specification with narrow width at these points, posing risk to vehicles plying through these stretches. (AIN: 14157; Para: 2.1; Accountabilities: Direct: Sonam, Junior Engineer, EID No. 200901079; Supervisory: Tshering Phuntsho, Gewog Administrative Officer, EID No. 200705034, Jamtsho Dorji, Former Gup, Menbi Gewog, CID No.10605003051, Phurpa Dorji, Kamdar Chiwog, CID No.10605001575, Tshogpa, Karma, Gangzur Gewog, CID No. 10101003536, Karma Sungra Mangmi, Menbi Gewog, CID No. 10605001502, Pema Wangchuk, Assistant Accounts Officer, EID No. 20130101092, Kelzang Lhundrup, Dzongkhag Engineer, EID No. 9707074, Dawa Tshering, District Planning Officer, EID No. 200701166, Tashi Phuntsho, Ex. Cultural Officer, EID No. 20050311, Sonam Wangyel, Dzongdag, EID No. 9308041, Lamdra Wangdi, Sr. Dzongrab, EID No. 9507335)

### 4.2.3. Dzongkhag Administration, Pemagatshel

During the period, the RAA had issued three audit reports of the Dzongkhag Administration, Pemagatshel. There were 20 observations pointed out in the reports involving Nu. 8.459 million, out of which nine observations amounting to Nu.0.161 million were either resolved prior to the compilation of the draft AAR 2016 or were not material enough for inclusion in the draft AAR

2016. The total unresolved significant observations reflected in the draft AAR 2016 amounted to Nu.8.298 million.

Based on the responses received after the issue of the draft AAR 2016 and action taken by the agency, observations amounting to Nu. 0.549 million were resolved. The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 7.749 million as summarized below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Violations of laws and rules	-	4
2	Shortfalls, lapses and deficiencies	7.749	5
	<b>Total</b>	<b>7.749</b>	

## 1. Violations of laws and rules

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

### 1.1 Non-rectification of defective works

The Dzongkhag Administration, Pemagatshel had not rectified the defective works in the construction of 96-bedded boys hostel at Pemagatshel Middle Secondary School such as leakage from CGI sheets, cracks in galleries wall and painting in poles and non-connection in supply of water in bathroom and toilet. *(AIN: 13501; Para 3.2; Accountabilities: Direct: Tshewang Jermey, AE, EID No. 200807184; Supervisory: Damcho Zangmo, Offgt. DE, EID No. 9707078)*

## 2. Shortfalls, lapses and deficiencies – Nu. 7.749 million

There were cases of Shortfalls, lapses and deficiencies involving Nu. 7.749 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
2.1	Irregularities in Development of Roads for Denchi Township	7.419
2.2	Excess payment	0.330
2.3	Non-preparation of part III /material consumption statement	-
	<b>Total</b>	<b>7.749</b>

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

### 2.1 Irregularities in Development of Roads for Denchi Township - Nu. 7.419 million

The Dzongkhag Administration, Pemagatshel had terminated the work on Development of Roads for Denchi Township due to breach of terms and conditions of the contract by the contractor. The review of contract documents, payment vouchers and conduct of joint physical verification of site revealed that the Dzongkhag Administration, Pemagatshel had retained the payments for actual works done for the adjustment of 20% penalty on unexecuted works, 10% performance security money and other loans from the contractor amounting to Nu. 7.419 million. The case is subjudice.

(AIN: 13501; Para 2; Accountabilities: Direct: Damcho Zangmo, Site Engineer, EID No.9707078; Supervisory: Yeshi Dorji, DE, EID No.9807057)

## 2.2 Excess payment - Nu. 0.330 million

- a) The Dzongkhag Administration, Pemagatshel had made excess payment of Nu. 0.220 million to contractor for the construction of 2-units classroom at Tsatsi Primary School under Nanong Gewog. The excess payment had occurred due to non-deduction of advances from the preceding running bills. (AIN: 13501; Para 4.1; Accountabilities: Direct: Kinley Wangdi, JE, EID No. 20140103482; Supervisory: Tshewang Jurmey. AE, EID No. 200807184)
- b) The Dzongkhag Administration, Pemagatshel had made excess payment of Nu. 0.110 million to the supplier for the supply of electrical items to the beneficiaries of Khenangdrang Project. The excess payment had occurred apparently due to lack of proper verification of rates with specification of electrical items supplied before making final payment to the said supplier. (AIN: 13501; Para 6; Accountabilities: Direct: Chencho Wangdi, Accountant, EID No.200707021; Supervisory: Sonam Wangdi, Dzongrab, EID No.9612007)

## 2.3 Non-preparation of part III (Material Consumption Statement)

The Dzong Construction Project, Pemagatshel had not prepared part III (Material Consumption Statement), in absence of which the value of actual work done and the theoretical/actual consumption of labour and materials was not determined. As per the Financial Rules and Regulations, the works executed departmentally should be backed by Part-III and material & labour consumption statement. (AIN: 13506; Para 3; Accountabilities: Direct: Kencho Tsheten, Project Engineer, EID No.20130101289; Supervisory: Lhaten Dorji, Project Manager, EID No.8810010)

### 4.2.4. Dzongkhag Administration, Chhukha

During the period, the RAA had issued four audit reports of the Dzongkhag Administration, Chhukha. There were 32 observations pointed out in the reports involving Nu. 7.566 million, out of which 15 observations amounting to Nu. 0.761 million were either resolved prior to the compilation of the draft AAR 2016 or were not material enough for inclusion in the draft AAR 2016. The total unresolved significant observations reflected in the draft AAR 2016 amounted to Nu. 6.805 million.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the agency, observations amounting to Nu. 1.827 million were resolved. The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 4.978 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Violation of laws and rules	2.146	4
2	Shortfalls, lapses and deficiencies	2.832	5
	<b>Total</b>	<b>4.978</b>	

## 1. Violation of laws and rules – Nu. 2.146 million

There were cases of violation of laws and rules involving Nu. 2.146 million as summarized below:

Sl. No.	Observation in Brief	Nu. in million
1.1	Execution of sub-standard works	2.146
1.2	Defective works	-
	<b>Total</b>	<b>2.146</b>

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

### 1.1 Execution of sub-standard works - Nu. 2.146 million

The Dzongkhag Administration, Chhukha had cases of substandard works valuing Nu. 2.146 million executed in the re-surfacing of road from Tshimasham to Tsimalakha, construction of footpath at Tshimalakha, construction of farm road from Kothiline to Pana and construction of BHU-II at Dungna. The execution of substandard works had occurred due to poor workmanship, laxity and failure on the part of site engineer and supervising engineer to exercise necessary checks to ensure quality of work executed by the contractor. (AIN: 14220; Paras 1.2, 2.2, 4.1 and 7(ii); Accountabilities: Direct: Sonam Jamtsho, Dy. EE, EID No: 20101181, Joti Gurung, JE, EID No: 20140103471, Chura Muni Bhattarai, JE, EID No.200807182; Supervisory: Tshering Chopel, Chief DE, EID No. 8808013)

### 1.2 Defective works

The Dzongkhag Administration, Chhukha had accepted defective works in the parking area and road for the renovation of Darla BHU. The defects observed were apparently due to poor workmanship of contractors and inadequate supervision and monitoring of works by the site engineers and taking over of works without proper verification in terms of quality and specification. (AIN: 14220; Para 3.1; Accountabilities: Direct: Rupa Gurung, AE II, EID No: 200307013; Supervisory: Tshering Chopel, Chief DE, EID No. 8808013)

## 2. Shortfalls, lapses and deficiencies – Nu. 2.832 million

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

### 2.1 Excess payment - Nu. 2.832 million

- a) The Dzongkhag Administration, Chhukha had made excess payment of Nu. 1.743 million to the contractor for the construction of Science Lab at Dungna Lower Secondary School. The amount was partially recovered and the case is subjudice. (AIN: 13576; Para 1.1; Accountabilities: Direct: Churamuni Bhattarai, Engineer, EID 200807182; Supervisory: Tshering Chopel, DE, EID No. 8808013)

- b) The Dzongkhag Administration, Chhukha had made excess payment of Nu. 1.089 million to the contractor in the construction of BHU-II at Dungna. The excess payment had occurred due to failure of the site engineer and the Supervising Officer to ascertain the total quantity of rock requiring chiseling and to verify the claims of contractor. (AIN: 14220; Para 7(i); Accountabilities: Direct: Chura Muni Bhattarai, Engineer, EID 200807182; Supervisory: Tshering Chopel, Chief DE, EID No. 8808013)

#### 4.2.5. Dzongkhag Administration, Dagana

During the period, the RAA had issued two audit reports of the Dzongkhag Administration, Dagana. There were 10 observations pointed out in the reports involving Nu. 5.139 million, out of which five observations amounting to Nu. 1.070 million were either resolved prior to the compilation of the draft AAR 2016 or were not material enough for inclusion in the draft AAR 2016. The total unresolved significant observations reflected in the draft AAR 2016 amounted to Nu. 4.069 million.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the agency, observations amounting to Nu. 0.181 million were resolved. The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 3.888 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Violation of laws and rules	-	4
2	Shortfalls, lapses and deficiencies	3.888	5
	<b>Total</b>	<b>3.888</b>	

#### 1. Violation of laws and rules

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

##### 1.1 Non-declaration of Assets

Three officials and staff under the Dzongkhag Administration, Dagana had not made the Assets Declaration for 2014 in contravention to Chapter II, section 8 of Asset Declaration Rules 2012 of the Anti-Corruption Commission. (AIN: 13724; Para 2.3; Accountabilities: Direct: Dr. Sonam Yangzom, GDMO, EID No. 2014010330; Dr. Tashi Tshering, GDMO, EID No. 201201063, Karma Tshering, Principal-I, EID No. 7602004; Supervisory: Sonam Yangzom, HRO, EID No. 201101023)

#### 2. Shortfalls, lapses and deficiencies – Nu. 3.888 million

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

##### 2.1 Excess payment- Nu. 3.888 million

- a) The Dzongkhag Administration, Dagana had made excess payment of Nu. 3.270 million to contractor in the rehabilitation of Badarchu-Peteykha irrigation channel at Tshangkha Gewog implemented under the Remote Rural Community Development Project (RRCDP).

The excess payment had occurred due to non-recovery of penalty and advances on termination of the contract and failure of Site engineer to exercise necessary checks to ensure the admissibility of contractor's claims and also due to inadequate supervision and verification by Dzongkhag Engineer as a supervising authority. (AIN: 13724; Para 1.1; Accountabilities: Direct: Mani Kumar Ghishing, JE, EID No. 20140103474; Supervisory: Jamyang Dorji, DE, EID No.9207043)

- b) The Dzongkhag Administration, Dagana had made excess payment of Nu. 0.386 million to contractor in the construction of Six-Units class room block at Tshangkha Lower Secondary School. The excess payment had occurred due to non-deduction of rebate offered by the contractor and failure of Site engineer to exercise necessary checks to ensure the admissibility of contractor's claims and due to inadequate supervision and verification by Dzongkhag Engineer as a supervising authority. (AIN: 13724; Para 1.3; Accountabilities: Direct: Mani Kumar Ghishing, JE, EID No. 20140103474; Supervisory: Jamyang orji, DE, EID No. 9207043)
- c) The Dzongkhag Administration, Dagana had made excess payment of Nu. 0.193 million to contractor in the construction of Two-Unit Staff Quarters at Nimtola CPS. The excess payment had occurred due to wrong application of Unit of measurement, non-execution of works, and failure of Site engineer to exercise necessary checks to ensure the admissibility of contractor's claims and also due to inadequate supervision and verification by Dzongkhag Engineer as a supervising authority. (AIN: 13724; Para 1.6; Accountabilities: Direct: Kencho Tshering, JE, EID No. 201001730; Supervisory: Jamyang Dorji, DE, EID No. 9207043)
- d) The Dzongkhag Administration, Dagana had made excess payment of Nu. 0.039 million to supplier for supply of school furniture at Nimtola CPS. The excess payment had occurred due to payments at rates higher than quoted rates and failure of the Accounts personnel and the Dzongkhag Education Officer to ascertain the correctness of the rates claimed. (AIN: 13724; Para 2.1; Accountabilities: Direct: Temba, DEO, EID No.9811057; Supervisory: Temba, DEO, EID No.9811057)

#### 4.2.6. Dzongkhag Administration, Trashigang

During the period, the RAA had issued six audit reports of the Dzongkhag Administration, Trashigang. There were 17 observations pointed out in the reports involving Nu. 8.003 million, out of which 13 observations amounting to Nu. 5.091 million were either resolved prior to the compilation of the draft AAR 2016 or were not material enough for inclusion in the draft AAR 2016.

The total unresolved significant irregularities reflected in the AAR 2016 reflected in the AAR 2016 amounted to Nu. 2.912 million as summarized below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Violations of laws and rules	0.275	4
2	Shortfalls, lapses and deficiencies	2.637	5
	<b>Total</b>	<b>2.912</b>	

## 1. Violations of laws and rules – Nu. 0.275 million

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

### 1.1 Non-collections of lease rent - Nu. 0.275 million

The Dzongkhag Administration, Trashigang had not collected lease rents of Nu. 0.575 million as per the lease agreement drawn between the Dzongkhag Administration, Trashigang and Mr. Kuenga, the Proprietor of M/s. Deothjung Hotel, Trashigang. Subsequently, Nu. 0.300 million was recovered leaving a balance of Nu. 0.275 million. (AIN: 13399; Para 4; Accountabilities: Direct: Namgay, Revenue in-charge, EID No. 8912029; Supervisory: Pema Dorji, Sr. Dzongrab, EID No. 9607075)

## 2. Shortfalls, lapses and deficiencies – Nu. 2.637 million

There were cases of shortfalls, lapses and deficiencies involving Nu. 2.637 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
2.1	Non-surrender of National Day Celebration materials	1.919
2.2	Over payment	0.590
2.3	Payment made without receiving materials	0.128
	<b>Total</b>	<b>2.637</b>

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

### 2.1 Non-surrender of National Day Celebration materials – Nu. 1.919 million

The Dzongkhag Administration, Trashigang had neither surrendered National Day Celebration materials valuing to Nu. 1.919 million to the Department of National Properties nor accounted for in the Dzongkhag's Stock Registers. (AIN: 13399; Para 5.1; Accountabilities: Direct: Tshering Penjor, PO, EID No. 201104030; Supervisory: Pema Dorji, Sr. Dzongrab, EID No. 9607075)

### 2.2 Over payment - Nu. 0.590 million

The Dzongkhag Administration, Trashigang had made over payment of Nu. 0.590 million to contractor for the construction of kitchen-cum-store at Bidung Lower Secondary School under Samkhar Gewog. The over payment had occurred due to payment made for deviated quantities of work without approval of the tender committee. (AIN: 13399; Para 1.3; Accountabilities: Direct: Dorji Wangchuk, JE, EID No.200508181; Supervisory: Lekjey, DE, EID No. 9607034)

### 2.3 Payment made without receiving materials - Nu. 0.128 million

The Dzongkhag Administration, Trashigang had made payment of Nu. 0.128 million to suppliers for the procurement of *chadi* items without receiving the materials in violation of financial and budgetary norms. (AIN: 13399; Para: 5.4; Accountabilities: Direct: Tshering Penjor, PO, EID No. 201104030; Supervisory: Pema Dorji, Sr. Dzongrab, EID No. 9607075)

#### 4.2.7. Dzongkhag Administration, Monggar

During the period, the RAA had issued three audit reports of the Dzongkhag Administration, Monggar. There were 33 observations pointed out in the reports involving Nu. 33.119 million, out of which 29 observations amounting to Nu.31.109 million were either resolved prior to the compilation of the draft AAR 2016 or were not material enough for inclusion in the draft AAR 2016.

The total unresolved significant observations reflected in the AAR 2016 amounted to Nu.2.010 million as summarized below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Violations of laws and rules	-	4
2	Shortfalls, lapses and deficiencies	2.010	5
	<b>Total</b>	<b>2.010</b>	

##### 1. Violations of laws and rules

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

##### 1.1 Execution of substandard works

The Dzongkhag Administration, Monggar had accepted substandard works executed by the contractor in the construction of irrigation channel at lower Drepoong. The RRM thrust block was poorly laid and Dry Rubble Masonry and thrust blocks were not constructed at required sites. The quality of PCC, RRM and plastering works were of substandard quality apparently due to use of inappropriate cement-sand-aggregate ratio, usage of mountain sand, and inadequate curing. There were seepage and leakages at several spots. *(AIN: 13880; Para 18.2; Accountabilities: Direct: Tenzin Tobgay, AE, EID No.9607022; Supervisory: Sonam Tashi, DE, EID No.200801079)*

##### 2. Shortfalls, lapses and deficiencies – Nu. 2.010 million

There were cases of shortfalls, lapses and deficiencies involving Nu. 2.010 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
2.1	Non-recovery of Insurance from the contractor	1.066
2.2	Irregular payment	0.444
2.3	Outstanding advance	0.500
	<b>Total</b>	<b>2.010</b>

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

## 2.1 Non-recovery of Insurance from the contractor – Nu.1.066 million

The Dzongkhag Administration, Monggar had not recovered the insurance of Nu.1.066 million from the contractor for the construction of Wangchuk Zam (Bailey Suspension Bridge) under Gongdue Gewog. As against the insurance premium of Nu. 0.147 million paid by the contractor, payments of Nu. 1.200 million was made to the contractor as per BoQ item resulting in undue benefit to the contractor. *(AIN: 13880; Para 5; Accountabilities: Direct: Padam Bdr. Rai, JE, EID No.20120100121; Supervisory: Sonam Tashi, District Engineer, EID No.7907016)*

## 2.2 Irregular payment – Nu.0.444 million

The Dzongkhag Administration, Monggar had made irregular payment of Nu.0.444 million to the contractor towards HDPE pipes for the construction of irrigation channel at lower Drepoong. As per measurement book, 420 meters of HDPE pipes at the rate of Nu.2,000.00 per meter was paid to the contractor but only 198 meters of HDPE pipes were executed/fitted at site. As a result, payments for 37 nos. of HDPE pipes measuring 222 meters of Nu.0.444 million was made without execution and fitting of pipes at site. *(AIN: 13880; Para 18.1; Accountabilities: Direct: Tenzin Tobgay, AE, EID No. 9607022; Supervisory: Sonam Tashi, DE, EID No. 200801079)*

## 2.3 Outstanding advance – Nu. 0.500 million

The Dzongkhag Administration, Monggar had overdue outstanding advance of Nu.0.500 million against the party. The lapses had occurred as the management had failed to make recovery of advances although the works were completed before the yearend. *(AIN: 13880; Para 10; Accountabilities: Direct: Sonam Jamtsho, Accounts Officer, EID No. 201101054; Supervisory: Chhabi Lal Das, Accounts Officer, EID No. 8808036)*

### 4.2.8. Dzongkhag Administration, Haa

During the period, the RAA had issued one audit report of the Dzongkhag Administration, Haa. There were 15 observations pointed out in the reports involving Nu. 2.215 million, out of which five observations amounting to Nu. 0.234 million were either resolved prior to the compilation of the draft AAR 2016 or were not material enough for inclusion in the draft AAR 2016. The total unresolved significant observations reflected in the draft AAR 2016 amounted to Nu.1.991 million.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the agency, observations amounting to Nu. 1.227 million were resolved. The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 0.764 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Shortfalls, lapses and deficiencies	0.764	5
	<b>Total</b>	<b>0.764</b>	

## 1. Shortfalls, lapses and deficiencies – Nu. 0.764 million

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

### 1.1 Outstanding advances – Nu. 0.764 million

The Dzongkhag Administration, Haa had overdue outstanding advances of Nu.0.764 million against the officials (Nu. 0.057 million) and parties (Nu. 0.707 million) for the financial years 2010-2015. (AIN: 13489; Para 2; Accountabilities: Direct: Ugyen Tshering, DzFO, EID No. 2108014, Pema, Census Officer, EID No. 7907006, Tashi Gyeltshen, PE, EID No. 200307009, Thinley Gyeltshen, Caretaker, CID No. 11512000802, Sonam Wangchuk, DSO, EID No. 200508097; Supervisory: Sonam Wangmo, AAO, EID No.201101056, Sonam Wangdi, Dzongdag, EID No.8607100)

### 4.2.9. Dzongkhag Administration, Punakha

During the period, the RAA had issued one audit report of the Dzongkhag Administration, Punakha. There were four observations pointed out in the reports involving Nu. 0.187 million, out of which three observations amounting to Nu.0.019 million were either resolved prior to the compilation of the draft AAR 2016 or were not material enough for inclusion in the draft AAR 2016.

The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 0.168 million as summarized below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Shortfalls, lapses and deficiencies	0.168	5
	<b>Total</b>	<b>0.168</b>	

## 1. Shortfalls, lapses and deficiencies

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

### 1.1 Excess payment- Nu.0.168 million

The Dzongkhag Administration, Punakha had made excess payment of Nu. 0.168 million to contractor for the renovation of Nidrupchu Lhakhang under Chhuboog Gewog. The excess payment had occurred due to acceptance of two different Bills of Quantity (BoQ) having the same total figure and the Committees' failure to detect the error and further evaluation of the BOQ with the higher rates instead of the one with the lower rates. (AIN: 13624; Para 1.1; Accountabilities: Direct: LB Chhetri, AE, EID No.200607212; Supervisory: Tandin Dorji, DE, EID No.200401026)

### 4.2.10. Dzongkhag Administration, Samtse

During the period, the RAA had issued three audit reports of the Dzongkhag Administration, Samtse. There were 13 observations pointed out in the reports involving Nu. 0.917 million, out of which eight observations amounting to Nu.0.319 million were either resolved prior to the compilation of the draft AAR 2016 or were not material enough for inclusion in the draft AAR

2016. The total unresolved significant observations reflected in the draft AAR 2016 amounted to Nu.0.598 million.

Based on the responses received after the issue of the draft AAR 2016 and action taken by the agency, observations amounting to Nu. 0.454 million were resolved. The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 0.144 million as summarized below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Violations of laws and rules	-	4
2	Shortfalls, lapses and deficiencies	0.144	5
	<b>Total</b>	<b>0.144</b>	

## 1. Violations of laws and rules

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

### 1.1 Acceptance of inferior furniture

The Dzongkhag Administration, Samtse had procured furniture worth Nu. 0.840 million. The physical verification conducted by the RAA indicated cases of acceptance of smaller size and inferior quality of steel file racks, file rack made of board instead of teak wood. The lapses had occurred apparently due to failure to verify the goods as to specifications while receiving the goods by concerned schools. *(AIN: 13646; Para 2.4; Accountabilities: Direct: Pema Rinzin, Principal, EID No: 200401397; Supervisory: Karma Sonam Chopel, CDEO, EID.No: 9607071)*

## 2. Shortfalls, lapses and deficiencies - Nu. 0.144 million

There were cases of shortfalls, lapses and deficiencies involving Nu. 0.144 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
2.1	Outstanding Advances	0.089
2.2	Missing vouchers	0.055
	<b>Total</b>	<b>0.144</b>

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

### 2.1 Outstanding Advances - Nu. 0.089 million

The Dzongkhag Administration, Samtse had overdue outstanding advances of Nu. 0.089 million against the officials. *(AIN: 13646; Para 2.1; Accountabilities: Direct: Sonam Gyeltshen, Engineer, EID No.200901083; Supervisory: Kuenzang Dorji, Dzongkhag Engineer, EID No.9807036)*

## 2.2 Missing vouchers – Nu. 0.055 million

The Dzongkhag Administration, Samtse had missing vouchers involving Nu. 0.055 million. The lapses had occurred apparently due to negligence on the part of dealing officials and failure on the part of the DDO in verifying the required supporting documents during the approval process. *(AIN: 13646; Para 2.2; Accountabilities: Direct: Sonam Gyeltshen, Engineer, EID No.200901083; Supervisory: Kuenzang Dorji, Dzongkhag Engineer, EID No. 9807036)*

### 4.2.11. Dzongkhag Administration, Gasa

During the period, the RAA had issued three audit reports of the Dzongkhag Administration, Gasa. There were four observations pointed out in the reports involving Nu. 0.139 million, out of which three observations amounting to Nu. 0.081 million were either resolved prior to the compilation of the draft AAR 2016 or were not material enough for inclusion in the draft AAR 2016.

The total unresolved significant irregularities reflected in the AAR 2016 reflected in the AAR 2016 amounted to Nu.0.058 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Shortfalls, lapses and deficiencies	0.058	5
	<b>Total</b>	<b>0.058</b>	

### 1. Shortfalls, lapses and deficiencies – Nu. 0.058 million

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

#### 1.1 Double payment - Nu. 0.058 million

The Dzongkhag Administration, Gasa had made double payment of Nu.0.058 million to Sonam Gyeltshen, Teacher-II on account of salary arrears for the months of February and March 2015 in April 2015 and again in June 2015. The lapses had occurred mainly due to lack of proper communication and coordination between the HR and Accounts personnel. *(AIN: 13959; Para 1; Accountabilities: Direct Sonam Wangchuk, Accountant, EID No.200807278; Supervisory: Sonam Wangchuk, Accountant, EID No.200807278)*

### 4.2.12. Dzongkhag Administration, Trongsa

During the period, the RAA had issued one audit report of the Dzongkhag Administration, Trongsa. There were nine observations pointed out in the reports involving Nu. 0.313 million, out of which seven observations amounting to Nu.0.265 million were either resolved prior to the compilation of the draft AAR 2016 or were not material enough for inclusion in the draft AAR 2016. The total unresolved significant observations reflected in the draft AAR 2016 amounted to Nu.0.048 million.

Based on the responses received after the issue of the draft AAR 2016 and action taken by the agency, one observation was resolved. The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 0.048 million as summarized below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Violations of laws and rules	0.048	4
	<b>Total</b>	<b>0.048</b>	

## 1. Violations of laws and rules – Nu. 0.048 million

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

### 1.1 Non-levy of liquidated damages – Nu.0.048 million

The Dzongkhag Administration, Trongsa had not levied liquidated damages of Nu.0.048 million to the contractor for delay of 57 days in completion of the improvement of drain & retaining wall at Thrupeang Palace. There were no records of time extension accorded by the Dzongkhag Tender Committee nor the documents for hindrances submitted by the contractor. *(AIN: 13677; Para 3; Accountabilities: Direct: Dawa Lhamo, JE, EID No. 20120100124; Supervisory: Passang Dorji, DPE, EID No. 8201041)*

## 4.2.13. Dzongkhag Administration, Thimphu

During the period, the RAA had issued two audit reports of the Dzongkhag Administration, Thimphu. There were four observations pointed out in the reports involving Nu. 0.082 million, out of which two observations amounting to Nu.0.035 million were either resolved prior to the compilation of the draft AAR 2016 or were not material enough for inclusion in the draft AAR 2016. The total unresolved significant observations reflected in the draft AAR 2016 amounted to Nu.0.047 million.

Based on the responses received after the issue of the draft AAR 2016 and action taken by the agency, one observation was resolved. The total unresolved significant irregularity reflected in the AAR 2016 amounted to Nu. 0.047 million as summarized below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Shortfalls, lapses and deficiencies	0.047	5
	<b>Total</b>	<b>0.047</b>	

## 1. Shortfalls, lapses and deficiencies – Nu.0.047 million

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

### 1.1 Outstanding Advances - Nu.0.047 million

The Dzongkhag Administration, Thimphu had overdue outstanding advances of Nu.0.047 million against the parties. *(AIN: 13932; Para 2; Accountabilities: Direct: Chandra M. Panda, Accountant,*

EID No.: 200307139, Nidup Dorji, Engineer, EID No.200901231, Supervisory Dorji Gyeltshen, Sr. Drungpa, EID No.9607072)

#### 4.2.14. Dzongkhag Administration, Bumthang

During the period, the RAA had issued one audit report of the Dzongkhag Administration, Bumthang. There were 12 observations pointed out in the report involving Nu. 1.283 million, out of which eight observations amounting to Nu.0.133 million were either resolved prior to the compilation of the draft AAR 2016 or were not material enough for inclusion in the draft AAR 2016. The total unresolved significant observations reflected in the draft AAR 2016 amounted to Nu.1.150 million.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the agency, observations amounting to Nu. 1.150 million were resolved. The total unresolved significant irregularity reflected in the AAR 2016 is as summarised below:

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

#### 1. Violation of laws and rules

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

##### 1.1 Defective works for resurfacing of internal town road

The Dzongkhag Administration, Bumthang had accepted defective works in the resurfacing works of internal town road, Chamkhar. Major potholes were observed on road stretch near vegetable market and truck parking and minor potholes at various stretches of the road. (AIN: 14222; Para 10; Accountabilities: Direct: Tharchen, Dy. EE, EID No.9707053; Supervisory: Yeshi Dorji, DE, EID No. 9307017)

#### 4.3. GEWOGS

##### 4.3.1. Gewogs Administration under Chhukha

##### I. Bongo Gewog

During the period, the RAA had issued two audit reports of the Gewog Administration, Bongo. There were four observations pointed out in the reports involving Nu. 0.898 million, out of which one observation amounting to Nu. 0.003 million was resolved prior to the compilation of the draft AAR 2016. The total unresolved significant observations reflected in the draft AAR 2016 amounted to Nu.0.895 million.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the agency, observations amounting to Nu. 0.081 million were resolved. The total unresolved

significant irregularities reflected in the AAR 2016 amounted to Nu. 0.814 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Shortfalls, lapses and deficiencies	0.814	5
	<b>Total</b>	<b>0.814</b>	

## 1. Shortfalls, lapses and deficiencies - Nu. 0.814 million

There were cases of Shortfalls, lapses and deficiencies involving Nu. 0.814 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
1.1	Excess payments	0.457
1.2	Non-rectification of defective works	0.357
	<b>Total</b>	<b>0.814</b>

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

### 1.1 Excess payments – Nu. 0.457 million

- a) The Gewog Administration, Bongo had made excess payment of Nu.0.267 million to contractor in the construction of Choesham at Ketokha Lakhang and purchase of *Zungs*. The excess payment had occurred as the payment for Choesham was made in prior financial year from the GDG funding as well as in the current financial year. Out of Nu. 0.281 million paid in 2013-14, Nu. 0.014 million was considered on account of timber used from old *choesham* and labour charges, leaving a balnce of Nu. 0.267 million recoverable from the contractor. (AIN: 14246; Para 1; Accountabilities: Direct: Passang Dorji, Account assistant, EID No. 201007166; Supervisory: Tashi Dorji, Gup, 10203001580)
- b) The Gewog Administration, Bongo had made excess payment of Nu. 0.190 million to contractor due to difference in the quantities claimed as per MB and physical measurement at site for the maintenance of Chungkha-Togtowom farm road under Bongo Gewog. (AIN: 14246; Para 2; Accountabilities: Direct: Ngawang Dorji, JE, 20140103472; Supervisory: Tshering Chopel, Chief DE, 8080213)

### 1.2 Non-rectification of defective works – Nu.0.357 million

The rectification of damaged retaining walls and V-shape drains valuing Nu.0.357 million was not carried out by the contractor for the maintenance of Chungkha-Togtowom farm road under Gewog Administration, Bongo. The lapses had occurred due to poor workmanship and inadequate supervision by the concerned site engineer. (AIN: 14246; Para 3; Accountabilities: Direct: Ngawang Dorji, JE, 20140103472; Supervisory: Tshering Chopel, Chief DE, 8080213)

## II. Geling Gewog

During the period, the RAA had issued one audit report of the Gewog Administration, Geling. There was one observation pointed out in the report involving Nu. 0.091 million which was reflected in the draft AAR 2016.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the agency, one observation amounting to Nu. 0.035 million was resolved. The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 0.056 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Shortfalls, lapses and deficiencies	0.056	5
	<b>Total</b>	<b>0.056</b>	

### 1. Shortfalls, lapses and deficiencies - Nu. 0.056 million

There were cases of shortfalls, lapses and deficiencies involving Nu. 0.056 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
1.1	Payments made for items not executed	0.056
1.2	Non-rectification of defective works	-
	<b>Total</b>	<b>0.056</b>

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

#### 1.1 Payments made for items not executed – Nu.0.056 million

The Gewog Administration, Geling had made payment of Nu. 0.056 million to contractor for the item '*Constructing RRM open surface drain cement mortar 1:6 including earth work in excavation, 100 mm thick concrete based 1:5:10, 40mm aggregate, 25mm thick cement concrete 1:2:4, 12 mm agg for filling & disposal of earth 100\*200mm depth*' not executed at site. The lapses had occurred due to inadequate supervision and monitoring of works and improper verification of contractor's bills. (AIN: 14257; Para 1.1; Accountabilities: Direct: Karma, Dy. EE, EID No: 9808050; Supervisory: Tshering Chophel, Chief DE, EID No.8808013)

#### 1.2 Non-rectification of defective works

The contractor had not rectified the defective works on the main door, cracked walls, plaster at plinth level not provided, leakages from *Serthog* and non-installation of external electric lines and switch box in the re-construction of Geling Goenpa under Gewog Administration, Geling. The lapses had occurred due to poor workmanship and inadequate supervision by the concerned site engineer. (AIN: 14257; Para 1.2; Accountabilities: Direct: Karma, Dy. EE, EID No: 9808050; Supervisory: Tshering Chophel, Chief DE, EID No.8808013)

### III. Matekha Gewog

During the period, the RAA had issued one audit report of the Gewog Administration, Matekha. There was one observation pointed out in the report as reflected in the draft AAR 2016 which was not resolved.

The total unresolved significant irregularity reflected in the AAR 2016 is as summarised below:

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

#### 1. Shortfalls, lapses and deficiencies

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

##### 1.1 Non-rectification of defective works

The contractor had not rectified the defective road works at various chainages including drains in the construction of 5.2 KM farm from Matekha to Gumina under Gewog Administration, Matekha. The lapses had occurred due to poor workmanship and inadequate supervision by the concerned site engineer. *(AIN: 14237; Para 1.1; Accountabilities: Direct: Basant Kumar Rai, Engineer, EID No. 201310030; Supervisory: Tshering Chopel, Chief DE, EID No.8808013)*

### IV. Phuentshogling Gewog

During the period, the RAA had issued two audit reports of the Gewog Administration, Phuentshogling. There were six observations pointed out in the reports involving Nu. 5.689 million, out of which one observation amounting to Nu. 0.022 million was either resolved prior to the compilation of the draft AAR 2016 or were not material enough for inclusion in the draft AAR 2016. The total unresolved significant observations reflected in the draft AAR 2016 amounted to Nu. 5.667 million.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the agency, one observation amounting to Nu. 0.404 million was resolved. The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 5.263 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Violation of laws and rules	0.295	4
2	Shortfalls, lapses and deficiencies	4.968	5
	<b>Total</b>	<b>5.263</b>	

#### 1. Violation of laws and rules – Nu. 0.295 million

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

### 1.1 Non-levy of liquidated damages - Nu.0.295 million

The Gewog Administration, Phuentshogling had not levied liquidated damages of Nu.0.295 million on the contractor for 75 days of delays in completion of works for the construction of water supply scheme to Pachu school and village in contravention to the Dungkhag Tender Committees' tender terms and conditions. (AIN: 14259; Para 1.1; Accountabilities: Direct: Lobzang Yuden, Junior Engineer, EID No. 200807186; Supervisory: Tshering Chopel, Chief DE, 8808013)

## 2. Shortfalls, lapses and deficiencies - Nu. 4.968 million

There were cases of Shortfalls, lapses and deficiencies involving Nu. 4.968 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
2.1	Wasteful expenditure	4.893
2.2	Excess payment on earth work excavation	0.075
2.3	Non-registration of land occupied by ORC at Limbukha, Serina	-
Total		4.968

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

### 2.1 Wasteful expenditure - Nu. 4.893 million

The Gewog Administration, Phuentshogling had constructed water reservoir tank, tap stands and had laid HDPE pipes worth Nu. 4.893 million for the water supply scheme to Pachu school and village. On enquiry with the concerned beneficiaries, the water supply had not reached Pachu School fero-cement-reservoir tank after handing/taking over was done between the contractor and the Dungkhag indicating wasteful expenditure of Nu.4.893 million as the main objective of supplying water was not achieved. (AIN: 14259; Para 1.2; Accountabilities: Direct: Lobzang Yuden, Junior Engineer, EID No. 200807186; Supervisory: Tshering Chopel, Chief DE, 8808013)

### 2.2 Excess payment on earth work excavation - Nu. 0.075 million

The Gewog Administration, Phuentshogling had made excess payment of Nu.0.075 million to the contractor for RWSS works at Pachu village and school for earth work excavation 'over areas, depth >300mm, width >1.5m, area >10 Sq.m on plan, including disposal of excavated earth within 50m lead and 1.5m lift & disposed soil to be neatly dressed in all kind of soil (2300 x 0.40 x 0.6) pipe line measuring 5520 cu.m was estimated as per BoQ'. The excess payment had occurred due to inadequate supervision and monitoring of works and improper verification of contractors' bills. (AIN: 14259; Para 1.4; Accountabilities: Direct: Lobzang Yuden, Junior Engineer, EID No. 200807186; Supervisory: Tshering Chopel, Chief DE, 8808013)

### 2.3 Non-registration of land occupied by ORC at Limbukha, Serina

The Gewog Administration, Phuentshogling had not registered one-acre land occupied by the Out Reach Clinic at Limbukha, Serina owing to non-receipt of original new lag-thram from the

National Land Commission by the owner. (AIN: 14259; Para 3; Accountabilities: Direct: Ram Prasad Rai, Tshokpa, CID No. 20211001152; Supervisory: Birkha Bdr. Rai, Gup, CID No. CID No. 20211000312)

## V. Samphelling Gewog

During the period, the RAA had issued two audit reports of the Gewog Administration, Samphelling. There were two observations pointed out in the reports involving Nu.0.409 million which were reflected in the draft AAR 2016.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the agency, one observation amounting to Nu. 0.082 million was resolved. The total unresolved significant irregularity reflected in the AAR 2016 amounted to Nu. 0.327 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Shortfalls, lapses and deficiencies	0.327	5
	<b>Total</b>	<b>0.327</b>	

## 2. Shortfalls, lapses and deficiencies - Nu. 0.327 million

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

### 2.1 Damage of HDPE pipes - Nu.0.327 million

The Gewog Administration, Samphelling had not completed the departmentally executed construction of RWSS at Ahlay, Burkey, B-Tar and Pekashey valuing Nu. 0.327 million due to supply of damaged HDPE pipes by M/s KSD Hardware/Electricals. (AIN: 14260; Para 2; Accountabilities: Direct Sangay Tenzin, Technician, EID No. 20121202108; Supervisory: Tshering Chopel, Chief DE, 8808013)

## 4.3.2. Gewogs Administration under Samdrupjongkhar

### I. Langchenphug Gewog

During the period, the RAA had issued one audit report of the Gewog Administration, Langchenphug. There were two observations pointed out in the report involving Nu. 0.470 million, out of which one observation was resolved prior to the compilation of the draft AAR 2016.

The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu.0.470 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Mismanagement	0.470	3
	<b>Total</b>	<b>0.470</b>	

## 1. Mismanagement – Nu. 0.470 million

The case of mismanagement is as indicated below:

### 1.1 Irregularities and lapses in utilization of GDG Fund - Nu.0.470 million

The Gewog Administration, Langchenphug had spent a sum of Nu.3.350 million from the Gewog Development Grant (GDG) for various activities like pasture developments and procurements of fencing materials, procurement of ginger seedlings, and rubber plantation, etc. under the farmers group named “Phuntsho, Yonten, Norbuling, Namlay Tshogday’ at Jampani and Pangshikhar under Langchenphug Gewog for two consecutive years (2013-2014 & 2014-2015).

The RAA observed the following irregularities:

- There was wastage of investment of Nu. 3.350 million on Jampani and Paksingkha as there were no returns from the initiative and the public had not benefited from the activities;
- Payment of Nu.0.310 million was made for works not executed towards the construction of caretaker's quarters;
- 1200 kgs of ginger seeds amounting to Nu.0.120 million were either not procured or not planted by the group; and
- Sale proceeds of 400 kgs of ginger amounting to Nu.0.040 million was not accounted properly.

*(AIN: 13603; Para 1; Accountabilities: Direct: Lhadup Dorji, Gup, CID No. 11103000483; Supervisory: Lhadup Dorji, Gup, CID No. 11103000483)*

## II. Martshala Gewog

During the period, the RAA had issued one audit report of the Gewog Administration, Martshala. There were three observations pointed out in the reports involving Nu. 0.585 million and were reflected in the draft AAR 2016.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the agency, observations amounting to Nu. 0.551 million was resolved. The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 0.034 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Violation of laws and rules	0.034	4
	<b>Total</b>	<b>0.034</b>	

### 1. Violations of laws and rules - Nu. 0.034 million

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

### 1.1. Reimbursement of transportation charges deposited into saving account - Nu.0.034 million

The Gewog Administration, Martshala had directly deposited the transportation charges and fueling expenses for machinery hired from CMU, Khangma for the construction of farm roads executed departmentally into the Savings Account No. 10201253030510011 of Jambay Younten, Regional Manager of CMU, Khangma. (AIN: 13602; Para 3; Accountabilities: Direct: Jambay Yonten, Regional Manager, Khangma, EID No. 8812081; Supervisory: Yenten Dorji, Gup, CID No. 11109003024)

### 4.3.3. Gewogs Administration under Bumthang

#### I. Chhumig Gewog

During the period, the RAA had issued one audit report of the Gewog Administration, Chhumig. There was one observation pointed out in the report involving Nu. 0.030 million which was reflected in the draft AAR 2016.

The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 0.030 million as summarized below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Shortfalls, lapses and deficiencies	0.030	5
	<b>Total</b>	<b>0.030</b>	

#### 1. Shortfalls, lapses and deficiencies – Nu. 0.030 million

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

#### 1.1 Payment made for items not provided - Nu.0.030 million

The Gewog Administration, Chhumig had made payment of Nu.0.030 million for random rubble masonry open surface drain not provided at site for the construction of Domkhar Crematorium. The lapses had occurred due to laxity on supervision and monitoring of works by the site engineer at the time of execution of works and handing taking over. (AIN: 14225; Para 1; Accountabilities: Direct: Dawa Dema, JE, EID No. 20120100130; Supervisory: Dawa Dema, JE, EID No. 20120100130)

#### II. Ura Gewog

During the period, the RAA had issued 1 audit report of the Gewog Administration, Ura. There was one observation pointed out in the report involving Nu. 0.463 million which was reflected in the draft AAR 2016.

The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 0.463 million as summarized below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Shortfalls, lapses and deficiencies	0.463	5
	<b>Total</b>	<b>0.463</b>	

## 1. Shortfalls, lapses and deficiencies – Nu. 0.463 million

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

### 1.1 Outstanding Advances - Nu. 0.463 million

The Gewog Administration, Ura had overdue outstanding advances of Nu.0.463 million against the Ex-Gup. *(AIN: 14223; Para 1; Accountabilities: Direct: Dorji Wangchuk, Former Gup, CID No. 10104001577; Supervisory Dorji Wangchuk, Former Gup, CID No. 10104001577)*

## 4.3.4. Gewog Administration under Samtse

### I. Norgaygang Gewog

During the period, the RAA had issued one audit report of the Gewog Administration, Norgaygang. There were two observations pointed out in the report involving Nu. 0.450 million which were reflected in the draft AAR 2016.

The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 0.450 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Mismanagement	0.062	3
2	Shortfalls, lapses and deficiencies	0.388	5
	<b>Total</b>	<b>0.450</b>	

## 1. Mismanagement – Nu. 0.062 million

The case of mismanagement is as indicated below:

### 1.1 Irregular retention of fund - Nu. 0.062 million

The Gewog Administration, Norgaygang had booked Nu. 0.062 million as expenditure against Muster Roll payment for construction of RWSS at Dargreybug and Samphelgang under Bara Gewog and retained with the Gewog. The booking of expenditure before completing the works had violated the budgetary and accounting norms. *(AIN: 13566; Para 1; Accountabilities: Direct Cheku Wangchuk, GAO, EID No.201005021; Supervisory Shangkar Gurung, Gup, CID No.11201001330)*

## 2. Shortfalls, lapses and deficiencies – Nu. 0.388 million

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

## 2.1 Excess payment – Nu. 0.388 million

The Gewog Administration, Norgaygang had made excess payment of Nu. 0.388 million to contractor for the construction of RWSS for Gewog, RNR, BHU at Norgaygang Gewog. The excess payment had occurred apparently due to failure of the concerned engineer and Gewog officials in carrying out the work diligently to ensure the execution of work as per the drawings and admissibility of contractor's claims. (AIN: 13566; Para 2; Accountabilities: Direct: Nidup Drunkpa, Technician, EID No. 8907099; Supervisory: Shangkar Gurung, Gup, CID No. 11201001330)

### 4.3.5. Gewogs Administration under Trongsa

#### I. Korphoog Gewog

During the period, the RAA had issued one audit report of the Gewog Administration, Korphoog. There were three observations pointed out in the report involving Nu. 0.203 million, out of which one observation amounting to Nu. 0.016 million was resolved prior to the compilation of the draft AAR 2016.

The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu.0.187 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Fraud, Corruption & Embezzlement	-	1 & 2
2	Shortfalls, lapses and deficiencies	0.187	5
	<b>Total</b>	<b>0.187</b>	

#### 1. Fraud, Corruption & Embezzlement

The case with possible elements of fraud, corruption & embezzlement is as indicated below:

##### 1.1 Payment without receipt of furniture

The Gewog Administration, Korphoog had not received furniture worth Nu. 0.046 million from M/s Himalayan InfoTech and M/s SJams Furniture House, Thimphu as on date of audit (8<sup>th</sup> October 2015), although the payments were made in June 2015. (AIN: 13425; Para 3; Accountabilities: Direct: Tshetrim Dorji, Gup, CID No.11702000957; Supervisory: Ugyen Phuntsho, GAO, EID No.201105029)

#### 2. Shortfalls, lapses and deficiencies – Nu. 0.187 million

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

##### 2.1 Excess payment to community contractor – Nu. 0.187 million

The Gewog Administration, Korphoog had made excess payment of Nu.0.187 million to the community contractor in the construction of footpath and improvement of drainage at Korphu Chiwog. The excess payment had occurred due to payment at rates for RCC drainage covers

instead of rates for the construction of footpath measuring 79.50 meters. *(AIN: 13425; Para 1; Accountabilities: Direct: Dorji Phuntsho, JE, EID No.20140103501; Supervisory Tshetrim Dorji, Gup, CID No.11702000957)*

## II. Nubi Gewog

During the period, the RAA had issued one audit report of the Gewog Administration, Nubi. There was one observation pointed out in the report involving Nu.0.061 million which was reflected in the draft AAR 2016.

The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu.0.061 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Shortfalls, lapses and deficiencies	0.061	5
	<b>Total</b>	<b>0.061</b>	

### 1. Shortfalls, lapses and deficiencies – Nu.0.061 million

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

#### 1.1 Payment without receipt of goods – Nu.0.061 million

The Gewog Administration, Nubi had made payment of Nu.0.061 million to supplier in June 2015 for supply of furniture. The furniture had not been received as on the date of audit (25<sup>th</sup> March 2016), which was in violation of budgetary and accounting norms. *(AIN: 13426; Para 1; Accountabilities: Direct: Jigme Dorji, GAO, CID No.9507122; Supervisory: Tashi Penden, Gup, CID No.11704001027)*

## 4.3.6. Gewog Administration under Paro

### I. Nagya Gewog

During the period, the RAA had issued one audit report of the Gewog Administration, Nagya. There were nine observations pointed out in the report involving Nu. 0.494 million, out of which three observations amounting to Nu. 0.277 million were either resolved prior to the compilation of the draft AAR 2016 or were not material enough for inclusion in the draft AAR 2016. The total unresolved significant observations reflected in the draft AAR 2016 amounted to Nu. 0.217 million.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the agency, one observation was resolved. The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 0.217 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Violation of laws and rules	-	4

2	Shortfalls, lapses and deficiencies	0.217	5
	<b>Total</b>	<b>0.217</b>	

## 1. Violations of laws and rules

There were cases of violations of laws and rules as summarised below:

Sl. No.	Observation in Brief	Nu. in million
1.1	Award of community contract to single person	-
1.2	Direct award of work	-
1.3	Construction of farm road without obtaining environment clearance	-
	<b>Total</b>	<b>-</b>

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

### 1.1 Award of community contract to single person

The Gewog Administration, Nagya had executed all community contract works through community contractor of one member association in contravention with the Community Contracting Protocol despite pointing it out in the previous audit. (AIN: 13581; Para 3; Accountabilities: Direct: Kado, Gup, CID No. 10807001121; Supervisory: Kado, Gup, CID No. 10807001121)

### 1.2 Direct award of work

The Gewog Administration, Nagya had awarded the work of 'Improvement of Jaba Goenpa Farm Road' to a community contractor based on the Memorandum of Understanding signed between the Gewog Administration and the community contractor without the consensus of the entire community and GT endorsement in contravention with the Community Contracting Protocol. (AIN: 13581; Para 2.1; Accountabilities: Direct: Kado, Gup, CID No. 10807001121; Supervisory: Kado, Gup, CID No. 10807001121)

### 1.3 Construction of farm road without obtaining environment clearance

The Gewog Administration, Nagya had constructed 403 meters of Jaba Goenpa farm road without obtaining environment clearance from the Dzongkhag Environmental Sector in contravention with the Environment Assessment Act 2000. (AIN: 13581; Para 2.2; Accountabilities: Direct: Kado, Gup, CID No. 10807001121; Supervisory: Kado, Gup, CID No. 10807001121)

## 2. Shortfalls, lapses and deficiencies - Nu. 0.217 million

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

### 2.1 Excess payments - Nu. 0.217 million

- a) The Gewog Administration, Nagya had made excess payment of Nu. 0.173 million to contractor in the construction of farm road from Menchu Lumpa to Khamji due to payment

for quantities in excess of quantities actually excavated in respect of excavation of earthwork over areas including rock blasting. (AIN: 13581; Para 1.2; Accountabilities: Direct: Sonam Choden, AE, EID No.200707078; Supervisory: Kado, Gup, CID No. 10807001121)

- b) The Gewog Administration, Nagya had made excess payment of Nu. 0.044 million to contractor in the maintenance of farm road from Tsamji to Haachu Zam due to difference in payment for quantities in excess of quantities actually executed at site. (AIN: 13581; Para 1.4; Accountabilities: Direct: Sonam Choden, AE, EID No.200707078; Supervisory: Kado, Gup, CID No. 10807001121)

#### 4.3.7. Gewog Administration under Trashiyangtse

##### I. Ramjar Gewog

During the period, the RAA had issued one audit report of the Gewog Administration, Ramjar. There was one observation pointed out in the report involving Nu.0.210 million which was reflected in the draft AAR 2016.

The total unresolved significant irregularity reflected in the AAR 2016 amounted to Nu.0.210 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Violation of laws and rules	0.210	4
	<b>Total</b>	<b>0.210</b>	

##### 1. Violations of laws and rules - Nu. 0.210 million

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

##### 1.1 Expenditure booked under Closed Work - Nu.0.210 million

The Gewog Administration, Ramjar had booked an expenditure of Nu. 0.210 million as closed work without completing the construction of Dining Hall with caretaker's House at Doejam Drodchiling Lhakhang. The amount was deposited into Refundable Deposit Account for future payments in violation of budgetary and accounting norms. (AIN: 13438; Para 1; Accountabilities: Direct: Tej Bdr. Sunwar, Accountant, EID No. 200607313; Supervisory: Karma, Gup, CID No. 11604001297)

#### 4.3.8. Gewog Administration under Zhemgang

##### I. Phangkhar Gewog

During the period, the RAA had issued one audit report of the Gewog Administration, Phangkhar. There were two observations pointed out in the report involving Nu.0.288 million, out of which one observation amounting to Nu.0.155 million was resolved prior to the compilation of the draft AAR 2016.

The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu.0.133 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Mismanagement	0.133	3
	<b>Total</b>	<b>0.133</b>	

#### 1. Mismanagement – Nu. 0.133 million

The case of mismanagement is as indicated below:

##### 1.1 Payment of TA/DA to the CMU Machinery Operators – Nu.0.133 million

The Gewog Administration, Phangkhar had made payment of Nu.0.133 million as TA/DA to the CMU Machinery Operators in the construction of Phongchula Farm Road on subsidized hire rates. Since there is no clear guideline of the government on the payment of TA/DA to CMU Machinery Operators deputed at various places under the Dzongkhag Administration, Zhemgang, the eligibility of the payment of TA/DA was questionable as the payments might have been made from their respective offices. *(AIN: 13483; Para 2; Accountabilities: Direct: Rinchen Lungten, Gup CID No.12006001443; Supervisory: Rinchen Lungten, Gup CID No.12006001443)*

#### 4.3.9. Gewog Administration under Monggar

##### I. Dramedtse Gewog

During the period, the RAA had issued one audit report of the Gewog Administration, Dramedtse. There were four observations pointed out in the reports involving Nu. 0.091 million, out of which one observation amounting to Nu. 0.022 million was not material enough for inclusion in the draft AAR 2016.

The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 0.069 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Violations of laws and rules	0.069	4
2	Shortfalls, lapses and deficiencies	-	5
	<b>Total</b>	<b>0.069</b>	

#### 1. Violations of laws and rules - Nu. 0.069 million

There were cases of violations of laws and rules involving Nu. 0.069 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
2.1	Irregular diversion of fund	-
2.2	Payment made for work not executed	0.069
	<b>Total</b>	<b>0.069</b>

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

### 1.1 Irregular diversion of fund

The Gewog Administration, Dramedtse had diverted the fund of Nu.0.274 million from the renovation of irrigation channel at Yayum to pay the pending bills for the construction of parking area at Drametse. The diversion of fund had resulted in non-completion of the scheme, thus depriving the beneficiaries of the benefit of the irrigation facilities. (AIN: 13845; Para 2; Accountabilities: Direct: Dhendup Tshering, JE, EID No. 20130101886; Supervisory: Karma Tenzin, Account Assistant, EID No. 200807263)

### 1.2 Payment made for work not executed - Nu. 0.069 million

The Gewog Administration, Dramedtse had made payment of Nu.0.069 million for various items of work not executed in the renovation of Academic-cum-administrative Block at Baging Primary School. The lapses had apparently occurred due to inadequate monitoring and supervision of work. (AIN: 13845; Para 3; Accountabilities: Direct: Dhendup Tshering, JE, EID No. 20130101886; Supervisory: Karma Tenzin, Account Assistant, EID No. 200807263)

## 2. Shortfalls, lapses and deficiencies

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

### 2.1 Plantation works not executed at site

The Gewog Administration, Dramedtse had booked expenditure of Nu.0.143 million for plantation activities at Gongrikoti and Shingpang without carrying out the plantation works due to land disputes. The booking of expenditure without executing works was in violation of the budgetary and accounting norms. (AIN: 13845; Para 4; Accountabilities: Direct: Karma Thinley, Forest Ranger, EID No.2012070093; Supervisory: Norbu Wangdi, Dzongkhag Forest Officer, EID No. 9710028)

## 4.3.10. Gewog Administration under Lhuentse

### I. Gangzur Gewog

During the period, the RAA had issued one audit report of the Gewog Administration, Gangzur. There was one observation pointed out in the report involving Nu. 0.035 million which was reflected in the draft AAR 2016.

The total unresolved significant irregularity reflected in the AAR 2016 amounted to Nu. 0.035 million as summarised below:

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

## 1. Fraud, Corruption & Embezzlement – Nu. 0.035 million

The case with possible elements of fraud, corruption & embezzlement is as indicated below:

### 1.1 Misuse of revenue - Nu. 0.035 million

The Gaydrung of the Gewog Administration, Gangzur had misused revenue of Nu.0.035 million on rural taxes collected from the public. The lapses had occurred due to lack of internal control system. The Gewog Administration had reported the case to RBP, Lhuentse which was further forwarded to the Anti-Corruption Commission. (AIN: 14160; Para 1; Accountabilities: Direct: Karma Tshewang, Former Gaydrung, CID No. 10603000138; Supervisory: Karma, Former Gup, CID No. 1010100353)

#### 4.3.11. Gewog Administration under Thimphu

##### I. Soe Gewog

During the period, the RAA had issued one audit report of the Gewog Administration, Soe, Thimphu. There was one observation pointed out in the report involving Nu. 0.031 million which was reflected in the draft AAR 2016.

The total unresolved significant irregularity reflected in the AAR 2016 amounted to Nu.0.031 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Violation of laws and rules	0.031	4
	<b>Total</b>	<b>0.031</b>	

## 1. Violations of laws and rules - Nu. 0.031 million

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

### 1.1 Non-execution of works - Nu. 0.031 million

The contractor had not executed the item of work 'providing & laying timber joist and Wing wall' in the construction of Wooden Bridge at Chinchey amounting to Nu. 0.031 million under Gewog Administration, Soe. (AIN: 14008; Para 1; Accountabilities: Direct: Tshewang Rinchen, Engineer, EID No.200702003; Supervisory: Kencho Dorji, Gup, CID No.11404000117)

#### 4.3.12. Gewog Administration under Punakha

##### I. Guma Gewog

During the period, the RAA had issued one audit report of the Gewog Administration, Guma. There was one observation pointed out in the report which was not resolved prior to the compilation of the draft AAR 2016.

The total unresolved significant irregularity reflected in the AAR 2016 is as summarised below:

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

## 1. Violations of laws and rules

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

### 1.1 Non-execution of Rural Water Supply Scheme

The Gewog Administration, Guma had not provided Barbed wire fencing for ferro-cement-reservoir tank in the Guma-Wolakha RWSS scheme although the materials were found issued to beneficiaries. *(AIN: 13669; Para 1; Accountabilities: Direct: L.B. Chhetri, AE, EID No. 200607212; Supervisory Namgay Tshering, Gup, CID No.1100400040)*

## 4.3.13. Gewog Administration under Tsirang

### I. Gosarling Gewog

During the period, the RAA had issued one audit report of the Gewog Administration, Gosarling, Tsirang. There were seven observations pointed out in the report involving Nu. 0.043 million, out of which three observations amounting to Nu. 0.043 million were either resolved prior to the compilation of the draft AAR 2016 or were not material enough for inclusion in the draft AAR 2016.

The total unresolved significant irregularities reflected in the AAR 2016 were as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Mismanagement	-	3
2	Violations of laws and rules	-	4
3	Shortfalls, lapses and deficiencies	-	5
	<b>Total</b>	-	

## 1. Mismanagement

The case of mismanagement is as indicated below:

### 1.1 Shortages of RWSS materials at site

The Gewog Administration, Gosarling had booked Nu. 0.743 million as expenditures for Rehabilitation of Harpay Irrigation Channel against the budget provision of Nu. 0.775 million. The materials like HDPE pipes, sockets, cement and sand were procured and accounted for in the stock register but 47 bags of cement, 8 cubic meters of sand and 30 meters of HDPE pipe 160 mm

PN 2.5 worth Nu. 0.043 million were not available at site. *(AIN: 13686; Para 3.1; Accountabilities: Direct: Kharka Bdr. Tamang, Gup, CID No. 11804000645, SangayDorji, GAO, EID No. 200803047; Supervisory: Kharka Bdr. Tamang, Gup, CID No. 11804000645, SangayDorji, GAO, EID No. 200803047)*

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

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

### **2.1 Irregular award of work to other than the responsive bidder**

The Gewog Administration, Gosarling had the following irregularities in the construction of farm road from Dog Pound to Gosarling Primary School:

- The work was awarded to M/s K.C Heavy Equipment Hiring, Gelephu who did not participate in the bidding process;
- The Gewog Tshogde members conducted meeting and decided to hire the machine from M/s K.C Heavy Equipment Hiring, Gelephu. The meeting was chaired by the Gewog Administrative Officer (GAO) and signed on behalf of Gup. As per the Local Government Act 2009, Mangmi could represent the Gup during his absence and not by GAO who is a civil servant. Further, the GAO is not a member of GT;
- As per the procurement norms and evaluation committee's recommendation, the work should be awarded by the Gewog Level Tender Committee. The reasons for awarding the work by GT Members to M/s K.C Heavy Equipment Hiring, Gelephu who had not even participated in the bidding process were not recorded; and
- The successful bidders were deprived of the opportunity to execute the work.

*(AIN: 13686; Para 2.1; Accountabilities: Direct: Kharka Bdr. Tamang, Gup, CID No. 11804000645, Sangay Dorji, GAO, EID No. 200803047; Supervisory: Kharka Bdr. Tamang, Gup, CID No. 11804000645, Sangay Dorji, GAO, EID No. 200803047)*

## **3. Short falls, lapses and deficiencies**

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

### **3.1 Value for money not achieved in the construction of farm road**

The newly constructed farm road from Dog Pound to Gosarling Primary School under Gewog Administration, Gosarling was not pliable due to change in alignment of the road which increased the gradient of the road. The non-achievement of the gradient and non-pliability of the road had apparently occurred due to non-involvement of the site engineer at site by the Gewog Administration. *(AIN: 13686; Para 2.3; Accountabilities: Direct: Kharka Bdr. Tamang, Gup, CID No. 11804000645, Sangay Dorji, GAO, EID No. 200803047; Supervisory: Kharka Bdr. Tamang, Gup, CID No. 11804000645, Sangay Dorji, GAO, EID No. 200803047)*

#### 4.4. AUTONOMOUS AGENCIES

##### 4.4.1. Royal University of Bhutan

During the period, the RAA had issued 22 audit reports of the Royal University of Bhutan and the Institutes & Colleges affiliated under it. There were 75 observations pointed out in the reports involving Nu. 73.652 million, out of which 29 observations amounting to Nu. 10.019 million were either resolved prior to the compilation of the draft AAR 2016 or were not material enough for inclusion in the draft AAR 2016. The total unresolved significant observations reflected in the draft AAR 2016 amounted to Nu. 63.785 million.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the agency, observations amounting to Nu. 5.576 million were resolved. The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 58.209 million as summarized below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Fraud, Corruption & Embezzlement	1.334	1 & 2
2	Mismanagement	11.232	3
3	Violations of laws and rules	26.339	4
4	Shortfalls, lapses and deficiencies	19.304	5
	<b>Total</b>	<b>58.209</b>	

#### 1. Fraud, Corruption & Embezzlement – Nu.1.334

The case with possible elements of fraud, corruption & embezzlement is as indicated below:

##### 1.1 Short Deposit of money Collections into the Welfare Account - Nu. 1.334 million

The Institute of Language and Cultural Studies, Taktse had not deposited Nu. 1.334 million into the Welfare Account from collections made on account of security deposit, development fund, self-funding fees, paper re-check fees, Distance Education fees, rental from cafeteria, printing and photocopy charges. *(AIN: 13498; Para: 4 of Part II; Accountabilities: Direct: Kumar Rai, Accountant, EID No. 1108010; Supervisory: Lungtaen Gyatso, Director, EID No. 9903073)*

#### 2. Mismanagement – Nu. 11.232 million

There were cases of mismanagement involving Nu. 11.232 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
2.1	Non-adjustment of excessive grant of advances and resultant non-settlement of final RA bills due to insufficient amount	2.736
2.2	Non-collection of Tuition Fees	0.632
2.3	Outstanding land tax payable to Thromde	7.864
	<b>Total</b>	<b>11.232</b>

The cases of mismanagement are as indicated below:

### **2.1 Non-adjustment of excessive grant of advances and resultant non-settlement of final RA bills due to insufficient amount - Nu. 2.736 million**

The Royal University of Bhutan had not adjusted the advances of Nu. 2.736 million from the contractor in the GoI funded Project “Construction of Academic, Library, MPH, 100 Bedded Hostel, Provost Quarter and Site Development Works”. The Project Management had released payments aggregating to Nu. 25.693 million up to the 9<sup>th</sup> RA bill but had not adjusted advances amounting to Nu. 2.736 million from the pre-final bills. The management had failed to comply with the contract agreements and had not deducted proportionate amounts from payments by following the schedule of completed percentages of the works and had also, not adjusted all advances when 80% of contract is executed as required. (AIN: 14188; Para: 1; Accountabilities: Direct: Rinchen Pasang, Engineer, CID No.11211000310; Supervisory: Tendrel Wangdi, Dean, EID No. 9511043)

### **2.2 Non-collection of Tuition Fees - Nu. 0.632 million**

The College of Natural Resources, Lobeysha had not collected Nu. 0.632 million on account of Tuition Fees for FY 2014-2016 from trainees. (AIN: 14119; Para: 1.1; Accountabilities: Direct: Ugyen Dorji, Dean of Student Affairs, EID No. 91110088; Supervisory: Dr. Phub Dorji, Director General, EID No.9312018)

### **2.3 Outstanding land tax payable to Thromde - Nu. 7.864 million**

The Jigme Namgyel Engineering College, Dewathang had not paid overdue outstanding land taxes amounting to Nu. 7.864 million to the Thromde Administration, Samdrupjongkhar for FY 2011 to 2015. (AIN: 13678; Para: 3; Accountabilities: Direct: Choten Dorji, Estate Manager, EID No. RUB1310050; Supervisory: Dr. Andu Dukpa, Director, EID No. 9307011)

## **3. Violations of laws and rules – Nu. 26.339 million**

There were cases of violations of laws and rules involving Nu. 26.339 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
3.1	Non-collection of the additional differential amount	10.633
3.2	Unwarranted grant of time extensions in construction	10.468
3.3	Unauthorized acceptance of undervalued Performance Security and non-renewal of validity period on expiry	2.820
3.4	Project fund balance deposited into IDF Account	1.312
3.5	Non-application of House Rent Deduction Rate 2015 resulting in less recovery of House rent	0.620
3.6	Payment for items provided other than specifications	0.318
3.7	Untimely release of performance guarantee	0.168
3.8	Change of consultant's key personnel with lower qualification	-
3.9	Acceptance of defective works	-
3.10	Inaction and non-termination of the contract	-
	<b>Total</b>	<b>26.339</b>

The cases of violations of laws and rules is as indicated below:

### **3.1 Non-collection of the additional differential amount - Nu. 10.633 million**

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The Royal University of Bhutan had not collected the additional differential amount of Nu. 10.633 million in the GoI funded project *"Construction of Academic, Library, MPH, 100 Bedded Hostel, Provost Quarter and Site Development Works"* from the contractor as recommended by the Evaluation Committee. The Evaluation Committee recommended the Award Committee to obtain additional differential security for difference between estimated amount and quoted price, if they decided to award the contract to the lowest responsive bidder M/s Jachung Builders. The lowest bidder had submitted a bid price of Nu. 28.203 million, which was 27.38% below the estimated cost of Nu. 38.836 million.

The Award Committee while issuing Letter of Acceptance to the contractor had clearly indicated that the performance security of Nu. 2.820 million and additional differential security of Nu.10.633 million were to be furnished by the contractor. The contractor later appealed for exemption of differential security, following which a meeting was held on 16<sup>th</sup> March 2010 between the Vice Chancellor, Director, Planning and Resources, Director, NITM and Dy. Executive Engineer of the RUB. The four-member committee considered and decided to waive off the additional differential security and retain the submission of additional 10% performance bond in addition to the 10% performance security.

However, the decision of the committee was in deviation to the *clause 5.4.5 'Abnormally Low Bid' of the Procurement Rules and Regulation 2009*. Also, the contractor in defiance to the decisions of the committee had submitted only 15% performance guarantee amounting to Nu. 4.230 million against the actual requirements of 20%. The management had neither forfeited the security money nor rejected the bid. (AIN: 14188; Para: 13; Accountabilities: Direct: Rinchen Pasang, Engineer, CID No.11211000310; Supervisory: Tendrel Wangdi, Dean, EID No. 9511043)

### **3.2 Unwarranted grant of time extensions in construction - Nu. 10.468 million**

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- a) The Royal University of Bhutan had not levied 10% liquidated damages amounting to Nu.2.820 million from the contractor for 265 days of inadmissible time extension granted in the *"Construction of Hostel, Provost Quarter, Dining hall and Site development works"*. The management had granted five time extensions aggregating to 575 days, from which 310 days claimed as hindrances were within the provisions of the contract documents. (AIN: 14188; Para: 11; Accountabilities: Direct: Dorji Wangchuk, Ex-Dean, EID No.7601026; Supervisory: Tendrel Wangdi, Dean, EID No. 9511043)
- b) The Royal University of Bhutan had not levied 10% liquidated damages amounting to Nu.7.648 million from the contractor for 645 days of inadmissible time extension granted in the *"Construction of administration, academic block and multipurpose hall"*. The management had granted six time extensions to the contractor totaling more than 21 months. From the total, 137 days for the contractor and 21 days for the Design Consultant were found inadmissible and liable for liquidated damages, as the hindrances

claimed were not to be considered as hinderances. (AIN: 14188; Para: 26; Accountabilities: Direct: Rinchen Pasang, Engineer, CID No.11211000310; Dechen Wangdi, Manager, CDB Reg. No. 107; Supervisory: Tendrel Wangdi, Dean, EID No. 9511043)

### **3.3 Unauthorized acceptance of undervalued Performance Security and non-renewal of validity period on expiry - Nu. 2.820 million**

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The Royal University of Bhutan had accepted an undervalued performance security of Nu. 4.230 million against the required Nu. 5.641 million as per the approval of the four-member tender committee in the GoI funded Project “Construction of Academic, Library, MPH, 100 Bedded Hostel, Provost Quarter and Site Development Works”. In addition, the contractor had failed to renew the performance guarantee in line with the revised completion dates agreed based on approved time extensions even after several reminders, and had failed to submit the revalidated performance guarantee. The management had failed to invoke provisions of the contract agreement for breach of the contract. (AIN: 14188; Para: 15; Accountabilities: Direct: Dechen Tshomo, Accounts Asst., EID No. 9921215U; Supervisory: Tendrel Wangdi, Dean, EID No. 9511043)

### **3.4 Project fund balance deposited into IDF Account - Nu. 1.312 million**

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The fund balance of Nu. 1.312 million from the DANIDA Project ‘Transition Support Programme - Education and Health coordination and E-Governance’ under Sherubtse College, Kanglung was booked as expenditure and deposited into IDF account to avoid lapse of funds. (AIN: 13868; Para: 2; Accountabilities: Direct: Dr. Sonam Wangmo, Lecturer, EID No.8903022; Sangay Thinley, Lecturer, EID No. 200507001; Supervisory: Tshering Wangdi, Director, EID No.98011035)

### **3.5 Non-application of House Rent Deduction Rate 2015 resulting in less recovery of House rent - Nu. 0.620 million**

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The College of Natural Resources, Lobeyssa had recovered less house rent amounting to Nu. 0.620 million from officials occupying government buildings within campus due to failure to apply prescribed government rates as applicable. (AIN: 14119; Para: 3; Accountabilities: Direct: Dr. Phub Dorji, Director General, EID No. 9312018; Dr. D. B. Gurung, Dean of Research, EID No. 8905003; Dr. Sonam Dorji, Dean of Academic Affairs, EID No. 9901061; Dr. Ugyen Dorji, Dean of Student Affairs, EID No. 9111008; Kesang Choden, Officiating Adm., EID No. 200701192; Tshewang Dorji, Asst. Accounts Officer, EID No. 1209051; Ugyen Yangchen, Head of Department (AG), EID No. 200701088; Dr. Tshering Gyeltshen, Head of Department (AS) EID No. 200701025; Yeshet Khandu, Head of Department (FO), EID No. 9710036; Supervisory: Dr. Phub Dorji, Director General, EID No.9312018 )

### **3.6 Payment for items provided other than specifications - Nu. 0.318 million**

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The Royal University of Bhutan had made inadmissible payments of Nu. 0.318 million to contractor for not providing items as specified in the GoI funded Project “Construction of Academic, Library, MPH, 100 Bedded Hostel, Provost Quarter and Site Development Works”. Instead of providing and fixing ‘anodized aluminum section for door framing’ the item was substituted

with the 'flush door shutter in timber framing'. There was no prior approval of competent authority/client for changing the specification and there were no changes in the rates for items of work claimed. (AIN: 14188; Para: 8; Accountabilities: Direct: Rinchen Pasang, Engineer, CID No. 11211000310; Supervisory: Tendrel Wangdi, Dean, EID No. 9511043)

### **3.7 Untimely release of performance guarantee - Nu. 0.168 million**

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The Royal University of Bhutan had not adhered to the terms and conditions of the contract with regard to release of performance guarantee of the consultant hired for executing the drawing, design and supervision works in the GoI funded Project "*Construction of Academic, Library, MPH, 100 Bedded Hostel, Provost Quarter and Site Development Works*".

The 10% performance security amounting to Nu. 0.168 million, valid for four months was submitted on 31<sup>st</sup> March, 2009 by the consultant, in the form of bank guarantee. The release from DPA was sought at the expiry of validity, but payments could not be verified. There were no records of new performance guarantees obtained for the 27 months long duration of the project for supervision works, which was in-deviation to the terms of the contract. (AIN: 14188; Para: 28; Accountabilities: Direct: Anju Pradhan, Ex-Accountant, EID No.2007026; Supervisory: Tendrel Wangdi, Dean, EID No. 9511043)

### **3.8 Change of consultant's key personnel with lower qualification**

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The Royal University of Bhutan had not regulated the claims and payments made in terms of remuneration entitled for a less qualified and inexperienced personnel hired for executing the drawing, design and supervision works in the GoI funded Project "*Construction of Academic, Library, MPH, 100 Bedded Hostel, Provost Quarter and Site Development Works*". The lump sum contract for drawing, design and supervision was awarded to M/s SDK Consultancy, Phuentsholing for Nu.1.675 million, of which Nu.0.841 million was for drawing & design, and Nu.0.834 million for supervision.

The site engineer committed by the consultancy firm in the tender documents/technical proposal had resigned and the actual site engineer assigned to supervise the construction works at site had less experience. The consultancy firm neither had the personnel's CV listed in the technical proposal, nor did they seek approval for change of key personnel from client, which breached the terms and conditions of the contract. The engagement of inexperienced site engineer had resulted in improper maintenance of Measurement Books (MB) with resultant over payments due to totaling errors and discrepancies in measurements and non-execution of works because of poor supervision. (AIN: 14188; Para: 27; Accountabilities: Direct: Rinchen Pasang, Engineer, CID No.11211000310; Dechen Wangdi, Manager, CDB Reg. No. 107; Supervisory: Tendrel Wangdi, Dean, EID No. 9511043)

### **3.9 Acceptance of defective works**

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The Royal University of Bhutan had accepted the following defective works in the GoI funded Project "*Construction of Academic, Library, MPH, 100 Bedded Hostel, Provost Quarter and Site Development Works*":

- The two plastic storage tanks supplied and installed by contractor were found broken;
- The waste pipe was leaking, due to non-maintenance of proper gradient;
- Some wash basins did not have water supply due to defective plumbing works;
- The urinals in boys' toilet did not have proper water supply connections; and
- The plinth protection and drainage were sinking due to improper compaction of the filled earth and weak sub-base.

(AIN: 14188; Para: 10; Accountabilities: Direct: Dorji Wangchuk, Ex-Dean, EID No.7601026; Supervisory: Tendrel Wangdi, Dean, EID No. 9511043)

### 3.10 Inaction and non-termination of the contract

The Royal University of Bhutan had not taken actions against the contractor for abandoning the construction works and leaving without handing over the site to the management of the GoI funded project "Construction of Academic, Library, MPH, 100 Bedded Hostel, Provost Quarter and Site Development Works". The contractor, M/s Jachung Builders after availing 575 days of time extension, had stopped the works from 8<sup>th</sup> November 2014. The management had not terminated the contract as per the contract agreement or taken any other actions against the contractor for leaving the site without completing the work. (AIN: 14188; Para: 14; Accountabilities: Direct: Dorji Wangchuk, Ex-Dean, EID No.7601026; Supervisory: Tendrel Wangdi, Dean, EID No. 9511043)

## 4. Shortfalls, lapses and deficiencies – Nu. 19.304 million

There were cases of shortfalls, lapses and deficiencies involving Nu. 19.304 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
4.1	Irregular release of retention money	2.357
4.2	Non-deduction of 5% rebate offered by the contractor	1.285
4.3	Missing Payment Vouchers	0.871
4.4	Non-reconciliation of collection on module fees resultant into short collection	0.992
4.5	Under payment in construction	0.177
4.6	Booking of payment as expenditure instead of advance	0.197
4.7	Negative fund Balance in the DPA Account	0.202
4.8	Inadmissible/double/overpayment	1.954
4.9	Outstanding advances	11.269
	<b>Total</b>	<b>19.304</b>

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

### 4.1 Irregular release of retention money - Nu. 2.357 million

The Royal University of Bhutan had not renewed the bank guarantee as per contract agreements and had also not taken timely actions for irregular release of retention money in the GoI funded Project "Construction of Academic, Library, MPH, 100 Bedded Hostel, Provost Quarter and Site

*Development Works*". While the contract agreement stipulated that 50% of Retention Money be released after the completion of works and remaining 50% after the expiry of defect liability period, the management was found to have released Nu. 2.357 million of the total amount of Nu.2.569 million aggregating to 91.75%. The retention money was released upon the production of a bank guarantee that had expired on 22<sup>nd</sup> May 2014 and was not renewed. (AIN: 14188; Para: 12; Accountabilities: Direct: Dechen Tshomo, Accounts Asst., EID No. 9921215U; Supervisory: Tendrel Wangdi, Dean, EID No. 9511043)

#### **4.2 Non-deduction of 5% rebate offered by the contractor - Nu. 1.285 million**

The Royal University of Bhutan had not deducted the 5% rebate offered by contractor amounting to Nu. 1.285 million, which had resulted in over payment of Nu.1.285 million to contractor in the GoI funded Project "Construction of Academic, Library, MPH, 100 Bedded Hostel, Provost Quarter and Site Development Works". (AIN: 14188; Para: 2; Accountabilities: Direct: Rinchen Pasang, Engineer, CID No.11211000310; Supervisory: Tendrel Wangdi, Dean, EID No. 9511043)

#### **4.3 Missing Payment Vouchers – Nu. 0.871 million**

The Institute of Language and Cultural Studies, Taktse had failed to trace out eight missing vouchers amounting to Nu. 0.871 million for audit verification indicating weak documentation system. (AIN: 13498; Para: 5 of Part II; Accountabilities: Direct: Kumar Rai, Accountant, EID No. 1108010; Supervisory: Lungtaen Gyatso, Director, EID No. 9903073)

#### **4.4 Non-reconciliation of collection on module fees resultant into short collection - Nu. 0.992 million**

The Gaeddu College of Business Studies, Gedu had collected and accounted for Nu. 1.934 million against the collectable amount of Nu. 2.926 million resulting in short collection of Nu. 0.992 million on account of module fees for FY 2013-2014. (AIN: 13757; Para: 1.2; Accountabilities: Direct: Jamyang Tenzin, Exam Controller, EID No. 200801116 & Phuntsho Wangmo, Cashier, EID No. RUB1410128; Supervisory: Lhato Jamba, Director General, EID No. 9003001)

#### **4.5 Under payment in construction -Nu. 0.177 million**

The Royal University of Bhutan had made under payments of Nu.0.177 million to contractors due to error in rate application for steel sections in tubular trusses in the GoI funded Project "Construction of Academic, Library, MPH, 100 Bedded Hostel, Provost Quarter and Site Development Works". The rate of Nu.25 per kg was applied instead of Nu.50 per kg for the 5237.56 kgs of steel used. (AIN: 14188; Para: 9; Accountabilities: Direct: Rinchen Pasang, Engineer, CID No.11211000310; Supervisory: Tendrel Wangdi, Dean, EID No. 9511043)

#### **4.6 Booking of payment as expenditure instead of advance - Nu.0.197 million**

The Sherubtse College, Kanglung had wrongly booked an advance of Nu.0.197 million as expenditure on account of proof reading, printing and publishing of thesis and research book in violation to budgetary and accounting norms. The above printing works were not executed as on

the dates of audit (30<sup>th</sup> April 2016). (AIN: 13868; Para: 1; Accountabilities: Direct: Dr. Sonam Wangmo, Lecturer, EID No.8903022; Supervisory: Tshering Wangdi, Director, EID No.98011035)

#### **4.7 Negative fund Balance in the DPA Account - Nu. 0.202 million**

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The Paro College of Education had failed to carry out timely reconciliation of Donor-wise status of fund balances, which resulted in a negative fund balance with the DPA, MoF of Nu.0.156 million as on 30<sup>th</sup> June 2015 and Nu.0.202 million as on 30<sup>th</sup> June 2016 for funding of UNFPA activities. This indicated that the management had utilized RGoB funds for meeting expenditures of UNFPA activities. (AIN: 14194; Para: 1; Accountabilities: Direct: Kuenzang Thinley, Accountant, EID No. 9504027; Supervisory: Thubten Gyatsho, Director General, EID No. 8404029)

#### **4.8 Inadmissible/double/overpayment - Nu. 2.599 million**

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- a) The Royal University of Bhutan had made over payment of Nu. 0.412 million to contractor on account of construction of retaining walls and MS square bars used in railings in the GoI funded Project “Construction of Academic, Library, MPH, 100 Bedded Hostel, Provost Quarter and Site Development Works”. The measurements of works claimed by contractor and the actual measurements on site varied resulting in the overpayment. (AIN: 14188; Para: 3; Accountabilities: Direct: Rinchen Pasang, Engineer, CID No.11211000310; Supervisory: Tendrel Wangdi, Dean, EID No. 9511043)
- b) The Royal University of Bhutan had made double payment of Nu. 0.248 million to contractor on account of brick work in superstructure in the GoI funded Project “Construction of Academic, Library, MPH, 100 Bedded Hostel, Provost Quarter and Site Development Works”. The measurements and payments for ‘250mm brick work’ for ground floor in Block A & B were claimed twice, once in the 4<sup>th</sup> RA bill and then again in the 7<sup>th</sup> RA bill. (AIN: 14188; Para: 5; Accountabilities: Direct: Rinchen Pasang, Engineer, CID No.11211000310; Supervisory: Tendrel Wangdi, Dean, EID No. 9511043)
- c) The Royal University of Bhutan had made over payment of Nu. 0.114 million to contractor for plumbing works in the GoI funded Project “Construction of Academic, Library, MPH, 100 Bedded Hostel, Provost Quarter and Site Development Works”. The contractor had inflated quantities and claimed more items of works in the bill than what was actually provided on site. (AIN: 14188; Para: 6; Accountabilities: Direct: Rinchen Pasang, Engineer, CID No.11211000310; Supervisory: Tendrel Wangdi, Dean, EID No. 9511043)
- d) The Royal University of Bhutan had made overpayments amounting to Nu. 0.350 million for wooden skirting due to bogus measurements of prefabricated wooden flooring, in the GoI funded Project “Construction of Academic, Library, MPH, 100 Bedded Hostel, Provost Quarter and Site Development Works”. The contractor was also liable for 24% penalty of Nu.0.075 million on the bogus claims for the year. The supervision consultant had repeated the flooring measurements of the conference hall in the flooring of second floor and ‘jamthog’ and the contractor had claimed for wooden flooring in the lobby, which was actually kota-stone flooring. (AIN: 14188; Para: 16; Accountabilities: Direct: Rinchen

*Pasang, Engineer, CID No.11211000310; Supervisory: Tendrel Wangdi, Dean, EID No. 9511043)*

- e) The Royal University of Bhutan had made overpayments amounting to Nu. 0.078 million for unexecuted works in site development of Academic building & Conference hall, in the GoI funded Project “Construction of Academic, Library, MPH, 100 Bedded Hostel, Provost Quarter and Site Development Works”. The contractor was also liable for 24% penalty of Nu.0.115 million on the ineligible payments for unexecuted work worth to Nu. 0.480 million, the excess claims were deducted from the 20<sup>th</sup> RA Bill leaving a balance of Nu.0.078 million. *(AIN: 14188; Para: 17; Accountabilities: Direct: Rinchen Pasang, Engineer, CID No.11211000310; Supervisory: Tendrel Wangdi, Dean, EID No. 9511043)*
- f) The Royal University of Bhutan had made double payments amounting to Nu. 0.059 million due to repetition in measurements of RCC & TMT works in columns in the GoI funded Project “Construction of Academic, Library, MPH, 100 Bedded Hostel, Provost Quarter and Site Development Works”. *(AIN: 14188; Para: 18; Accountabilities: Direct: Rinchen Pasang, Engineer, CID No.11211000310; Supervisory: Tendrel Wangdi, Dean, EID No. 9511043)*
- g) The Royal University of Bhutan had made overpayments amounting to Nu. 0.358 million due to totaling error in quantity column for steel sections for roof trusses of academic building in the GoI funded Project “Construction of Academic, Library, MPH, 100 Bedded Hostel, Provost Quarter and Site Development Works”. *(AIN: 14188; Para: 19; Accountabilities: Direct: Rinchen Pasang, Engineer, CID No.11211000310; Supervisory: Tendrel Wangdi, Dean, EID No. 9511043)*
- h) The Royal University of Bhutan had made overpayments amounting to Nu. 0.290 million due to totaling error in the GoI funded Project “Construction of Academic, Library, MPH, 100 Bedded Hostel, Provost Quarter and Site Development Works”. *(AIN: 14188; Para: 20; Accountabilities: Direct: Rinchen Pasang, Engineer, CID No.11211000310; Supervisory: Tendrel Wangdi, Dean, EID No. 9511043)*
- i) The Royal University of Bhutan had made overpayments amounting to Nu. 0.062 million due to multiplication error in 20<sup>th</sup> RA bill for RRM works in the GoI funded Project “Construction of Academic, Library, MPH, 100 Bedded Hostel, Provost Quarter and Site Development Works”. *(AIN: 14188; Para: 21; Accountabilities: Direct: Rinchen Pasang, Engineer, CID No.11211000310; Supervisory: Tendrel Wangdi, Dean, EID No. 9511043)*
- j) The Royal University of Bhutan had made overpayments amounting to Nu. 0.101 million due to inflated measurements claimed by the contractor for construction of drains, RCC posts and brick walls in the GoI funded Project “Construction of Academic, Library, MPH, 100 Bedded Hostel, Provost Quarter and Site Development Works”. *(AIN: 14188; Para: 22; Accountabilities: Direct: Rinchen Pasang, Engineer, CID No.11211000310; Supervisory: Tendrel Wangdi, Dean, EID No. 9511043)*
- k) The Royal University of Bhutan had made overpayments amounting to Nu. 0.050 million due to inflated quantities claimed in construction of anodized aluminum section for

academic building & conference hall in the GoI funded Project “Construction of Academic, Library, MPH, 100 Bedded Hostel, Provost Quarter and Site Development Works”. (AIN: 14188; Para: 23; Accountabilities: Direct: Rinchen Pasang, Engineer, CID No.11211000310; Supervisory: Tendrel Wangdi, Dean, EID No. 9511043)

- l) The Royal University of Bhutan had made overpayments amounting to Nu. 0.477 million for unexecuted doors and windows in construction of academic building & conference hall in the GoI funded Project “Construction of Academic, Library, MPH, 100 Bedded Hostel, Provost Quarter and Site Development Works”. (AIN: 14188; Para: 24; Accountabilities: Direct: Rinchen Pasang, Engineer, CID No.11211000310; Supervisory: Tendrel Wangdi, Dean, EID No. 9511043)

#### 4.9 Outstanding advances - Nu.11.250 million

The Gaeddu College of Business Studies, Gedu had overdue outstanding balances amounting to Nu.11.250 million on account of Personal Advances (Nu. 10.751 million) and PW Advances (Nu.0.499 million). (AIN: 13757; Para: 2.2; Accountabilities: Direct: As per list in report. Supervisory: Lhato Jamba, Director General, EID No. 9003001)

#### 4.4.2. Judiciary

During the period, the RAA had issued 19 audit reports of the Judiciary. There were 13 observations pointed out in the reports involving Nu.20.285 million, out of which five observations amounting to Nu.0.257 million were either resolved prior to the compilation of the draft AAR 2016 or were not material enough for inclusion in the draft AAR 2016.

The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu.20.028 million as summarized below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Violations of laws and rules	-	4
2	Shortfalls, lapses and deficiencies	20.028	5
	<b>Total</b>	<b>20.028</b>	

#### 1. Violations of laws and rules

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

#### 1.1 Defective works in the construction of Drangpon's Residence

The Royal Court of Justice, Dzongkhag Court, Pemagatshel had accepted defective works in the construction of Drangpon's Residence. The water tank above the roof was leaking, electrification & plumbing works were improperly carried out, and a fan was not installed. The total cost of construction was Nu. 10.353 million. (AIN: 13854; Para: 3; Accountabilities: Direct: Dechen Wangmo, Site Engineer, EID No.: 20080702071; Supervisory: Dechen Wangmo, Site engineer, EID No.: 20080702071)

## 2. Shortfalls, lapses and deficiencies - Nu. 20.028 million

There were cases of Shortfalls, lapses and deficiencies involving Nu. 20.028 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
2.1	Non-adjustment of advances	1.081
2.2	Inadmissible payment of allowances	0.792
2.3	Excess payment made to contractor	0.259
2.4	Outstanding advances	17.896
	<b>Total</b>	<b>20.028</b>

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

### 2.1 Non-adjustment of advances - Nu. 1.081 million

The Royal Court of Justice, Dzongkhag Court, Gasa had overdue outstanding balances amounting to Nu. 1.081 million on account of Personal Advances and PW Advances to officials and staff. *(AIN: 14043; Para: 1; Accountabilities: Direct: Jangchub Lamzang, Accountant, EID No. 20120700699, Pasang, EID No. 2012070069, Dasho Sonam Dorji, Drangpon, EID No.7704077; Supervisory: Dasho Sonam Dorji, Drangpon, EID No.7704027)*

### 2.2 Inadmissible payment of allowances - Nu. 0.792 million

The Royal Court of Justice, Dungkhag Court Lingzhi had made inadmissible payments of Nu.0.792 million to employees who were based in Thimphu on account of 'High Altitude Allowance' and 'Difficulty Allowances'. *(AIN:14040; Para: 1; Accountabilities: Direct: Leki Dorji, Drangpon, EID No. 8108006; Wangdi, Bench Clerk I, EID No. 7802017; Sonam Dorji, Bench Clerk I, EID No. 8412011; Karma Zangmo, Personal Assistant, EID No. 9926743; Sonam Choden, Messenger, 9917945; Dophu, Attendent, EID No. 9920682; Supervisory: Ugyen Nima, Drangpon, EID No. 8601045)*

### 2.3 Excess payment made to contractor - Nu. 0.259 million

- a) The Royal Court of Justice, Supreme Court, Thimphu had made excess payment of Nu.0.068 million to the contractor for various items of works in the construction of Dorokha Dungkhag Court under the ADA-Phase II funded project "Construction of District Courts in Dagana, Tsirang, Dorokha and Zhemgang". The excess payment had occurred due to payments made for quantities in excess of quantities actually executed. *(AIN: 14148; Para: 2; Accountabilities: Direct: Hukumi Ghalley, Engineer, EID No. 20080702053; Supervisory: Gyeltshen Wangdi, Architect, 9910726U CID No. 11512004618)*
- b) The Royal Court of Justice, Supreme Court, Thimphu had made excess payment of Nu.0.191 million to the contractor for various items of works in the construction of Zhemgang Dzongkhag Court under the ADA-Phase II funded project "Construction of District Courts in Dagana, Tsirang, Dorokha and Zhemgang". The excess payments had

occurred due to payments made for quantities in excess of quantities actually executed. (AIN: 14148; Para: 3; Accountabilities: Direct: Hukumi Ghalley, Engineer, EID No. 20080702053; Supervisory: Gyeltshen Wangdi, Architect, 9910726U CID No. 11512004618)

## 2.4 Outstanding advances - Nu. 17.896 million

The Royal Court of Justice, High Court of Bhutan had overdue outstanding balances amounting to Nu. 17.896 million paid to the Accounts Officer, MoWHS on account of advances for deposit work for the construction of the Supreme Court of Bhutan. (AIN: 14136; Para: 4; Accountabilities: Direct: Dechen Zangmo, Project Accountant, EID No. 200901205; Supervisory: Tshering Dorji, Registrar General, EID No. 951103)

### 4.4.3. Dratshang Lhentshog

During the period, the RAA had issued 12 audit reports of the Dratshang Lhengtshog. There were nine observations pointed out in the reports involving Nu.13.795 million, out of which four observations amounting to Nu. 0.019 million were not material enough for inclusion in the draft AAR 2016. The total unresolved significant irregularities reflected in the draft AAR 2016 amounted to Nu. 13.777 million.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the agency, one observation amounting to Nu. 5.042 million was resolved. The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 8.735 million as summarized below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Violations of laws and rules	8.735	4
	<b>Total</b>	<b>8.735</b>	

### 1. Violations of laws and rules – Nu 8.735 million

There were cases of violations of laws and rules involving Nu. 8.735 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
1.1	Non-booking of expenditure	3.315
1.2	Non-deposit into Refundable Account	4.776
1.3	Non-deposit of deduction into government account	0.644
	<b>Total</b>	<b>8.735</b>

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

### 1.1 Non-booking of expenditure - Nu. 3.315 million

The Accountant of Dratshang Lhengtshog's GoI Project "Expansion of Buddhist College at Tango, Construction of Zhirim Lobdra at Punakha, and Anim Shedra at Monggar" had not booked expenditures amounting to Nu. 5.151 million into the respective books of account in violation to budgetary and accounting norms.

The management reported of having recovery of Nu. 1.836 million, leaving a balance of Nu. 3.315 million. (AIN: 14068; Para: 1.5.2; Accountabilities: Direct: Pema Zangpo, Project Accountant, EID No. 9404022; Supervisory: Sangay Wangmo, DCAO, EID No. 8412026)

### 1.2 Non-deposit into Refundable Account - Nu. 4.776 million

The Dratshang Lhengtshog had not remitted Nu.4.776 million into the Refundable Deposit Account maintained with the Department of Public Accounts, MoF but reflected in the Receipts & Payments Statement as deposits made to the Refundable Deposit Account. (AIN: 14068; Para: 1.1; Accountabilities: Direct: Pema Zangpo, Project Accountant, EID No. 9404022; Supervisory: Sangay Wangmo, DCAO, EID No. 8412026)

### 1.3 Non-deposit of deduction into government account - Nu. 0.644 million

The Dratshang Lhengtshog had not remitted/deposited Nu.0.644 million on account of TDS, Liquidated Damages and Retention Money deducted from contractors and suppliers pertaining to the constructions of shedra and lobdra at Thimphu and Monggar to the RRCO and DPA. (AIN: 14068; Para: 1.5.1; Accountabilities: Direct: Rinzin Phurba, Project Engineer, EID No.9507028, Pema Zangpo, Project Accountant, EID No. 9404022; Supervisory: Sangay Wangmo, DCAO, EID No. 8412026)

#### 4.4.4. Royal Civil Service Commission

During the period, the RAA had issued two audit reports of the Royal Civil Service Commission. There were four observations pointed out in the reports involving Nu. 35.923 million, out of which three observations amounting to Nu.5.280 million were partially resolved prior to the compilation of the draft AAR 2016. The total unresolved significant observations reflected in the draft AAR 2016 amounted to Nu. 30.643 million.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the agency, one observation amounting to Nu. 21.034 million was resolved. The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 9.609 million as summarized below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Violations of laws and rules	9.006	4
2	Shortfalls, lapses and deficiencies	0.603	5
	<b>Total</b>	<b>9.609</b>	

## **1. Violations of laws and rules - Nu. 9.006 million**

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

### **1.1 Non-refund of expenditures from five MBBS students as per the Undertaking - Nu.9.006 million**

The Royal Civil Service Commission had not penalized and recovered an amount of Nu. 34.746 million from five doctors who had successfully completed their MBBS courses and returned to Bhutan but had not joined service in the country as per the Letter of Undertaking signed between the students and the RCSC. A sum of Nu. 25.740 million was resolved leaving a balance of Nu. 9.006 million. (AIN: 13650; Para: 1.1; Accountabilities: Direct: Tashi Pem, Director, RCSC, EID No. 9602032; Supervisory: Tashi Pem, Director, RCSC, EID No. 9602032)

## **2. Shortfalls, lapses and deficiencies - Nu. 0.603 million**

There were cases of shortfalls, lapses and deficiencies involving Nu. 0.603 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
2.1	Irregular acceptance of resignation without refund of double the total expenses incurred on long-term studies	0.038
2.2	Inadmissible payment of tuition fees & stipend	0.565
	<b>Total</b>	<b>0.603</b>

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

### **2.1 Irregular acceptance of resignation without refund of double the total expenses incurred on long-term studies - Nu. 0.038 million**

The Royal Civil Service Commission had not penalized and recovered Nu. 0.331 million due from an official upon discontinuation of Master's course by resigning from service before completion of course, even after a lapse of three years. Nu. 0.293 million was recovered leaving a balance of Nu. 0.038 million. (AIN: 13650; Para: 2.1; Accountabilities: Direct: Sonam Choki, Assistant Lecturer, RUB, EID No.200801050; Supervisory: Pema Chopel, HRO, RUB, EID No.200701180)

### **2.2 Inadmissible payment of tuition fees & stipend - Nu. 0.565 million**

The Royal Civil Service Commission had not recovered inadmissible payment of Nu. 0.798 million from an official upon discontinuation of Master's course from the first semester due to ill health. However, the tuition fees & stipends had been paid till 4<sup>th</sup> Semester from the GOI Project 'Nehru Wangchuck Scholarship'. Nu. 0.233 million was recovered leaving a balance of Nu. 0.565 million.

The RCSC reported of the Office of the Vice Chancellor having forwarded the case to the Office of the Attorney General. (AIN: 13650; Para: 3.1; Accountabilities: Direct: Rashme Gurung, EID No.201101147; Supervisory: Gajel Lhendup, Registrar, RUB, EID No.8201014)

#### 4.4.5. Tourism Council of Bhutan

During the period, the RAA had issued four audit reports of the Tourism Council of Bhutan, Thimphu. There were seven observations pointed out in the reports involving Nu. 4.814 million, out of which no observation was resolved prior to the compilation of the draft AAR 2016.

The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu.4.814 million as summarized below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Violations of laws and rules	2.959	4
2	Shortfalls, lapses and deficiencies	1.855	5
	<b>Total</b>	<b>4.814</b>	

#### 1. Violations of laws and rules – Nu. 2.959 million

There were cases of violations of laws and rules involving Nu. 2.959 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
1.1	Non-rectification of defective works	2.559
1.2	Irregular release of advance	0.400
1.3	Non-compliance to Rules & Regulations for Tour Operators in Bhutan 1999	-
	<b>Total</b>	<b>2.959</b>

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

#### 1.1 Non-rectification of defective works - Nu. 2.559 million

The contractor had not rectified various defective works worth Nu. 2.559 million in the Austrian funded construction project of Hotel and Tourism Management Training Institute, Motithang under the Tourism Council of Bhutan. (AIN: 14100; Para: 1; Accountabilities: Direct: Karma Loday, Officiating Project Manager, CID No. 11101000863; Supervisory: Karma Loday, Officiating Project Manager, CID No. 11101000863)

#### 1.2 Irregular release of advance - Nu. 0.400 million

The Tourism Council of Bhutan had made irregular payment of advances amounting to Nu. 0.400 million to M/s Bhutan Pleasant Holidays from the 'Foreign Exchange (Forex) and Allocation for Sustainable Tourism Development' account without any balance in the tour operator's account. This was in violation to the Clause 'H' of the Tour Payments Rules and Procedures which states that, "On application from the tour operator, up to 50% of the amount deposited shall be released as advance. The balance amount will be released to the tour operators upon submission of invoice by them". (AIN: 13945; Para: 1; Accountabilities: Direct: Tashi Pelki, Accounts Asstt. V, EID No.:

9704048; Kumbu Dem, Accounts Asstt. III, EID No.: 200507249; Supervisory: Dependra Ghalley, Accounts Officer, EID No.: 200201019)

### 1.3 Non-compliance to Rules & Regulations for Tour Operators in Bhutan 1999

The Tourism Council of Bhutan in violation to Clause 8, Section 'j' & 'k' (amendments to clauses 7, 8 and 10) of the Rules and Regulations for Tour Operations in Bhutan 1999 pertaining to refunds on cancellations of visit or tour had continued to refund local tour operators directly instead of the client/travel agent overseas. The TCB also did not have a proper system in place to track details of deposits, refunds/recovery and payments of cancelled tours and to ensure that actual refunds are made to clients or travel agents overseas by the local tour operators. (AIN: 13945; Para: 3; Accountabilities: Direct: Kumbu Dem, Accounts Asstt. III, EID No.: 200507249; Jamyang Pelden, Accounts Asstt.- IV, EID No.: 200707019; Supervisory: Tashi Tenzin, Offtg. Head, Services Division, EID No.: 200401215)

## 2. Shortfalls, lapses and deficiencies – Nu. 1.855 million

There were cases of Shortfalls, lapses and deficiencies involving Nu. 1.855 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
2.1	Shortages in physical balances	0.255
2.2	Wasteful Expenditure	1.550
2.3	Outstanding Advances	0.050
	<b>Total</b>	<b>1.855</b>

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

### 2.1 Shortages in physical balances - Nu. 0.255 million

The Austrian funded Hotel and Tourism Management Training Institute construction project had shortages of electronic equipment worth Nu. 0.255 million as observed during the joint physical verification carried out on 20<sup>th</sup> and 21<sup>st</sup> July 2016. (AIN: 14100; Para: 2; Accountabilities: Direct: Sonam Tshering, Sr. Instructor, EID No.:200309021; Supervisory: Dakar Dorji, Principal, EID No.:200201258)

### 2.2 Wasteful Expenditure - Nu. 1.550 million

The Austrian funded Hotel and Tourism Management Training Institute construction project had incurred wasteful expenditure of Nu. 1.550 million on procurement and installation of IT equipment and software for the Royal Institute for Tourism and Hospitality in Motithang. The software had not been utilized even once. (AIN: 14100; Para: 3; Accountabilities: Direct: Sonam Tshering, Sr. Instructor, EID No.:200309021; Supervisory: Dakar Dorji, Principal, EID No.:200201258)

## 2.3 Outstanding Advances - Nu. 0.050 million

The Austrian funded Hotel and Tourism Management Training Institute construction project had overdue outstanding advance balance of Nu.0.050 million against an official who had already resigned from the agency. (AIN: 14100; Para: 4; Accountabilities: Direct: Kuenzang Wangchuk, Ex-Project Engineer, CID No.: 12008001772; Supervisory: Karma Loday, Offtg. Project Manager, CID No.: 11101000863)

### 4.4.6. National Land Commission Secretariat

During the period, the RAA had issued one audit report of the National Land Commission Secretariat, Thimphu. There were 11 observations pointed out in the reports involving Nu. 4.317 million, out of which seven observations amounting to Nu. 0.488 million were either resolved prior to the compilation of the draft AAR 2016 or were not material enough for inclusion in the draft AAR 2016. The total unresolved significant observations reflected in the draft AAR 2016 amounted to Nu. 3.908 million.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the agency, observations amounting to Nu. 2.301 million was resolved. The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 1.607 million as summarized below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Mismanagement	1.607	3
	<b>Total</b>	<b>1.607</b>	

### 1. Mismanagement – Nu. 1.607 million

There were cases of mismanagement involving Nu. 1.607 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
1.1	Irregular diversion of fund	1.505
1.2	Outstanding proceeds from issue of Feno pegs	0.102
	<b>Total</b>	<b>1.607</b>

The cases of mismanagement are as indicated below:

### 1.1 Irregular diversion of fund - Nu. 1.505 million

The National Land Commission Secretariat had incurred expenses amounting to Nu. 1.505 million on account of partial funding of ex-country trainings for staff by diverting the in-country training budget without following due process for re-appropriation of fund. (AIN: 13717; Para: 1; Accountabilities: Direct: Til Bdr. Ghalley, Accounts Officer, EID No.: 200701133; Supervisory: Tshewang Namgay, Officiating Chief Adm. Officer, EID No.: 201008001)

## 1.2 Outstanding proceeds from issue of Feno pegs - Nu. 0.102 million

The National Land Commission Secretariat had not recovered outstanding proceeds amounting to Nu. 0.102 million on account of issue of Feno pegs to field surveyors for the financial year 2014-15. (AIN: 13717; Para: 4; Accountabilities: Direct: Namgay Dorji, Land Record Officer, EID No. 8803018; K.B Pradhan, Surveyor, EID No. 9102026; Supervisory: Pema Thinley, Store Incharge, EID No. 201002014 )

### 4.4.7. Thromde Administration, Phuentsholing

During the period, the RAA had issued one audit report of the Thromde Administration, Phuentsholing. There were eleven observations pointed out in the report involving Nu. 4.774 million, out of which one observation amounting to Nu.2.163 million was partially resolved prior to the compilation of the draft AAR 2016. The total unresolved significant observations reflected in the draft AAR 2016 amounted to Nu. 2.611 million.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the agency, observations amounting to Nu. 2.611 million was resolved. The total unresolved significant irregularities reflected in the AAR 2016 are as summarized below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Mismanagement	-	3
	<b>Total</b>	-	

#### 1. Mismanagement

There were cases of mismanagement involving Nu. 0.939 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
1.1	Diversion of fund for study tour and irregularities thereof	-
1.2	Rush of expenditure at the close of year	-
1.3	Expenditure incurred for hiring two consultants from Thailand to Malaysia	-
	<b>Total</b>	-

The cases of mismanagement are as indicated below:

#### 1.1 Diversion of fund for study tour and irregularities thereof

The Thromde Administration, Phuentsholing had diverted a sum of Nu. 3.100 million meant for consultancy service of construction of the vegetable market shed, and utilized it for a study tour to Bangkok and Malaysia, without obtaining prior approval from Ministry of Finance. The decision to divert funds was taken during the 15<sup>th</sup> Thromde Tshogde, where it was also decided that the planning and design works for vegetable sheds be conducted in-house. (AIN: 14078; Para: 1; Accountabilities: Direct: Tsheten Dorji, Ex-Thrompon, CID. No. 10203444434; Supervisory: Uttar Kumar Rai, Thrompon, CID. No. 10211001285)

## 1.2 Rush of expenditure at the close of year

The Thromde Administration, Phuentsholing had utilized a sum of Nu. 2.163 million on an ad-hoc ex-country training availed without prior approval from Ministry of Finance to avoid lapse of funds at the end of financial year. Nu.0.231 million was spent on air tickets, Nu.1.244 million on course fees for study tours and Nu.0.688 million for DSA. *(AIN: 14078; Para: 2; Accountabilities: Direct: Tsheten Dorji, Ex-Thrompon, CID. No. 10203444434; Supervisory: Uttar Kumar Rai, Thrompon, CID. No. 10211001285)*

## 1.3 Expenditure incurred for hiring two consultants from Thailand to Malaysia

The Thromde Administration, Phuentsholing had hired Sirpatum University in Thailand to conduct a training on “Fresh Fruits and Vegetables Market Management” in Thailand and Malaysia at a cost of USD 19,279.00. The Thromde Administration had paid for the two trainings separately, i.e. USD 9,565.00 for Thailand and USD 9,714.00 for Malaysia, inclusive of the program fee of USD 4,500.00.

However, USD 3,840.00 of the total cost pertained to cost of air tickets, subsistence allowances, hotel charges and miscellaneous expenses for hiring two staffs of Sirpatum University from Thailand to Malaysia for four days. *(AIN: 14078; Para: 5; Accountabilities: Direct: Tsheten Dorji, Ex-Thrompon, CID. No. 10203444434; Supervisory: Uttar Kumar Rai, Thrompon, CID. No. 10211001285)*

### 4.4.8. Bhutan Council for School Examinations and Assessment

During the period, the RAA had issued one audit report of Bhutan Council for School Examinations and Assessment. There was one observation pointed out in the report involving Nu. 0.629 million, which was not resolved prior to the compilation of the draft AAR 2016.

The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 0.629 million as summarized below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Shortfalls, lapses and deficiencies	0.629	5
	<b>Total</b>	<b>0.629</b>	

#### 1. Shortfalls, lapses and deficiencies – Nu. 0.629 million

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

##### 1.1 Irregularities in printing of documents for private schools - Nu. 0.629 million

The Bhutan Council for School Examinations and Assessment had borne the costs of printing of confidential documents and transportation charges of Nu. 0.629 million for the 38 private schools from the RGoB fund without Government directives or approval. The RAA had advised the BCSEA to take up the issue with the Ministry of Education for appropriate decisions on the

applicability of the support to the private schools keeping in view that all private schools are commercial in their nature of running the schools. However, decisions of the Ministry if any has not been forthcoming. *(AIN: 14132; Para 1; Accountabilities Direct Sangay Tenzin, Controller, Employee EID No.8404009; Supervisory: Tenzin Dorji, Secretary, EID No.9208100)*

#### 4.4.9. Bhutan Narcotic Control Authority

During the period, the RAA had issued two audit reports of Bhutan Narcotic Control Authority. There were eleven observations pointed out in the reports involving Nu. 0.560 million, out of which three observations amounting to Nu. 0.040 million were either resolved prior to the compilation of the draft AAR 2016 or were not material enough for inclusion in the draft AAR 2016. The total unresolved significant observations reflected in the draft AAR 2016 amounted to Nu.0.520 million.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the agency, observations amounting to Nu. 0.173 million was resolved. The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 0.347 million as summarized below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Shortfalls, lapses and deficiencies	0.347	5
	<b>Total</b>	<b>0.347</b>	

#### 1. Shortfalls, lapses and deficiencies – Nu. 0.347 million

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

##### 1.1. Non-refund/surrender of unspent fund balance of UNICEF - Nu. 0.347 million

The UNICEF Funded Project under the Bhutan Narcotic Control Authority (BNCA) had not surrendered the unspent fund balance of Nu. 0.347 million to UNICEF at the end of the fiscal year even after the lapse of more than three years. The BNCA had failed to segregate and carry out periodic reconciliation of UNICEF Project funds as per the FIC allotted by the DPA, MoF that had resulted into non-surrender of fund balance to UNICEF. *(AIN: 13739; Para: 1.1; Accountabilities: Direct: Cham Thinley, Former Accountant, EID No. 8511035; Supervisory: Phuntsho Wangdi, Director General, EID No. 8201051)*

#### 4.4.10. Cabinet Secretariat

During the period, the RAA had issued three audit reports of the Cabinet Secretariat, Thimphu. There were two observations pointed out in the reports involving Nu. 0.097 million, which was not resolved prior to the compilation of the draft AAR 2016.

The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 0.097 million as summarized below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Shortfalls, Lapses and Deficiencies	0.097	5
	<b>Total</b>	<b>0.097</b>	

## 1. Shortfalls, Lapses and Deficiencies - Nu. 0.097 million

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

### 1.1 Non-deduction of TDS - Nu. 0.097 million

The Cabinet Secretariat had not deducted 2% TDS amounting to Nu. 0.097 million from the total payments of Nu. 4.866 million pertaining to the chartered flight charges of the Royal Bhutan Helicopter Services Limited for the FY 01.07.2015 to 30.06.2016. *(AIN: 14205; Para: 1; Accountabilities: Direct: Lungten Tshewang, Accounts Officer, EID No. 201001034; Supervisory: Lobzang Dorji, Director, EID No. 9711015)*

### 4.4.12. Khesar Gyalpo University of Medical Sciences of Bhutan

During the period, the RAA had issued four audit reports of the Khesar Gyalpo University of Medical Sciences of Bhutan (KGUMSB) and the institutes under it. There were 10 observations pointed out in the reports involving Nu. 0.117 million, out of which one observation amounting to Nu. 0.029 million did not qualify for inclusion in the draft AAR 2016. The total unresolved significant observations reflected in the draft AAR 2016 amounted to Nu. 0.089 million.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the agency, observations amounting to Nu. 0.040 million was resolved. The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 0.049 million as summarized below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Shortfalls, lapses and deficiencies	0.049	5
	<b>Total</b>	<b>0.049</b>	

## 1. Shortfalls, lapses and deficiencies - Nu. 0.049 million

There were cases of shortfalls, lapses and deficiencies involving Nu. 0.049 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
1.1	Non charging-off of damaged and obsolete items in the books of accounts	0.049
1.2	Non-creation of Provision for Leave Travel Concession	-
1.3	Improper creation and recording of Provision for Gratuity	-
1.4	Improper recording of Provision for Leave encashment	-
1.5	Non-capitalization of the building and furniture	-
1.6	Discrepancies and lapses in the Financial Statements	-
1.7	Non-conducting of Annual physical verification of Properties	-
	<b>Total</b>	<b>0.049</b>

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

### **1.1 Non-charging-off of damaged and obsolete items in the books of accounts - Nu.0.049 million**

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The Faculty of Traditional Medicine, KGUMSB had not charged-off damaged and obsolete items from the books of accounts worth Nu.0.049 million for the year ended 30<sup>th</sup> June 2012. Although the items were either surrendered or sold, it was still reflected under Current Assets in the Balance Sheet resulting in the overstatement of total assets for the financial years ended 30<sup>th</sup> June 2012 to 30<sup>th</sup> June 2015. *(AIN: 14178; Para: 2; Accountabilities: Direct: Karma, Store In-charge, EID No. 9204034; Supervisory: Dorji Phuntsho, Assistant Administrative Officer EID No. 200805041)*

### **1.2 Non-creation of Provision for Leave Travel Concession**

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The Faculty of Traditional Medicine, KGUMSB had not created provisions for Leave Travel Concession when the agency was delinked from government in July 2011 and changing its accounting system from 'Cash Basis' to 'Accrual Basis' as required for the accrual concept. *(AIN: 14178; Para: 3; Accountabilities: Direct: Dechen Tshomo, Accounts Asstt. EID No. RUB1107003; Supervisory: Tendrel Wangdi, Dean EID No. 9511043)*

### **1.3 Improper creation and recording of Provision for Gratuity**

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The Faculty of Traditional Medicine, KGUMSB had failed to consistently apply the accounting policy adopted by the University on Gratuity Provision. The audited financial statements for the year ended 30<sup>th</sup> June 2011 provided provision for Gratuity of Nu. 5.222 million. However, no such provisions were made in 2012, 2014 and 2015 except for 2013 where additional gratuity provision of Nu. 0.222 million was made. *(AIN: 14178; Para: 5; Accountabilities: Direct: Dechen Tshomo, Accounts Asstt. EID No. RUB1107003; Supervisory: Tendrel Wangdi, Dean EID No. 9511043)*

### **1.4 Improper recording of Provision for Leave encashment**

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The Faculty of Traditional Medicine, KGUMSB had not created provisions for Leave Encashment for the year ended 30<sup>th</sup> June 2012 and had instead used the same provisions for Leave Encashment of Nu.0.706 million created for year ended 30<sup>th</sup> June 2011 by the external auditors of the Institute, despite making payments of only Nu.0.379 million during the financial year 2011-2012. The management had neither charged payments to the Provisions created, nor created provisions for the periods by computing the actual amount of leave encashment required for the periods.

Further, review of the balance sheet for the financial year ended 30<sup>th</sup> June 2013, revealed creation of provision of Nu.0.502 million based on the valuation policy adopted by external auditors but no appropriate accounting process was adopted to adjust the provision in the system and instead the amounts were found directly punched in the accounting system. There were no provisions for leave encashment created in the Balance Sheet for the years ended 30<sup>th</sup> June 2014 and 30<sup>th</sup>

June 2015, and provisions were found reduced to Nu.0.170 million as on 30<sup>th</sup> June 2014 and Nu.0.069 million as on 30<sup>th</sup> June 2015. *(AIN: 14178; Para: 6; Accountabilities: Direct: Dechen Tshomo, Accounts Asstt. EID No. RUB1107003; Supervisory: Tendrel Wangdi, Dean EID No. 9511043)*

### **1.5 Non-capitalization of the building and furniture**

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The Faculty of Traditional Medicine, KGUMSB had not capitalized and incorporated the academic & library buildings, multipurpose hall, Kitchen, Hostel and provost quarter worth Nu.111.401 million and furniture worth Nu.13.823 million in the financial statements. The items, although recorded in the fixed and stock register were not reflected properly in the Balance Sheet of the institute, resulting in an undervaluation of the assets and depreciation of provisions to that extent. *(AIN: 14178; Para: 7; Accountabilities: Direct: Dechen Tshomo, Accounts Asstt. EID No. RUB1107003; Supervisory: Tendrel Wangdi, Dean, EID No. 9511043)*

### **1.6 Discrepancies and lapses in the Financial Statements**

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The Faculty of Traditional Medicine, KGUMSB had the following discrepancies and lapses in the financial information disclosed in the Financial Statements:

- i. The closing stock balance of one financial year was carried forward as the opening stock balance of subsequent financial year, but no records were provided to support the closing stock balances due to which the correct position of closing stocks reflected in the financial statements could not be ascertained.
- ii. The Depreciation on the fixed assets was charged for FY 2011-2012 and 2012-2013 amounting to Nu 1.168 million and Nu.2,362 million, but not for the financial years 2013-2014 and 2014-2015.
- iii. Furniture and equipment valuing Nu. 13.823 million purchased during FY ended 30<sup>th</sup> June 2012 to 30<sup>th</sup> June 2015 were not reflected in the financial statements and hence, no depreciations were charged during the years.
- iv. Infrastructure worth Nu.111.401 million were neither capitalized and taken into accounts, nor disclosed in the financial statements.
- v. The closing balance of the Institutional Development Fund of Nu.0.065 million was not incorporated in the Balance sheet as on 30<sup>th</sup> June 2012 or in the subsequent financial years. The IDF account was being maintained separately, but no records was provided to audit team for verification.
- vi. The monthly contributions of Nu.100.00 each by the teaching and non-teaching staffs of the institutes for 'Moenlha Contribution Accounts' was deposited and maintained with a separate bank account, but no records was provided to audit team for verification.

*(AIN: 14178; Para: 8; Accountabilities: Direct: Dechen Tshomo, Accounts Asstt. EID No. RUB1107003; Supervisory: Tendrel Wangdi, Dean, EID No. 9511043)*

## 1.7 Non-conducting of Annual physical verification of Properties

The Faculty of Traditional Medicine, KGUMSB had not conducted the annual physical verification of the Institute's inventories and properties except for the hostel and IT equipments which were on record. (AIN: 14178; Para: 9; Accountabilities: Direct: Karma, Store In-charge. EID No. 9204034; Supervisory: Dorji Phuntsho, Assistant Administrative Officer EID No. 200805041)

### 4.4.13. Civil Society Organisation Authority

During the period, the RAA had issued one audit report of the Civil Society Organisation Authority, Thimphu. There were five observations pointed out in the report involving Nu.0.201 million, out of which four observations amounting to Nu.0.029 million were either resolved prior to the compilation of the draft AAR 2016 or did not qualify for inclusion in the draft AAR 2016.

The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 0.172 million as summarized below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Violations of rules and laws	0.172	4
	<b>Total</b>	<b>0.172</b>	

#### 1. Violations of rules and laws– Nu.0.172 million

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

##### 1.1 Wrong booking of expenditure - Nu.0.172 million

The Civil Society Organisation Authority, Thimphu had wrongly booked Nu.0.172 million in the books of account. The wrong booking of expenditure was made from Capital budget head to Current budget head in violation of the FRR 2001 and the Budget Manual. Besides, expenditure incurred under one Current budget head was booked under another Current budget head without budget re-appropriations orders. This had resulted into over statement and understatement of expenditure under the respective heads of accounts. (AIN: 14082; Para: 1; Accountabilities: Direct: Karma Tenzin, Accountant, EID No. 9504017; Supervisory: Tshewang Tobgyel, Member Secretary, EID No. 9507319)

## 4.5. CORPORATIONS

### 4.5.1. Bhutan Power Corporation Limited

During the period, the RAA had issued 21 audit reports of the Bhutan Power Corporation Limited, its Regional Offices and Divisions. There were 36 observations pointed out in the reports involving Nu. 50.881 million, out of which 27 observations amounting to Nu. 9.244 million were either resolved prior to the compilation of the draft AAR 2016 or did not qualify for inclusion in the draft AAR 2016. The total unresolved significant irregularities reflected in the draft AAR 2016 amounted to Nu. 41.637 million.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the agency, observations amounting to Nu. 2.464 million were resolved. The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 39.173 million as summarized below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Violation of Laws and Rules	38.249	4
2	Shortfalls, lapses and deficiencies	0.924	5
	<b>Total</b>	<b>39.173</b>	

## 1. Violation of Laws and Rules – Nu. 38.249 million

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

### 1.1 Grant of unwarranted time extension and resultant Liquidated damages - Nu.38.249 million

The Bhutan Power Corporation Limited, Phuentsholing had not levied 10% liquidated damages amounting to Nu.38.249 million on the contractor for unwarranted grant of time extensions in the construction of '220KV Transmission Line from Malbase to Samtse'. The project management had granted four time extensions to the contractor, which had delayed the completion of project by 786 days. The fourth time extension was found inadmissible as the hindrances were due to contractor's own negligence and incompetence. *(AIN: 14211; Para: 1.3; Accountabilities: Direct: Ugyen Dorji, Sr. Project Manager, CID No. 10203001794, EID No. 30001000; Supervisory: Shamsher Pradhan, Associate Director, CID No. 21213000770, EID No. 30000643)*

## 2. Shortfalls, lapses and deficiencies - Nu. 0.924 million

There were cases of shortfalls, lapses and deficiencies involving Nu. 0.924 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
2.1	Non-production of Tender documents and sales proceeds	0.500
2.2	Excess payment	0.424
	<b>Total</b>	<b>0.924</b>

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

### 2.1 Non-production of Tender documents and sales proceeds – Nu. 0.500 million

The Bhutan Power Corporation Limited, Phuentsholing had not produced the Tender documents and sales proceeds on the sale of tender documents amounting to Nu. 0.500 million for audit verification in respect of the construction of '220KV Malbase to Samtse Transmission Line'. *(AIN: 14211; Para: 1.4; Accountabilities: Direct: Ugyen Dorji, Sr. Project Manager, CID No. 10203001794, EID No. 30001000; Supervisory: Shamsher Pradhan, Associate Director, CID No. 21213000770; EID No. 30000643)*

## 2.2 Excess payment - Nu. 0.424 million

The Bhutan Power Corporation Limited, Phuentsholing had made excess payments amounting to Nu.0.424 million to contractor in the construction of '220KV Malbase to Samtse Transmission Line' due to difference in the measurements claimed in bills as against the actual measurements provided in the drawings and executed at site for retaining walls. (AIN: 14211; Para: 1; Accountabilities: Direct: Ugyen Dorji, Sr. Project Manager, CID No. 10203001794, EID No. 30001000; Supervisory: Shamsher Pradhan, Associate Director, CID No. 21213000770, EID No. 30000643)

### 4.5.2. Dungsam Cement Corporation Limited

During the period, the RAA had issued two audit reports of the Dungsam Cement Corporation Limited, Nganglam. There were 66 observations pointed out in the reports involving Nu. 973.711 million, out of which 22 observations amounting to Nu. 469.527 million were either resolved prior to the compilation of the draft AAR 2016 or did not qualify for inclusion in the draft AAR 2016. The total unresolved significant irregularities reflected in the draft AAR 2016 amounted to Nu. 502.241 million.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the agency, observations amounting to Nu. 483.306 million were resolved. The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 18.935 million as summarized below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Fraud, Corruption & Embezzlement	-	1 & 2
2	Mismanagement	7.186	3
3	Violations of laws and rules	0.494	4
4	Shortfalls, lapses and deficiencies	11.255	5
	<b>Total</b>	<b>18.935</b>	

#### 1. Fraud, Corruption and Embezzlement

There were cases with elements of fraud, corruption and embezzlement as summarised below:

Sl. No.	Observation in Brief	Nu. in million
1.1	Booking of fictitious muster roll payments	-
1.2	Tampering of bill and adding an additional item	-
	<b>Total</b>	<b>-</b>

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

#### 1.1 Booking of fictitious muster roll payments

The Dungsam Cement Corporation Limited, Nganglam had booked a total amount of Nu.1.337 million on account of muster roll payments for 2013 and 2014. There were instances where

amounts booked had exceeded actual disbursements and that amounts withdrawn for payments were in Indian Rupees but refund of excess amounts made in Ngultrums. There were also cases where the muster rolls had names of individuals who did not claim their wages during the muster roll payment but were reflected in other claims indicating possible existence of ghost labourers. The labourers were mostly engaged during the preparation works for inauguration of Plant and for maintenance works. The confirmation from the Immigration office on the engagement of non-Bhutanese labourers is yet to be furnished by the DCCL. (AIN: 13705; Para: 13; Accountabilities: Direct: Tshewang Tshogyal, HA, CID No. 11101003791; Supervisory: Dorji Norbu, CEO, CID No. 12008002340)

## 1.2 Tampering of bill and adding an additional item

The Dungsam Cement Corporation Limited, Nganglam had a case of tampered documents where Bill No.391 dated 10<sup>th</sup> March 2011 was inflated by Nu.0.026 million by adding 480 kgs of 32mm TMT Bar in Challan No.450 dated 10<sup>th</sup> March 2011. There was no supply order for the additional quantity from DCCL, nor was it reflected in the supplier's copy of the 'Tally Accounts' obtained for validation of the above purchase.

The management reported of having recovered the amount and compulsorily retired the supervising official (GM, Works). Actions against direct accountable official (Assistant Store Officer) is awaited. (AIN: 13705; Para: 23; Accountabilities: Direct: Karma Phuentsho, CID No. 10103002308; Supervisory: Sonam Wangchuk, GM(W), CID No. 11303000556)

## 2. Mismanagement – Nu. 7.186 million

There were cases of mismanagement involving Nu. 7.186 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
2.1	Non-levy of penalty for excess ash and moisture content in coal	5.985
2.2	Non-Imposition of Penalty for excess moisture content and silica in iron ore	1.201
2.3	Non-imposition of penalty for rejected items	-
	<b>Total</b>	<b>7.186</b>

The cases of mismanagement are as indicated below:

### 2.1 Non-levy of penalty for excess ash and moisture content in coal - Nu. 5.985 million

The Dungsam Cement Corporation Limited, Nganglam had not levied penalties amounting to Nu. 5.985 million against M/s Dhenjyud Enterprise for excess content of moisture and ash in coal which did not meet preset quality control parameters during 2013 and 2015. Nu. 0.148 million was recovered from the total penalty of Nu. 6.133 million, leaving a balance of Nu. 5.985 million. (AIN: 13705; Para: 1.2; Accountabilities: Direct: Bikash Tirwa, CID No. 11803000638; Rinchen Dorji, Sec. Head, Raw Material, CID No. 11203001300; Supervisory: Sonam Wangchuk, GM (W), CID No.11303000556)

## 2.2 Non-Imposition of Penalty for excess moisture content and silica in iron ore - Nu.1.201 million

The Dungsam Cement Corporation Limited, Nganglam had not levied penalties amounting to Nu.1.201 million against M/s Mukhia Mining, Lhamoizingkha for excess silica content in the iron ore which did not meet preset quality control parameters. (AIN: 13705; Para: 1.3; Accountabilities: Direct: Rinchen Dorji, Sec Head, Raw Material, CID No. 11203001300; Supervisory: Sonam Wangchuk, GM (W), CID No. 11303000556)

## 2.3 Non-imposition of penalty for rejected items

The Dungsam Cement Corporation Limited, Nganglam had deducted Nu.1.356 million from the supplier, M/s Wangmo Enterprise, Thimphu on account of 'MS Plates' rejected for not meeting the required standards/quality on 29<sup>th</sup> December 2010. However, the same was found refunded to the supplier on 23<sup>rd</sup> December 2011 as the rejected MS Plates had been issued to the mechanical contractor and used in fabrication of packing plants. (AIN: 13705; Para: 22; Accountabilities: Direct: Sonam Wangchuk, GM(W), CID No. 11303000556; Supervisory: Dorji Norbu, CEO, CID No. 12008002340)

## 3. Violation of Laws and Rules – Nu. 0.494 million

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

### 3.1 Rejected materials not replaced and amount not recovered - Nu. 0.494 million

The Dungsam Cement Corporation Limited, Nganglam had instances of materials and spares worth Nu.0.494 million rejected in November and December 2015 for not meeting the requisite specifications mentioned in the supply orders. While the management made 100% advance payments for such orders, there were no provisions available for levying penalties for delays or non-delivery of materials. The management had neither ensured replacement of rejected materials nor was the cost recovered. (AIN: 14125; Para: 2.2; Accountabilities: Direct: Tenzin Dorji Purchase Assistant, EID 41, CID No. 10716000542; Supervisory: Pema Choki, Asst. PO, EID. No. 73, CID No. 11203001299)

## 4. Shortfalls, Lapses and Deficiencies – Nu. 11.255 million

There were cases of shortfalls, lapses and deficiencies involving Nu. 11.255 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
4.1	Shortage of Stock Balances of OPC and PPC	0.891
4.2	Shortage of stock balance of OPC	0.223
4.3	Excess/Over payments	2.279
4.4	Missing documents for payments made	3.367
4.5	Inadmissible payment of VAT	0.067

4.6	Non-declarations of goods and original invoices to Customs from the suppliers and recoverables thereof	4.428
4.7	Abnormal Wastage of cement	-
	<b>Total</b>	<b>11.255</b>

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

#### **4.1 Shortage of Stock Balances of OPC and PPC - Nu. 0.891 million**

The Dungsam Cement Corporation Limited, Nganglam had shortages of stock balance for OPC and PPC worth Nu. 0.891 million. From the total quantities dispatched from factory to the Phuentsholing Depot from 2014 till August 2015, there were shortages of 80.30 MT of OPC valuing Nu. 0.454 million and 78.70 MT of PPC valuing Nu. 0.437 million in the depot, as per book balances based on quantities received, quantities dispatched to customers and after considering quantities returned to drivers, at the time of audit in August 2015.

The management has conveyed the Board's write-off approval for stock difference as of 30<sup>th</sup> June 2015. *(AIN: 13705; Para: 2.1; Accountabilities: Direct: Rinzin Namgyel, Asst. SO, CID No. 10607000703; Supervisory: Weseyel Lhendup, Head Sales Div. CID No. 11106004990)*

#### **4.2 Shortage of stock balance of OPC - Nu. 0.223 million**

The Dungsam Cement Corporation Limited, Nganglam had shortages of stock balance for OPC worth Nu. 0.223 million. From the total quantities dispatched from factory to the Gelephu Depot from 2014 till August 2015, there were shortages of 36.14 MT valuing Nu.0.223 million in the depot during the physical verification of stock carried out by audit in August 2015.

The management has conveyed the Board's write-off approval for stock difference as of 30<sup>th</sup> June 2015. *(AIN: 13705; Para: 2.2; Accountabilities: Direct: Doten Wangdi, Asst. SO, CID No. 10902001976; Supervisory: Weseyel Lhendup, Head Sales Div. CID No. 11106004990)*

#### **4.3 Excess/Over payments - Nu. 2.279 million**

- a) The Dungsam Cement Corporation Limited, Nganglam had made excess payment of Nu. 0.822 million for quantities of coal not delivered. The Raw Materials Section had not received 107.51 MT coal out of the total 5,536.11 MT but the payment had been made in full without deducting the cost of coal not supplied. *(AIN: 13705; Para: 3.3; Accountabilities: Direct: Rinchen Dorji, Section Heads, Raw Material, CID No. 11203001300; Supervisory: Sonam Wangchuk, GM(W), CID No. 11303000556)*
- b) The Dungsam Cement Corporation Limited, Nganglam had made excess payments amounting to Nu. 0.661 million due to non-deduction of 3% TDS from bill payments made to M/s Sharma Hardware Stores, Phuentsholing for supply of materials and other items. While tax exemptions to entities under limited tax liability was given vide government circular number DRC/TAX-A&L/RA/15/2410 dated 11<sup>th</sup> March 2011, the DCCL had not referenced the same in their supply orders, and instead had stated that

the price should be inclusive of all taxes and duties applicable in India and Bhutan. The DCCL had failed to incorporate the TDS exemption in the above supply order which had resulted in excess payment to the supplier due to inclusion of taxes and duties in the rates charged. (AIN: 13705; Para: 8.2; Accountabilities: Direct: Lt. Sangay Tshering, AFO, CID No. 11410003558; Jigme Tshewang, CID No. 11101003631; Supervisory: Tshering Tenzin, GM (C), CID No. 10103002448)

- c) The Dungsam Cement Corporation Limited, Nganglam had made over payments amounting to Nu. 0.796 million due to inflated claim of quantities for ceiling works executed in the construction of 10 Units temporary accommodations for employees. (AIN: 14125; Para: 1.1; Accountabilities: Direct: Chimi Wangchuk, Civil Engineer, EID No. 332, CID No. 10102002165; Supervisory: Sonam Wangchuk, GM(W), EID No. 26, CID No. 11303000556)

#### **4.4 Missing documents for payments made – Nu. 3.367 million**

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- a) The Dungsam Cement Corporation Limited, Nganglam did not have supporting documents for payments involving Nu.2.923 million pertaining to M/s Sharma Hardware Stores, Phuentsholing for the procurement of cement. (AIN: 13705; Para: 11.1; Accountabilities: Direct: Lt. Sangay Tshering, AFO, CID No. 11410003558; Jigme Tshewang, Head Finance, CID No. 11101003631; Supervisory: Tshering Tenzin, GM (C), CID No. 10103002448)
- b) The Dungsam Cement Corporation Limited, Nganglam did not have supporting documents for payments involving Nu.0.444 million on account of transportation charges for cement paid to M/s Sharma Hardware Stores, Phuentsholing. (AIN: 13705; Para: 11.2; Accountabilities: Direct: Lt. Sangay Tshering, AFO, CID No. 11410003558; Jigme Tshewang Head Finance, CID No. 11101003631; Supervisory: Tshering Tenzin, GM (C), CID No. 10103002448)

#### **4.5 Inadmissible payment of VAT - Nu. 0.067 million**

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The Dungsam Cement Corporation Limited, Nganglam had made inadmissible payments amounting to Nu. 0.067 million on account of VAT for procurement of cement from M/s Sharma Hardware Store, Phuentsholing. The case is subjudice. (AIN: 13705; Para: 20; Accountabilities: Direct: Lt. Sangay Tshering, CID No. 11410003558; Jigme Tshewang CID No. 11101003631; Supervisory: Tshering Tenzin, GM (C), CID No. 10103002448)

#### **4.6 Non-declarations of goods and original invoices to Customs from the suppliers and recoverables thereof - Nu.4.428 million**

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The Dungsam Cement Corporation Limited, Nganglam had not declared goods worth Nu.4.428 million to Customs at the point of entry/Check Posts. Some of the purchase bills and invoices from the suppliers had no Customs' stamps on them. (AIN: 14125; Para: 2.1; Accountabilities:

*Direct: Pema Choki, Asst. Procurement Officer, EID. No. 73, CID No. 11203001299; Supervisory: Sonam Wangchuk, General Manager(W), EID. No. 26, CID No. 11303000556)*

#### **4.7 Abnormal Wastage of cement**

The Dungsam Cement Corporation Limited, Nganglam had abnormally high wastage of cement worth Nu.10.983 million at the plant. There were huge quantities of cement bags dumped behind the packing plant and spillages along the way to packing plant. The audit noted that there was an increasing trend in wastage, and on an average, about 3,911.8 bags of cement were wasted every month. *(AIN: 14125; Para: 3; Accountabilities: Direct: Sonam Dorji, Packing In- charge/Section Head, CID No. 10608000888; Supervisory: Sonam Wangchuk, GM(W), EID. No. 26, CID No. 11303000556)*

#### **4.5.3. Druk Green Power Corporation**

During the period, the RAA had issued nine audit reports of the Druk Green Power Corporation and the agencies under it. There were 21 observations pointed out in the reports involving Nu.136.680 million, out of which 13 observations amounting to Nu.125.719 million were either resolved prior to the compilation of the draft AAR 2016 or did not qualify for inclusion in the draft AAR 2016. The total unresolved significant irregularities reflected in the draft AAR 2016 amounted to Nu.10.961 million.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the agency, observations amounting to Nu. 1.499 million were resolved. The total unresolved significant irregularity reflected in the AAR 2016 amounted to Nu. 9.462 million as summarized below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Shortfalls, lapses and deficiencies	9.462	5
	<b>Total</b>	<b>9.462</b>	

#### **1. Shortfalls, lapses and deficiencies - Nu. 9.462 million**

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

##### **1.1 Irregularities in derivation of rate for M20 mix concrete and overpayment - Nu.9.462 million**

The Tsibjalumchu Diversion Scheme/Project under Druk Green Power Corporation Limited had irregularities in the derivation of rate of Nu. 15,890.00 per cum for M20 mix concrete. As the item was not included in the Bill of Quantities, an average rate derived from the M15 & M25 was applied, but was found inappropriate as the concrete used in items of works M15 and M25 were very different in nature. As per audit analysis an amount of Nu. 9.462 million was recoverable from contractor. The rate determined for M20 mix concrete was also found exorbitantly high in comparison to other hydropower projects such as Punatsangchhu and Nikachu. *(AIN: 14031; Para: 3.2; Accountabilities: Direct: Tashi Dorji, Hydropower Specialist, CID No. 11105004302; Hem*

*Raj Nepaul, CFO, CID No. 11805000937; Tandin Dorji, EE (M), CID No.11509001594; Yeshey Choden, AE(C), CID No. 11608001917; Late Karma Gyamtsho, PM, CID No. 10716001957; Supervisory: Late Karma Gyamtsho, Project Manager, CID No. 10716001957)*

#### **4.5.4. Natural Resources Development Corporation Limited**

During the period, the RAA had issued four audit reports of the Natural Resources Development Corporation Limited and its regional offices. There were 11 observations pointed out in the reports involving Nu. 30.800 million, out of which six observations amounting to Nu. 7.714 million were either resolved prior to the compilation of the draft AAR 2016 or did not qualify for inclusion in the draft AAR 2016. The total unresolved significant irregularities reflected in the draft AAR 2016 amounted to Nu. 23.086 million.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the agency, observations amounting to Nu. 15.973 million were resolved. The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 7.113 million as summarized below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Mismanagement	3.164	3
2	Shortfalls, lapses and deficiencies	3.949	5
	<b>Total</b>	<b>7.113</b>	

#### **1. Mismanagement - Nu. 3.164 million**

The case of mismanagement is as indicated below:

##### **1.1 Shortage of the crushing stones at Goanti River Site, Jomotsangkha - Nu. 3.164 million**

The Natural Resources Development Corporation Limited, Monggar had shortages of 973,480.00 cft of crushing stones worth Nu. 3.164 million at Golati River site in Jomotshangkha. The raw materials collections, breaking and loading was tendered for 1,230,000 cft of stones @ Nu. 3.25 per cft and payments of Nu. 3.996 million was also made to the contractor, M/s. Gawainyima Construction, Thimphu. However, as worked out by the team from Department of Geology & Mines the quantity of stones physically available at site was only 256,520 cft as against the tendered quantity of 1,230,000 cft with resultant shortage of 973,480.00 cft worth Nu. 3.164 million. The case is subjudice. *(AIN: 13988; Para: 1; Accountabilities: Direct: Ugyen Dhendup, EID No.: 10503004243; Supervisory: Ngawang Denden, RM, EID No.: 10802000718)*

#### **1. Shortfalls, lapses and deficiencies - Nu. 3.949 million**

There were cases of shortfalls, lapses and deficiencies involving Nu. 3.949 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
2.1	Irregularities/Lapses and Excess Payments in Forest Road constructions	1.663
2.2	Outstanding advances	2.286
	<b>Total</b>	<b>3.949</b>

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

## **2.1 Irregularities/Lapses and Excess Payments in Forest Road constructions - Nu.1.663 million**

The Natural Resources Development Corporation Limited, Bumthang had made excess payments amounting to Nu.1.163 million in the construction of 3 km Rodungla Forest Road. The road construction project was halted since December 2014 and had numerous irregularities as follows:

- The approval for the departmental road construction by regional offices was given as an interim measure till the working modalities for the departmental road construction was finalized, which has not been finalized or adopted till date of audit;
- The construction of Rodungla road was not in the list proposed for departmentally undertaken road constructions and was assigned to a non-technical person who had little experience in the management of road construction;
- There were no records to show that the releases of payments to third parties were regulated as per the progress of works and payments were also made to non-existent labourers;
- There were no proper documents maintained to record total quantity of stones received/extracted and used, as well as the number of trips/truckloads of stones transported with resultant shortages of Nu. 0.799 million;
- There was excess payment of Nu. 0.273 million on account of transportation of stones; and
- The management had not deducted 260.4 cum of voids valuing Nu. 0.091 million from the total quantity of stones directly purchased from contractor resulting in excess payment to the contractor.

The road construction project had already incurred an expenditure of Nu. 7.644 million for the 1.8 KM stretch and the remaining construction work was awarded to a M/s K.D. Construction at the quoted amount of Nu. 0.808 million on 29<sup>th</sup> January, 2016. The road construction project was estimated to cost Nu. 7.243 million.

The NRDC reported of having discontinued the service of the accountable officials and benefits withheld and the case is subjudice. *AIN: 13891; Para: 1; Accountabilities: Direct: Rinchen, Ex-Regional Manager, CID No.: 12005003708; Penjor, Ex-Officiating Unit Manager, CID No.: 10801002529)*

## **2.2 Outstanding advances - Nu. 2.286 million**

The Natural Resources Development Corporation Limited, Monggar, had overdue outstanding PW advances amounting to Nu. 2.286 million against staff and contractors. *(AIN: 13988; Para: 3;*

*Accountabilities: Direct: Gyem Dorji, FA, CID No. 10603001158, Lobzang Thinley, AFO, CID No. 10205005317; Supervisory: Tandin Wangchuk, Regional Manager, EID No. NRDCL/2212202, M.D. Tamang, Ex-Regional Manager, CID No. 11301000002)*

#### **4.5.5. Penden Cement Authority Limited**

During the period, the RAA had issued one audit report of the Penden Cement Authority Limited, Gomtu, Samtse. There were seven observations pointed out in the report involving Nu.5.278 million, out of which no observation was resolved prior to the compilation of the draft AAR 2016. The total unresolved significant irregularities reflected in the draft AAR 2016 amounted to Nu. 5.278 million.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the agency, observations amounting to Nu. 3.824 million were resolved. The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 1.454 million as summarized below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Shortfalls, lapses and deficiencies	1.454	5
	<b>Total</b>	<b>1.454</b>	

#### **1. Shortfalls, lapses and deficiencies - Nu. 1.454 million**

There were cases of shortfalls, lapses and deficiencies involving Nu. 1.454 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
1.1	Non-levy of liquidated damages	1.038
1.2	Short supply of clinker	0.132
1.3	Outstanding Security Money Deposits	0.284
	<b>Total</b>	<b>1.454</b>

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

#### **1.1 Non-levy of liquidated damages – Nu. 1.038 million**

- a) The Penden Cement Authority Limited, Gomtu had not levied Liquidated Damages amounting to Nu. 0.908 million against the supplier, M/s Manna Engineering Company, Kolkata for failing to deliver the 'NDC Fan' even after granting two time extensions and expiry of the same. The delivery date of 30<sup>th</sup> April 2015 was revised to 28<sup>th</sup> February 2016 and later to 30<sup>th</sup> April 2016. The management had approved for time extension the first time as the item did not meet specifications and was rejected, however the second time extension did not have proper justifications. *(AIN: 13820; Para: 2; Accountabilities: Direct: Karma Chhogyel, Purchase Officer, CID No: 11107000437, Corporation EID No: 00481; Supervisory: Karma Chhogyel, Purchase Officer, CID No: 11107000437, Corporation EID No: 00481)*

- b) The Penden Cement Authority Limited, Gomtu had not levied Liquidated Damages amounting to Nu. 0.130 million against the supplier, M/s Manna Engineering Company, Kolkata for failing to deliver spare parts as per specification and on time even after granting time extension. *(AIN: 13820; Para: 3; Accountabilities: Direct: Karma Chhogyel, Purchase Officer, CID No: 11107000437, Corporation EID No: 00481; Supervisory: Karma Chhogyel, Purchase Officer, CID No: 11107000437, Corporation EID No: 00481)*

## 1.2 Short supply of clinker - Nu. 0.132 million

The Penden Cement Authority Limited, Gomtu had received 4949.25 MT clinker worth Nu. 21.554 million against total order of 5000 MT for Nu. 21.777 million, resulting in short receipt of 50.75 MT of clinker worth Nu. 0.223 million. The management reported of having adjusted Nu. 0.091 million for 20.68 MT of clinker leaving a balance of Nu. 0.132 million. *(AIN: 13820; Para: 4; Accountabilities: Direct: Sonam Tamang, Senior Manager, CID No.:11214002145, Corporation EID No.:00198; Supervisory: Sonam Tamang, Senior Manager, CID No.:11214002145, Corporation, EID No.:00198)*

## 1.3 Outstanding Security Money Deposits - Nu.0.284 million

The Penden Cement Authority Limited, Gomtu had not recovered outstanding deposits amounting to Nu.0.420 million from third parties, initially given on account of security/earnest money deposits for undertaking various contracts. Some cases were outstanding since 2001 and were due for more than 15 years. The management reported of having recovered Nu. 0.136 million leaving a balance of Nu. 0.284 million as of February 2017. *(AIN: 13820; Para: 7; Accountabilities: Direct: Tashi Dorji, Asstt. Accounts Officer, CID No: 20207000001, Corporation EID No: 00480; Supervisory: Rinchen Tshering, Finance & Accounts Officer, CID No: 10808001602, Corporation EID No: 0039)*

## 4.5.6. National Housing Development Corporation Limited

During the period, the RAA had issued one audit report of the National Housing Development Corporation Limited. There were 11 observations pointed out in the report involving Nu. 1.560 million, out of which six observations amounting to Nu.1.221 million were either resolved prior to the compilation of the draft AAR 2016 or did not qualify for inclusion in the draft AAR 2016. The total unresolved significant irregularities reflected in the draft AAR 2016 amounted to Nu. 0.338 million.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the agency, observations amounting to Nu. 0.054 million were resolved. The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 0.284 million as summarized below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Shortfalls, lapses and deficiencies	0.284	5
	<b>Total</b>	<b>0.284</b>	

## 1. Shortfalls, lapses and deficiencies - Nu. 0.284 million

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

### 2.1 Payment for unexecuted works - Nu.0.284 million

- a) The National Housing Development Corporation Limited had made inadmissible payments amounting to Nu.0.127 million to contractor for unexecuted works in the renovation and rewiring works at Royal Institute of Management, Semtokha. The total contract package was awarded at a cost of Nu.1.294 million. The case is subjudice. (AIN: 13547; Para: 1; Accountabilities: Direct: Tshering Penjor, Executive Engineer, EID No. 200201128, CID No. 114050000982; Supervisory: Karchung, General Manager, EID No. 200301031, CID No. 11107003035)
- b) The National Housing Development Corporation Limited had made inadmissible payments amounting to Nu.0.157 million to contractor for unexecuted works in the construction of railing, plinth protection & drain at Royal Institute of Management, Semtokha. The total contract package was awarded at a cost of Nu.1.315 million. The case is subjudice. (AIN: 13547; Para: 2; Accountabilities: Direct: Tshering Penjor, Executive Engineer, EID No. 200201128, CID No. 114050000982; Supervisory: Karchung, General Manager, EID No. 200301031, CID No. 11107003035)

### 4.5.7. State Trading Corporation of Bhutan Limited

During the period, the RAA had issued one audit report of the State Trading Corporation of Bhutan Limited. There were four observations pointed out in the report involving Nu.134.368 million, out of which one observation amounting to Nu.8.319 million was resolved prior to the compilation of the draft AAR 2016. The total unresolved significant irregularities reflected in the draft AAR 2016 amounted to Nu.126.049 million.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the agency, observations amounting to Nu. 125.868 million were resolved. The total unresolved significant irregularity reflected in the AAR 2016 amounted to Nu. 0.181 million as summarized below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Shortfalls, lapses and deficiencies	0.181	5
	<b>Total</b>	<b>0.181</b>	

## 1. Shortfalls, lapses and deficiencies - Nu. 0.181 million

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

### 1.1 Shortages and Excess stocks - Nu. 0.181 million

The State Trading Corporation of Bhutan Limited, Phuentsholing had cases of stock shortages, as well excess stock worth Nu. 0.468 million for various spare parts in the Stock Inventory as

reflected in the system. The discrepancies were detected initially by the Internal Audit and later confirmed by the RAA. The occurrences of such discrepancies even after installation of an ERP system indicated inappropriate updating of data and lack of timely validations to avoid such errors. The management reported of having reduced the recoverable shortages to Nu. 0.181 million as of January 2017. (AIN: 13593; Para: 3.1; Accountabilities: Direct: Pem Tshewang, Former GM, Tata Division, CID:- 10906000158; Bali Ram Moktan, Sales Executive, Tata Spare, CID:- 11308003185; Durga Maya Lamichan, Parts Planner, Tata spare part, CID:- 10309000029; Sonam Wangchuk, Sales Executive, Tata Spare Parts, CID:-10202000109. choki Lethro, Asst. Sales Executive, Eicher Spares, CID:- 11106005098, EID:- 1311, Tenzin Norbu, Sr.Supervisor, Toyota Spares, CID:- 11512000380, EID:- 1134, Dechen Zangmo, Sales Executive, Toyota Spares, CID:- 10709003613, EID:- 1382, Purna Rai, Sales Executive, Toyota Spares, CID:- 21202000603, EID:- 1341, Yeshi Tshering, Sales Executive, Toyota Spares, CID:- 11302002042, EID:- 1375, Kinley Dorji, Former Sales Executive, Eicher Spares, CID:- 10808001923, EID:- 1271, Tashi Lhendup, Former Unit Head, Eicher Spares, CID:- 10703002181, EID:- 1272, Ugyen Tashi, Sales Executive, Eicher Spares, CID:- 10208000337, EID:- 1432; **Supervisory:** Chador Wangdi, GM, Toyota, EID No.1402/CID No.11606002452; Cheda, GM Tata, EID No.1447/ CID No.11510001415; Ugyen Choden, Dy. GM, Eicher, EID No.1434/ CID No.11913002195; Kinley Bidha, Head of unit, EID No.1213/ CID No.11005000495)

#### 4.5.8. Bhutan Broadcasting Service Corporation Limited

During the period, the RAA had issued two audit reports of the Bhutan Broadcasting Service Corporation Limited. There was one observation pointed out in the reports involving Nu. 0.660 million which was partially resolved for Nu. 0.325 million. The total unresolved significant irregularities reflected in the draft AAR 2016 amounted to Nu. 0.335 million.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the agency, observations amounting to Nu. 0.175 million were resolved. The total unresolved significant irregularity reflected in the AAR 2016 amounted to Nu. 0.160 million as summarized below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Shortfalls, lapses and deficiencies	0.160	5
	<b>Total</b>	<b>0.160</b>	

#### 1. Shortfalls, lapses and deficiencies - Nu. 0.160 million

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

##### 2.1 Inadmissible Payment of Corporate Specific Allowance - Nu. 0.160 million

The Bhutan Broadcasting Service Corporation Limited had made inadmissible payments amounting to Nu. 0.660 million on account of Corporate Specific Allowance to employees on long term trainings. The BBS Policy and Procedure Manual - Service Rules, 2011 clearly stipulates that employees on long term trainings shall be entitled to the full basic pay for the first 12 months

and thereafter for fifty percent of the basic pay for remaining period. A total amount of Nu. 0.500 million was recovered leaving a balance of Nu. 0.160 million. (AIN: 13450; Para: 1; Accountabilities: Direct: Jamyang Dema CID No. 10602000894; Dhendup Tshering CID No. 11903000622; Sonam Zangmo CID No. 11512004153; Dukpo Wangdi CID No. 11603002874; Dorji Dema CID No. 10101002966; Sonam Zangmo CID No. 11508002370; Sonam Tharchin CID No. 10604000375; Tshewang Rinzin CID No. 11701002921; Sangay Pelden CID No. 10604001016; Supervisory: Ugyen Penjor, CID No. 10811001880)

#### 4.5.9. Bhutan Telecom Limited

During the period, the RAA had issued seven audit reports of the Bhutan Telecom Limited and its Branch Offices. There were 10 observations pointed out in the reports involving Nu. 78.212 million, out of which four observations amounting to Nu.8.391 million were either resolved prior to the compilation of the draft AAR 2016 or did not qualify for inclusion in the draft AAR 2016. The total unresolved significant irregularities reflected in the draft AAR 2016 amounted to Nu. 69.821 million.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the agency, observations amounting to Nu. 69.725 million were resolved. The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 0.096 million as summarized below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Shortfalls, lapses and deficiencies	0.096	5
	<b>Total</b>	<b>0.096</b>	

#### 1. Shortfalls, Lapses and Deficiencies - Nu. 0.096 million

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

##### 1.1 Excess payment due to non-deduction of columns in superstructure works - Nu.0.096 million

The Bhutan Telecom Limited, Corporate Office, Thimphu had made excess payment of Nu.0.096 million to contractor in the construction of Staff Quarters at Samtse due to non-deduction of columns in the superstructure works. The building constructed at a cost of Nu.11.377 million also had defects in the plumbing works, aluminum window fittings, and drainage works. The case is under arbitration. (AIN: 13956; Para: 3; Accountabilities: Direct: Pema Wangdi, Site Engineer, SWR, CID No.: 11503000733, PN: 547; Supervisory: Mon Bdr. Tamang, RM, CR, CID No.:20211001323 PN: 155)

#### 4.5.10. Food Corporation of Bhutan Limited

During the period, the RAA had issued 11 audit reports of the Food Corporation of Bhutan Limited and its Regional Offices and Depots. There were 25 observations pointed out in the reports involving Nu. 34.890 million, out of which eleven observations amounting to Nu. 3.666

million were either resolved prior to the compilation of the draft AAR 2016 or did not qualify for inclusion in the draft AAR 2016. The total unresolved significant irregularities reflected in the draft AAR 2016 amounted to Nu. 31.224 million.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the agency, observations amounting to Nu. 31.244 million were resolved. The total unresolved significant irregularities reflected in the AAR 2016 are as summarized below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Mismanagement	-	3
2	Shortfalls, lapses and deficiencies	-	5
	<b>Total</b>	-	

## 1. Mismanagement

The case of mismanagement is as indicated below:

### 1.1 Shortage of Nu. 3.306 million from service charge collections

The Food Corporation of Bhutan Limited, Phuentsholing had a case of Nu.3.306 million misused by the cashier from the total service charge collections of Nu.54.161 million made from hire of auction yards to sellers and buyers of vegetable products. The case, initially detected by the Internal Audit Unit was forwarded to the Phuentsholing Drungkhag Court and is currently subjudice. *(AIN: 13722; Para: 3.2; Accountabilities: Direct: Tshering Deki, Cashier, EID No. 909929/CID No. 10601002309; Supervisory: Purna B. Tamang, Complex Manager, EID No. 810068/CID No.11308003138)*

## 2. Shortfalls, Lapses and Deficiencies

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

Sl. No.	Observation in Brief	Nu. in million
2.1	Damaged product not claimed	-
2.2	Improper Storage Facility for WFP Items	-
	<b>Total</b>	-

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

### 2.1 Damaged product not claimed

The Food Corporation of Bhutan Limited, Depot, Trashigang while disposing-off damaged stock and promotional items as per directives from Head Quarters, had failed to raise product claims against non-promotional items. *(AIN: 13738; Para: 2; Accountabilities: Direct: Rinzin, Depot In-charge, CID No. 10702001816; Supervisory: Rinzin, Depot In-charge, CID No. 10702001816)*

## 2.2 Improper Storage Facility for WFP Items

The Food Corporation of Bhutan Limited, Depot, Khangma, Trashigang had major cracks in the walls and floors of the Storage facility for WFP Items which made access easy for rodents. Many food items had also been spoiled by rodents as observed during physical verification. The FCBL has reported of having set aside budget for maintenance of Khangma Depot in 2017. (AIN: 13933; Para: 2; Accountabilities: Direct: Tshewang Tobgay, Depot In-charge, CID No.: 10706002844; Supervisory: Tshewang Tobgay, Depot In-charge, CID No.: 10706002844)

### 4.5.11. Construction Development Corporation Limited

During the period, the RAA had issued two audit reports of the Construction Development Corporation Limited and its Regional Offices. There were five observations pointed out in the reports involving Nu. 1.313 million, out of which no observations resolved prior to the compilation of the draft AAR 2016. The total unresolved significant irregularities reflected in the draft AAR 2016 amounted to Nu.1.313 million.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the agency, three observations amounting to Nu. 1.313 million were resolved. The total unresolved significant irregularities reflected in the AAR 2016 are as summarized below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Violation of Laws and Rules	-	4
2	Shortfalls, lapses and deficiencies	-	5
	<b>Total</b>	<b>-</b>	

#### 1. Violation of Laws and Rules

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

##### 1.1 Direct awarding of works for construction of retaining wall at Tobjikka

The Construction Development Corporation Limited, Hesothangkha, Wangdue had awarded the works for construction of five retaining walls valuing Nu. 2.101 million to three contractors at the same location without tendering in violation of CDCL's Procurement Rules & Regulations 2013. The cost on completion amounted to Nu. 1.832 million. (AIN: 14064; Para: 2; Accountabilities: Direct: Tshewang Phuntsho, Regional G.M, CID No. 11502001671; Supervisory: Thinley Zangpo, Regional Manager, CID No. 11605002415)

#### 2. Shortfalls, Lapses and Deficiencies - Nu. 1.295 million

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

##### 2.1 Non-maintenance of proper record for construction works

The Construction Development Corporation Limited, Hesothangkha, Wangdue had not maintained the measurement books (MB) properly for the numerous capital works including

RGM Quarter, 10 bay workshop, 4 unit staff quarter, external water supply, boundary fencing, caretakers quarter and traditional gate, wind protection wall, approach road including black topping and L-drains and humongous retaining and gabion walls at Tobjikha for relocation of workshop and office premise. In absence of which, physical verification of works were not possible except for some walls which were constructed near the '10 bay workshop' and those above and below the caretaker's quarter. The management had failed to maintain appropriate records, segregating one construction site from another, particularly when there were different contractors working in the same location. *(AIN: 14064; Para: 4; Accountabilities: Direct: Drukpa Kinley, Site Engineer (Civil), CID No. 11004000906; Supervisory: Thinley Zangpo, Regional Manager, CID No. 11605002415)*

#### 4.5.12. Bhutan Board Products Limited

During the period, the RAA had issued one audit report of the Bhutan Board Products Limited, Phuentsholing. There were seven observations pointed out in the report involving Nu. 61.812 million, out of which one observation was either resolved prior to the compilation of the draft AAR 2016 or did not qualify for inclusion in the draft AAR 2016. The total unresolved significant irregularities reflected in the draft AAR 2016 amounted to Nu. 61.784 million.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the agency, observations amounting to Nu. 61.784 million were resolved. The total unresolved significant irregularity reflected in the AAR 2016 are as summarized below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Mismanagement	-	3
	<b>Total</b>	-	

#### 1. Mismanagement

The case of mismanagement and rules is as indicated below:

##### 1.1 Avoidable expenditure on purchase of wood

The Bhutan Board Products Limited, Phuentsholing had incurred avoidable expenditure amounting to Nu. 43.178 million for 21,743.325 MT of wood purchased during 2014. However, it was noted that the unit of measurement adopted for quantifying timber was by weighing in KG/MT and not by volume in cubic meters, as specified in the Bhutan Schedule of Rate (BSR) (Civil). The loaded trucks were weighed on the factory weighbridge. The management has agreed to carry out cost-benefit analysis by August 2017. *(AIN: 14168; Para: 1.3; Accountabilities: Direct: P.K. Sharma, Manager (Afforestation), CID # 11809000506; Supervisory: D.B. Gurung, Dy. General Manager (Forestry), CID #313060000057)*

## 4.6. FINANCIAL INSTITUTIONS

### 4.6.1. Royal Insurance Corporation of Bhutan Limited

During the period, the RAA had issued seven audit reports of the Royal Insurance Corporation of Bhutan Limited and its Regional & Branch Offices. There were 14 observations pointed out in the reports involving Nu. 92.371 million, out of which nine observations amounting to Nu. 5.883 million were either resolved prior to the compilation of the draft AAR 2016 or were not material enough for inclusion in the draft AAR 2016. The total unresolved significant observations reflected in the draft AAR 2016 amounted to Nu. 86.488 million.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the institution, observations amounting to Nu. 67.100 million were resolved. The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 19.388 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Shortfalls, lapses and deficiencies	19.388	5
	<b>Total</b>	<b>19.388</b>	

#### 1. Shortfalls, lapses and deficiencies - Nu. 19.388 million

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

##### 1.1 Outstanding claims payable on account of Motor, Fire and Miscellaneous insurance to various parties - Nu. 19.388 million

The Royal Insurance Corporation of Bhutan, Regional Office, Phuentsholing had overdue outstanding claims amounting to Nu. 19.388 million payable to clients on account of Motor, Fire and Miscellaneous insurance policies claims. *(AIN: 13495; Para: 1; Accountabilities: Direct: Thinley Dorji, Head, Claims Division, CID No. 10709001787; Supervisory: Tashi Tenzin, Head General Department, CID No. 10715000902)*

### 4.6.2. Bhutan Development Bank Limited

During the period, the RAA had issued 17 audit reports of the Bhutan Development Bank Limited and its Branch Offices. There were 60 observations pointed out in the reports involving Nu. 793.900 million, out of which seven observations amounting to Nu. 14.802 million were either fully/partially resolved prior to the compilation of the draft AAR 2016 or were not material enough for inclusion in the draft AAR 2016. The total unresolved significant observations reflected in the draft AAR 2016 amounted to Nu. 779.098 million.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the institution, observations amounting to Nu. 777.243 million were resolved. The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 1.855 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Mismanagement	1.043	1 & 2
2	Violation of laws and rules	0.066	4
3	Shortfalls, lapses and deficiencies	0.746	5
	<b>Total</b>	<b>1.855</b>	

## 1. Mismanagement – Nu. 1.043 million

There were cases of mismanagement involving Nu. 1.043 million as summarized below:

Sl. No.	Observation in Brief	Nu. in million
1.1	Sanction of loans to fictitious Clients	0.164
1.2	Disbursement of loans to inactive member of NPPF clients	0.795
1.3	Inconsistency in Reporting/Accountal of commission for bank guarantee	0.084
	<b>Total</b>	<b>1.043</b>

The cases of mismanagement are as indicated below:

### 1.1 Sanction of loans to fictitious Clients - Nu. 0.164 million

The Bhutan Development Bank Limited, Zhemgang had 12 cases of loans sanctioned to fictitious clients. There was an outstanding amount of Nu. 0.237 million against a sanctioned amount of Nu. 0.164 million. *(AIN: 13713; Para: 1; Accountabilities: Direct: Namgay Tenzin, Manager, CID No. 11008002353; Supervisory: Namgay Tenzin, Manager, CID No. 11008002353)*

### 1.2 Disbursement of loans to inactive member of NPPF clients – Nu. 0.795 million

- a) The Bhutan Development Bank Limited, Zhemgang had disbursed Government Employee loans amounting to Nu. 0.100 million to two inactive members of the NPPF in violation to the prescribed loan disbursing norms and procedures. *(AIN: 13713; Para: 3; Accountabilities: Direct: Namgay Tenzin, Manager, CID No. 11008002353; Supervisory: Namgay Tenzin, Manager, CID No. 11008002353)*
- b) The Bhutan Development Bank Limited, Panbang, Zhemgang had disbursed Government Employee loans amounting to Nu. 0.695 million to three inactive members of the NPPF in violation to the prescribed loan disbursing norms and procedures. *(AIN: 13714; Para: 2; Accountabilities: Direct: Pema Youden, Branch Assistant, CID No.11608002935; Karma Dendup, Branch Assistant, CID No.10905001513; Supervisory: Jamyang Tenzin, Manager, CID No. 12008002350)*

### 1.3 Inconsistency in Reporting/Accountal of commission for bank guarantee - Nu.0.084 million

The Bhutan Development Bank Limited, Yadi, Monggar had discrepancies in the accounting of commissions charged on bank guarantee. There was a difference of Nu. 0.084 million in the amounts reflected in the system generated Guarantee Registers and the trial balance. *(AIN:*

13782; Para: 7; Accountabilities: Direct: Letho, EID No. 0109; Supervisory: Tashi Tshewang, Branch Manager, EID No. 0231)

## 2. Violations of Laws and Rules - Nu. 0.066 million

There were cases of violations of laws and rules involving Nu. 0.066 million as summarized below:

Sl. No.	Observation in Brief	Nu. in million
2.1	Irregularity in imposing loan processing fees	0.066
2.2	Unrealistic categorization of loans and its negative impact to the Profit and Loss Account	-
	<b>Total</b>	<b>0.066</b>

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

### 2.1 Irregularity in imposing loan processing fees – Nu.0.066 million

The Bhutan Development Bank Limited, Yadi, Monggar had not adhered to the loan processing fee slab of the BDBL Credit Manual and had resulted in short collection of fees amounting to Nu.0.066 million. (AIN: 13782; Para: 2; Accountabilities: Direct: Letho, EID No. 0109; Tshering Choden, EID No. 0505; Damber Kumar Biswa, EID No. 0509; Supervisory: Tashi Tshewang, Branch Manager, EID No. 0231)

### 2.2 Unrealistic categorization of loans and its negative impact to the Profit and Loss Account

The Bhutan Development Bank Limited, Monggar had unrealistic categorization of loans. Loans which should have been categorized as 'Doubtful Exposure', 'Substandard' and 'Watch' were all unrealistically categorized as 'Loss exposure' which resulted into the overstatement of provision aggregating to Nu.0.096 million, Nu.0.315 million, and Nu.0.217 million under the above categories respectively and thereby also reduced the annual reported profit of BDBL. (AIN: 14034; Para: 3.1, 3.2, 3.3; Accountabilities: Direct: Pema Dorji, EID No.0334; Rinzin Wangmo, EID No.0341; Kezang Choden, EID No.0622; Jigme Tshering, EID No. 0425; Taara Bir Ghalley, EID No.0381, Tshewang Tashi, EID No.0465; Sangay Dorji, EID No.0562; Supervisory: Tshewang, Branch Manager, EID. No.0171)

## 3. Shortfalls, lapses and deficiencies – Nu. 0.746 million

There were cases of shortfalls, lapses and deficiencies involving Nu. 0.746 million as summarized below:

Sl. No.	Observation in Brief	Nu. in million
3.1	Defaulted loans pending litigation	-
3.2	Defaulted Housing Loan account	-
3.3	Clients not notified of dormant/matured accounts	0.681
3.4	Less commission charged for performance guarantee issued	0.065
	<b>Total</b>	<b>0.746</b>

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

### 3.1 Defaulted loans pending litigation

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The Bhutan Development Bank Limited, Main Branch Office, Thimphu had not taken legal actions against 490 cases of defaulted loan accounts from 1991 to 2015. A total sum of Nu. 623.56 million remains outstanding against a total sanctioned amount of Nu. 671.22 million from clients. The bank reported of having regularized 283 loan accounts leaving a balance of 207 loan accounts. *(AIN: 14120; Para: 2; Accountabilities: Direct: Sangay Dorji, Chief Branch Manager, CID No. 11410000258; Supervisory: Sangay Dorji, Chief Branch Manager, CID No. 11410000258)*

### 3.2 Defaulted Housing Loan account

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The Bhutan Development Bank Limited, Head Office, Thimphu had a case of seriously defaulted Housing Loan account. The outstanding loan amounted to Nu. 24.548 million. Upon failure to regularize the loan amount by client, the legal department proceeded to auction the collateral securities to liquidate the loan outstanding. The auction was able to fetch only Nu. 18.500 million. As per the BDBL system a balance outstanding loan amount of Nu. 0.917 million was reflected and categorised as loan without collaterals. *(AIN: 13496; Para: 7; Accountabilities: Direct: Tashi Choiphel, Legal Assistant, CID No. 11410000991; Mindu Lhamo, Project Officer, CID No. 11006000745; Supervisory: Kuenzang Thinley, Company Secretary, CID No. 11902000445)*

### 3.3 Clients not notified of dormant/matured accounts – Nu. 0.681 million

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- a) The Bhutan Development Bank Limited, Bumthang had not notified respective account holders and informed them that their Savings Accounts were becoming dormant due to lack of transactions as required by BDBL Banking Manual 2011. *(AIN: 13943; Para: 2; Accountabilities: Direct: Tashi, Branch Manager, EID No. 0169; Supervisory: Tashi, Branch Manager, EID No. 0169)*
- b) The Bhutan Development Bank Limited, Trashigang had not notified respective account holders and informed them that their bank accounts had become dormant due to lack of transactions as required by BDBL Banking Manual 2011. *(AIN: 13716; Para: 1; Accountabilities: Direct: Dhendup Namyel, CID No. 10104001141, EID No. 0112; Tenzin Wangchuk, CID No. 12004001324, EID No. 0339; Lungten Jamtsho, CID No. 10906000544, EID No. 0441; Nidup Dorji, CID No. 11510000993, EID No. 0539; Sonam Gyeltshen, CID No. 11101001563, EID No. 0537; Dawa Tshering, CID No. 10907002426, EID No. 0568; Sonam Lungchen, CID No. 10903000472, EID No. 0335; Supervisory: Namgay Rinchen, CID No. 1100200408, EID No. 0141, Sr. Branch Manager)*
- c) The Bhutan Development Bank Limited, Wangdue had not notified 11 clients of their matured Fixed Deposit accounts amounting to Nu. **0.681** million. Also, instead of transferring the account balance from the FD to saving account as stipulated in the BDBL, Banking Manual 2015 the unclaimed FD accounts were auto-renewed. *(AIN: 14033; Para: 2; Accountabilities: Direct: Kumari Sharma, Manager, CID/EID No. 11110000206/0216; Wangda, Project Officer, CID/EID No. 10741111457/0085; Chencho Pem, Project Officer, CID/EID No. 10806000103/0399; Sonam Choden, Asst. Project Officer, CID/EID No.*

11006000874/0400; Sangay Lhamo, Branch Asst., CID/EID No. 11503003162/0516; Pema Tenzin, Branch Asst. CID/EID No. 10604000378/0559; Sonam Dekar, Branch Asst. CID/EID No. 11903003031/0605; Cheku Wangchuk, Branch Asst. CID/EID No. 10906001033/0629; Supervisory: Tenzin Wangdi, Branch Manager, CID/EID No. 11107001127/0033)

- d) The Bhutan Development Bank Limited, Wangdue had 1,542 dormant accounts with balances amounting to Nu. 6.476 million. The branch office had neither closed nor transferred the balance amounts from accounts dormant for more than 3 years to the RMA as stipulated in the BDBL Bank Manual 2015. (AIN: 14033; Para: 3; Accountabilities: Direct: Kumari Sharma, Manager, CID/EID No. 11110000206/0216; Wangda, Project Officer, CID/EID No. 10741111457/0085; Chencho Pem, Project Officer, CID/EID No. 10806000103/0399; Sonam Choden, Asst. Project Officer, CID/EID No. 11006000874/0400; Sangay Lhamo, Branch Asst., CID/EID No. 11503003162/0516; Pema Tenzin, Branch Asst. CID/EID No. 10604000378/0559; Sonam Dekar, Branch Asst. CID/EID No. 11903003031/0605; Cheku Wangchuk, Branch Asst. CID/EID No. 10906001033/0629; Supervisory: Tenzin Wangdi, Branch Manager, CID/EID No. 11107001127/0033)

### 3.4 Less commission charged for performance guarantee issued - Nu. 0.065 million

The Bhutan Development Bank Limited, Trashigang had discrepancies in levying charges for issue of Performance Guarantee. The bank had charged less commission than the approved 2% as per Bank's circular and had not/short collected Nu. 0.065 million. (AIN: 13716; Para: 4; Accountabilities: Direct: Dhendup Namyel, CID No. 10104001141, EID No. 0112, Tenzin Wangchuk, CID No. 12004001324, EID No. 0339, Lungten Jamtsho, CID No. 10906000544, EID No. 0441, Nidup Dorji, CID No. 11510000993, EID No. 0539, Sonam Gyeltshen, CID No. 11101001563, EID No. 0537, Dawa Tshering, CID No. 10907002426, EID No. 0568, Sonam Lungchen, CID No. 10903000472, EID No. 0335; Supervisory: Namgay Rinchen, CID No. 1100200408, EID No. 0141, Sr. Branch Manager)

#### 4.6.3. Bhutan National Bank Limited

During the period, the RAA had issued four audit reports of the Bhutan National Bank and its Branch Offices. There were 25 observations pointed out in the reports involving Nu. 32.036 million, out of which three observations amounting to Nu. 0.071 million were either resolved prior to the compilation of the draft AAR 2016 or were not material enough for inclusion in the draft AAR 2016. The total unresolved significant observations reflected in the draft AAR 2016 amounted to Nu. 31.965 million.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the institution, observations amounting to Nu. 30.903 million were resolved. The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 1.062 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Mismanagement	-	1 & 2
2	Violation of laws and rules	-	4
3	Shortfalls, lapses and deficiencies	1.062	5
	<b>Total</b>	<b>1.062</b>	

## 1. Mismanagement

The case of mismanagement are as indicated below:

### 1.1 Sanctioning new additional loan to regularize defaulted OD loans and devolved LC accounts

The Bhutan National Bank Limited, Head Office, Thimphu had sanctioned new additional loan of Nu. 3.000 million to a client who had defaulted an OD loan account with an outstanding balance of Nu. 19.462 million and two other devolved & term expired LC accounts with resultant exceeding of sanctioned limits as on 30<sup>th</sup> June 2016. Nu. 1.500 million of the additional loan was retained by the bank to regularize the defaulted loan accounts. The 'ever-greening of loan' by sanctioning additional loan to client to regularize a non-performing loan account was in violation of the RMA Prudential Regulations 2002. The case is subjudice. *(AIN: 14149; Para: 5; Accountabilities: Direct: Delloy Phuntsho, Head Credit, CID No. 10811000539; Supervisory: Pelzore Rumba, Chief Credit Officer, CID No. 11305000672)*

## 2. Violations of laws and rules

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

Sl. No.	Observation in Brief	Nu. in million
2.1	Non-compliance in maintenance of minimum balance in current accounts	-
2.2	Anomalies in disposal of office vehicle	-
2.3	Non-compliance to the terms and conditions for the purchase of office pool vehicle	-
	<b>Total</b>	<b>-</b>

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

### 2.1 Non-compliance in maintenance of minimum balance in current accounts

The Bhutan National Bank Limited, Main Branch Office, Phuentsholing had 285 cases where the minimum account balance of Nu.1,000.00 was not maintained for Current Account holders in violation of Clause 4.2 sub section (i) of the BNBL's Standard Operating Procedures. The bank reported of having closed 208 and activated 6 Current Accounts. *(AIN: 14030; Para: 3; Accountabilities: Direct: Sonam Choden, Branch Operation Incharge, CID No. 10811002191, EID No. 9909153u; Supervisory Kesang Deki, Branch Manager, CID No. 10211002693, EID No. 9921082u)*

## 2.2 Anomalies in disposal of office vehicle

The Bhutan National Bank Limited, Head Office, Thimphu had anomalies in the disposal of Pool Vehicles. The disposal of three pool vehicles i.e. Hilux, Land Cruiser and Prado in 2001, 2007 & 2015 respectively, were found sold to bank employees at book value, scrap value and depreciated value respectively with permission of the Board of Directors of BNBL and not at the market/fair value. (AIN: 14149; Para: 10; Accountabilities: Direct: Kipchu Tshering, CEO, CID No. 10808002014; Sonam Tobgay, Dy. CEO, CID No. 12007002978; Tandin Dukpa, Chief Finance Officer, CID No. 10401000308; Pelzore Rumba, Chief Credit Officer, CID No. 11305000672; Kesang Namgyal, Chief Operations Office, CID No. 11513003836; Gyam Agay Dorjee Namgyal, Chief Resource Officer, CID No. 10801001303; Supervisory: Kipchu Tshering, CEO, CID No. 10808002014; Sonam Tobgay, Dy. CEO, CID No. 12007002978; Tandin Dukpa, Chief Finance Officer, CID No. 10401000308; Pelzore Rumba, Chief Credit Officer, CID No. 11305000672; Kesang Namgyal, Chief Operations Office, CID No. 11513003836; Gyam Agay Dorjee Namgyal, Chief Resource Officer, CID No. 10801001303)

## 2.3 Non-compliance to the terms and conditions for the purchase of office pool vehicle

The notification from Ministry of Finance MoF/R4/6585 dated 27<sup>th</sup> May, 2008 clearly stipulates that “In light of the government decisions to standardize the type of staff car allotted to cabinet ministers as Toyota Prados and with a view to introduce cost saving measures, it is hereby notified that Toyota Prado and equivalent model of vehicles shall no longer be purchased for allotment as designated vehicles to executive heads of government agencies/corporations/institutions”. Also, the 70<sup>th</sup> BNBL Board Meeting held on 6<sup>th</sup> August, 2009, decided that “The cost of office/pool vehicle for the CEO has been fixed at a maximum of Nu.2.5 million plus taxes and a maximum of Nu.1.5 million plus taxes for the Dy. CEO once every seven years”.

The Bhutan National Bank Limited, Head Office, Thimphu had not complied with the terms and conditions for the purchase of office pool vehicles and procured two Prados for the CEO & Dy. CEO worth Nu.2.910 million and Nu.3.816 million respectively. The vehicles costed Nu.0.410 million and Nu.1.316 million more respectively, than the entitled costs set by the Board. (AIN: 14149; Para: 11; Accountabilities: Direct: Gyam Agay Dorjee Namgyal, Chief Resource Officer, CID No. 10801001303; Supervisory: Sonam Tobgay, Dy. CEO, CID#12007002978)

## 3. Shortfalls, lapses and deficiencies – Nu. 1.062 million

There were cases of shortfalls, lapses and deficiencies involving Nu. 1.062 million as summarized below:

Sl. No.	Observation in Brief	Nu. in million
3.1	Non-maintenance of Bank Guarantee stock register	-
3.2	Payment of less interest to closed fixed deposit account holders	0.164
3.3	Inaccurate application of interest on premature RD accounts with resultant excess/less payment of interest	-
3.4	Inadmissible issuance of iPad and iPhone to the Board of Directors	0.898
	<b>Total</b>	<b>1.062</b>

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

### **3.1 Non-maintenance of Bank Guarantee stock register**

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The Bhutan National Bank Limited, Paro had not maintained the stock register for 'Bank Guarantee Paper' to record the actual number of booklets received, issued and balance thereof. *(AIN: 13375; Para: 4.1; Accountabilities: Direct: Tshewang Namgay, Accounts Officer, CID No. 10905002812; Supervisory: Lhaki Wangmo, Branch Manager, CID No. 11410004307)*

### **3.2 Payment of less interest to closed fixed deposit account holders - Nu.0.164 million**

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The Bhutan National Bank Limited, Paro had made less payment of Nu.0.164 million on account of interest payable to the clients upon closure of fixed deposits for Matured Corporate Accounts and Premature Individual Accounts. *(AIN: 13375; Para: 5.2; Accountabilities: Direct: Tashi Namgay, Inputter, CID No. 11510002426; Pema Yangchen, Inputter, CID No. 10304001110; Supervisory: Kachay, Authorizer, CID No. 10801002318; Tshering Pem, Authorizer, CID No. 11410005963; Lhaki Wangmo, Authorizer, CID No. 11410004307)*

### **3.3 Inaccurate application of interest on premature RD accounts with resultant excess/less payment of interest**

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The Bhutan National Bank Limited, Paro had made excess/less payment of interest due to inaccurate application of interest rates at the time of premature closure of Recurring Deposits Accounts. *(AIN: 13375; Para: 5.3; Accountabilities: Direct: Pema Yangchen, Inputter, CID No. 10304001110; Passang Tshering, Inputter, CID No. 10905002026; Karma Tshering, Inputter, CID No. 10712000791; Supervisory: Tshering Pem, Authorizer, CID No. 11410005963; Kachay, Authorizer, CID No. 10801002318)*

### **3.4 Inadmissible issuance of iPad and iPhone to the Board of Directors - Nu.0.898 million**

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The Bhutan National Bank Limited, Head Office, Thimphu had made inadmissible issuance of iPad and iPhone to the Board of Directors worth Nu.0.898 million. This was not in adherence to the RMA PRR 2002 which clearly states that the Directors must refrain from making any personal profit or acquiring any undue advantage from their position, and further reiterated by the RMA directives issued vide letter No. *RMA/FRSD/04/2009-2010/4270* dated *31<sup>st</sup> March 2011*, that all financial institutions which operate on public money are strictly prohibited from extending incentives (in the form of monetary value or kind) to the Board of Directors.

The bank reported of having issued the above items to the Board of Directors on returnable basis for use during their tenure. *(AIN: 14149; Para: 8; Accountabilities: Direct: Dorji Namgyal Rinchen, Company Secretary CID No. 11410005668; Supervisory: Gyam Agay Dorjee Namgyal, Chief Resource Officer, CID No. 10801001303)*

#### 4.6.4. Bank of Bhutan Limited

During the period, the RAA had issued 11 audit reports of the Bank of Bhutan Limited and its Branch Offices. There were 26 observations pointed out in the reports involving Nu.512.883 million, out of which 13 observations amounting to Nu.488.115 million were either resolved prior to the compilation of the draft AAR 2016 or were not material enough for inclusion in the draft AAR 2016. The total unresolved significant observations reflected in the draft AAR 2016 amounted to Nu.23.821 million.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the institution, observations amounting to Nu. 23.469 million were resolved. The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 0.352 million as summarised below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Shortfalls, lapses and deficiencies	0.352	5
	<b>Total</b>	<b>0.352</b>	

#### 1. Shortfalls, lapses and deficiencies - Nu. 0.352 million

There were cases of shortfalls, lapses and deficiencies involving Nu. 0.352 million as summarised below:

Sl. No.	Observation in Brief	Nu. in million
1.1	Investment without looking at going concern issues and viability of the project	-
1.2	Irrational payment of sitting fees to sub-committee members within BoBL	0.352
	<b>Total</b>	<b>0.352</b>

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

#### 1.1 Investment without looking at going concern issues and viability of the project

The Bank of Bhutan Limited, Corporate Office, Thimphu had invested Nu. 175.425 million in two projects M/s Golden Resort and M/s View Point Resort without exercising due diligence in verifying the viability of projects and in ensuring sound legal aspects. Both projects had serious going concern issues. The bank has reported that in the case of M/s Golden Resort, based on the court verdict the bank has realised the primary securities, and initiated auction of secondary securities. In case of M/s View Point Resort, the case is under review by the ACC. *(AIN: 14054; Para: 2; Accountabilities: Direct: Dophu Dorji, Chief Corporate and Private Banking, CID No. 10103000520; Karma Dema, Chief Credit Officer, CID No. 11311001206; Supervisory: Karma Dema, Chief Credit Officer, CID No. 11311001206)*

## 1.2 Irrational payment of sitting fees to sub-committee members within BoBL - Nu.0.352 million

The Bank of Bhutan Limited, Corporate Office, Thimphu had made irrational payments amounting to Nu. 0.352 million on account of sitting fees to sub-committee members during meetings. As per the BoBL Management Manual, 'Other employees of the BoBL were not eligible for either sitting fees or compensation for any board related works'. (AIN: 14054; Para: 7; Accountabilities: Direct: Tashi Yangzom, Company Secretary, CID No. 10605002699; Supervisory: Pema N. Nadik, Chief Executive Officer, CID No. 11410005779)

## 4.7. NON-GOVERNMENTAL ORGANISATIONS

### 4.7.1. Association of Bhutanese Tour Operators

During the period, the RAA had issued one audit report of the Association of Bhutanese Tour Operators, Thimphu. There were two observations pointed out in the report involving Nu.12.964 million which were reflected in the draft AAR 2016.

The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 12.964 million as summarized below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Shortfalls, lapses and deficiencies	12.964	5
	<b>Total</b>	<b>12.964</b>	

### 1. Short falls, lapses and deficiencies – Nu. 12.964 million

There were cases of shortfalls, lapses and deficiencies involving Nu. 12.964 million as summarized below:

Sl. No.	Observation in Brief	Nu. in million
1.1	Annual subscription fees remaining outstanding	12.864
1.2	Outstanding contributions	0.100
	<b>Total</b>	<b>12.964</b>

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

### 1.1 Annual subscription fees remaining outstanding - Nu. 12.864 million

The Association of Bhutanese Tour Operators, Thimphu had overdue outstanding Annual Subscription Fees amounting to Nu. 12.864 million receivables from members for three years from 2013 to 2015. (AIN: 13934; Para: 1; Accountabilities: Direct: Tek Bhadur Khatiwara, Programme Officer, CID No. 10304002525; Supervisory: Sonam Dorji, Executive Director, CID No. 114010003923)

## 1.2 Outstanding contributions - Nu. 0.100 million

The Association of Bhutanese Tour Operators, Thimphu had overdue outstanding contributions amounting to Nu. 0.100 million against two members of the Association. *(AIN: 13934; Para: 2; Accountabilities: Direct: Tek Bhadur Khatiwara, Programme Officer, CID No. 10304002525; Supervisory: Sonam Dorji, Executive Director, CID No. 114010003923)*

### 4.7.2. Respect, Educate, Nurture and Empower Women

During the period, the RAA had issued three audit reports of the Respect, Educate, Nurture and Empower Women (RENEW), Thimphu and its Projects. There were five observations pointed out in the reports involving Nu. 0.565 million, out of which one observation amounting to Nu. 0.006 million was not material enough for inclusion in the draft AAR 2016. The total unresolved significant observations reflected in the draft AAR 2016 amounted to Nu. 0.559 million.

Based on the responses received after the issue of the draft AAR 2016 and actions taken by the agency, observations amounting to Nu. 0.134 million were resolved. The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 0.425 million as summarized below:

Sl. No.	Observation Category	Nu. in million	Category Code
1	Violations of laws and rules	0.425	4
	<b>Total</b>	<b>0.425</b>	

### 1. Violations of laws and rules – Nu. 0.425 million

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

#### 1.1 Over reporting of expenditure - Nu. 0.425 million

The RENEW had over reported expenditures amounting to Nu. 0.425 million for the period of January 2014-2018 in the FACE forms without implementation of activities in the UNFPA funded project “Gender Equality, Empowerment and Protection of Women and Children”. The overall expenditure reported was more than the releases received from the DPA. *(AIN: 14236; Para: 5.1; Accountabilities: Direct: Sherab Gyeltshen, Sr. Accountant, EID No. 2107080; Supervisory: Dr. Meenakshi Rai, Director, CID No. 11410008745)*

# CHAPTER 5

## AUDIT REPORT ON JOINT AUDIT OF HYDROPOWER PROJECTS

The RAA had undertaken two Joint Audits of Hydro Power Projects of Punatsangchhu-II Hydroelectric Project Authority and Mangdechhu Hydroelectric Project Authority during 2016. The audits were conducted as per the Standard Operating Procedures signed between the RAA and the Comptroller and Auditor General of India and the Projects Agreement signed between the Royal Government of Bhutan and the Government of India.

The AAR 2016 includes only the unresolved significant audit observations of Punatsangchhu-II Hydroelectric Project Authority and Mangdechhu Hydroelectric Project Authority. The Performance Audit of Punatsangchhu-I Hydroelectric Project Authority was reported separately to the Parliament.

### 5.1. Punatsangchhu-II Hydroelectric Project Authority

During the period, the RAA had issued one audit report of the Joint Audit of Punatsangchhu-II Hydroelectric Project Authority. There were 18 observations pointed out in the report involving Nu. 1,203.858 million, out of which no observations were resolved prior to compilation of the Draft AAR 2016.

Based on the responses received after the issue of the draft AAR 2016 and action taken by the Project Authority, observations amounting to Nu. 80.089 million were either resolved or were not material enough for inclusion in the AAR 2016. The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 1,123.769 million as summarized below:

Sl. No.	Observation	Nu. in Million
5.1.1	Non-completion of Milestones in C-1 Package	-
5.1.2	Excess payment on escalation due to non-consideration of secured advance	6.069
5.1.3	Inadmissible Construction Plant advance to the contractor	334.000
5.1.4	Non-achievement of planned targets in Afforestation work	-
5.1.5	Non-construction of Catch Ways at Wangdue-Tsirang Primary National Highway	-
5.1.6	Inadequate pre-construction investigations in relocation of powerhouse resulted into wasteful expenditure	500.000
5.1.7	Excess expenditure on Muck Disposal	76.840
5.1.8	Avoidable payment on transportation of boulder	10.700
5.1.9	Avoidable expenditure on deviated items	163.630
5.1.10	Extra expenditure towards price adjustment in EM-1 package	27.530
Total		1,123.769

The unresolved significant irregularities are as indicated below:

### 5.1.1 Non-completion of Milestones in C-1 Package

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The Punatsangchhu-II Hydroelectric Project Authority had delays of 307 days in completion of Milestone-1 'River Care arrangement, Excavation for Adits and highway Tunnel complete, Concreting of Highway Tunnel 50%'. Similarly, there were delays of 750 days in completion of Milestone-2 'Excavation of Intake complete, concreting of Dam up to EL 775 m, Excavation of Desilting Chambers 66%, Highway tunnel Complete' of which 480 days of delay was due to non-issuance of construction drawings by WAPCOS.

Due to delays in Milestone 1 and 2, Milestone 3 'Construction of Desilting Chambers Complete, Concreting of Intake 50%, Concreting of Dam EL 810 m average' had not been started even at the time of its scheduled completion date of 31<sup>st</sup> July 2015.

The Project management reported of having completed Milestone 2 except for dam excavation works and concreting of dam up to EL 775 m as of 15<sup>th</sup> March 2017. (AIN: 14137; Para: A1; Accountabilities: Direct: T.K Sen, Project Manager, WAPCOS (Consultant); Supervisory: T.K Sen, Project Manager, WAPCOS (Consultant))

### 5.1.2 Excess payment on escalation due to non-consideration of secured advance - Nu.6.069 million

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The Punatsangchhu-II Hydroelectric Project Authority had made excess payment of Nu.11.069 million by not deducting secured advance from the value of work done while determining the escalation payments.

The management reported of having recovered Nu. 5.000 million of the total, leaving a balance of Nu. 6.069 million. (AIN: 14137; Para A3; Accountabilities: Direct: Megha Moktan, AEE, CID: 21215000880; Supervisory: R. K. Dogra, Dy. CE (DAM), WPN: 2238808)

### 5.1.3 Inadmissible Construction Plant advance to the contractor - Nu. 334.000 million

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The Punatsangchhu-II Hydroelectric Project Authority had made inadmissible payment of Nu. 334.000 million to the contractor as construction plant advance (CPA) for old and used equipment. There was no provisions mentioned in the contract documents for the admissibility of CPA on old and used equipment except that CPA will be provided for new equipment provided that equivalent amount of Bank Guarantee is submitted, hypothecated in favor of PHPA-II and that plants and equipment is insured for its value against all risk at contractor's cost.

The management stated that the contractor was allowed to induct the old and used equipment in order to expedite the work. (AIN: 14137; Para A4; Accountabilities: Direct: K.L.Thakur, EE-II, WPN: 191903013416447; Rajender Singh, EE-I, WPN: 191906011538732; Davinder Singh, EE-HM, WPN: 191903017331675; Supervisory: R. K. Dogra, Dy. CE (DAM), WPN: 2238808)

#### **5.1.4 Non-achievement of planned targets in Afforestation work**

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The Punatshangchu-II Hydroelectric Project Authority had not achieved planned targets in afforestation works. The DPR provided for afforestation of 600 hectares (ha) forest land with a budget provision of Nu. 24.000 million and states that the project authorities would make the finances available to the concerned authorities of Bhutan. In line with the provisions and from the information made available by the environment division, PHPA-II in co-ordination with the Department of Forest and Park Services was able to carry out afforestation of only 127.89 ha from the target of 600 ha (i.e. 21.32%) from inception till date at a total cost of Nu. 7.084 million. *(AIN: 14137; Para A5; Accountabilities: Direct: Tashi Dorji, Jr. Environment Officer, CID: 10806000051; Supervisory: Jigme Nidup, Dy. Chief Environment Officer, CID: 10710001805)*

#### **5.1.5 Non-construction of Catch Ways at Wangdue-Tsirang Primary National Highway**

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The Punatsangchhu-II Hydroelectric Project Authority had not constructed Catch Ways at Wangdue-Tsirang Primary National Highway. The designated mucks dumping yards identified by the National Environment Commission (NEC) were at various locations of narrow deep gorges, fast flowing streams and high steep Terrain on Wangdue-Tsirang Highway. The previous Catch Ways constructed by the Department of Road were all filled up by mucks and were totally destroyed by the project activity. These dumping sites have now formed as check dams disallowing the free flow of streams into the river and there are high chances of forming pools and ponds in the long run creating disorder and inconvenience to the commuters and there are also high chances of destroying the permanent infrastructures built within the periphery of these sites.

The Project management has reported that the works are on-going and the drainage system will be provided upon completion of dumping activities. *(AIN: 14137; Para A8; Accountabilities: Direct: Sonam Wangchuk, Jr. Environment Officer, CID: 11913000995; Supervisory: Jigme Nidup, Dy. Chief Environment Officer, CID: 10710001805)*

#### **5.1.6 Inadequate pre-construction investigations in relocation of powerhouse resulted into wasteful expenditure – Nu. 500.000 million**

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The pre-feasibility study for the development of the project was carried out by a Norwegian Consultant which was subsequently revised and submitted by WAPCOS in 2003-04 for preparation of a Detailed Project Report (DPR). The revised report indicated that a proposal of an Underground Power House (UPH) for the project was not feasible on techno-economic consideration due to presence of multiple shear zones etc., and preferred for Surface Power House (SPH).

Despite repeated recommendations, neither the drift was excavated in the vicinity of PHC nor the boreholes were drilled at desired level as suggested by GSI from time to time and thereby the real effect of the actual prediction of rock mass conditions & seepage likely to be encountered in the PHC as well as the presence of thick shear zone could not be identified. Even Detailed

Geological Mapping was not explored to identify the shear zone and classify the slope formation material.

Thus, Changing of Power House setup from feasible SPH to complicated UPH without carrying out adequate pre-construction/sub-surface investigations, non-shifting of the DSSC even after identification of the shear zone, increase of the size of the DSSC even after strong recommendations and the large over-excavations/breaks resulted in hazardous mishap where 6 lives were lost and three of them still under the loose rock fall had implied wasteful expenditure of Nu. 500.000 million.

The Project management has reported that the additional strengthening measures in various components of the powerhouse complex are being carried out based on the suggestions, drawings provided by the designers. *(AIN: 14137; Para B1; Accountabilities: Direct: T.K Sen, Project Manager, WAPCOS (Consultant); Supervisory: T.K Sen, Project Manager, WAPCOS (Consultant)*

#### **5.1.7 Excess expenditure on Muck Disposal - Nu. 76.840 million**

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The Punatsangchhu-II Hydroelectric Project Authority had incurred excess expenditure of Nu. 76.840 million on muck disposal in C3 Package. As per Contract, 2,283 million cum of quantity of muck was to be disposed-off at the three approved dumped areas.

As per 6.1.1 of GCC, all rock materials shall be removed from the underground construction sites and disposed-off in 3 approved dumped areas. The Muck disposal (MD) sites (MD-12, MD-13, MD-6) were designated for 5 specific construction sites (BVC Portal, MAT/DSC Portal, Cable Tunnel Portal, TRT Adit and TRT Outfall). The distance approved in the designated MDs for disposal of muck/ rock materials from the construction sites to MD sites were ranged from 4.8 Km. to 0.60 Km. The capacity of three MDs fixed for the C3 package was much more than projected/actual disposed-off rock materials/muck in the concerned MDs. Despite approved length of distance from excavated sites to MD sites, contractor claimed the haulage charge for higher distance than the approved. The quantity of materials dumped was very less than that of capacity of MDs. PHPA-II paid the claims without any proper checking and restrictions in claimed distance and thereby incurred excess expenditure of Nu. 76.840 million.

Due to delay in taking up the approach road to MD-13, the whole planning of dumping of muck disposal at shortest distance was jeopardized and thereby dumping at longer distance of MDs was considered by the management, which led to an excess expenditure.

The Project management has accepted that there was no approach road to MD-13 and muck disposal had to be made at MD-12 and MD-6, entailing longer distance. *(AIN: 14137; Para B2; Accountabilities: Direct: D.D Thakur, Suptdg. Engineer, WPN-191903013445472; Naveen Sharma, EE, WPN:2232462, Satish Thakur, EE, WPN:191906011584218; Supervisory: Thinley, CE(PH), CID:11503004510)*

### 5.1.8 Avoidable payment on transportation of boulder - Nu. 10.700 million

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The Punatsangchhu –II Hydroelectric Project Authority had incurred avoidable payment of Nu. 10.700 million on transportation of boulder for the construction of HRT from Adit-I and Adit-II.

As per clause 4.3 of the conditions, Taksha quarry was allocated for coarse aggregates which was suitable for use in concrete for both wearing and non-wearing surface. The quarry was located on the right bank of Punatsangchhu at a distance of 27 km from Adit I of HRT. Also, as per clause 3.5.1(iv) of Document V of the agreement, the aggregates shall be supplied only from the source approved by the Engineer-in-Charge (EiC). However, the allocated quarry was not allotted to the contractor as the quarry was handed over to some other agency. On being requested by the contractor to hand over the earmarked quarry, the contractor was asked to procure the boulders from the private quarry, approved by the EiC. The contractor continued to procure boulders from private sources at higher cost and with uncertainty of availability. The Project decided that the financial implication on account of purchasing boulders from approved private quarries by the contractor would be dealt with separately and the contractor was reimbursed the transportation charges for boulders for the additional lead beyond 27 km from Adit I, thereby incurring avoidable expenditure of Nu. 10.700 million. *(AIN: 14137; Para 3, Part-B; Accountabilities: Direct: T.K Sen, Project Manager, WAPCOS (Consultant); Supervisory: T.K Sen, Project Manager, WAPCOS (Consultant))*

### 5.1.9 Avoidable expenditure on deviated items – Nu.163.630 million

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The Punatsangchhu –II Hydroelectric Project Authority had incurred avoidable expenditure of Nu. 163.630 million on deviated items for the construction of Head Race Tunnel from Adit-I and Adit-II.

It was recommended that in the interest of the work some subsurface data could be generated by deploying geophysical and/or drilling methods in the sector prior to the construction stage. However, no such sub surface exploration was done prior to construction stage on the stretch of the proposed 8558.17 m except two drill holes which was made to assess the tunneling conditions. Since exact nature of support system under tunnel can be determined only on the basis of subsurface exploration, the tentative support system was provided in the DPR. The Priced Bill of Quantities (BOQ) for the work “Construction of Headrace Tunnel from Adit-I and Adit-II” was also prepared in the absence of sub surface exploration data.

The PPHA-II paid a sum of Nu 2,396.880 million to the contractor till 50<sup>th</sup> Running Account Bill which included Nu 227.230 million paid against 14 deviated items on BoQ/Provisional/Revised rates. The percentage of deviation ranged from 100.54% to 692.85% from the original BOQ and resulted in delay in completing the work coupled with payment of Nu 163.630 million to the contractor on BoQ/Provisional/revised rate for deviations beyond BoQ plus 30%. *(AIN: 14137; Para B4; Accountabilities: Direct: T.K Sen, Project Manager, WAPCOS (Consultant); Supervisory: T.K Sen, Project Manager, WAPCOS (Consultant))*

#### 5.1.10 Extra expenditure towards price adjustment in EM-1 package - Nu.27.530 million

The Punatsangchhu-II Hydroelectric Project Authority had incurred extra expenditure of Nu. 27.530 million towards price adjustment in EM-1 package 'Design, Manufacture, Supply, Storage, Erection, Testing and Commissioning of Generating Units with Associated Auxiliaries Pressure Shaft Butterfly Valve including EOT Cranes'.

Clause-43 of the GCC provides for increase or decrease of costs. Clause 43(ii) of EM-1 stipulated that the ex-factory/FOB Contract price of equipment and services stated in the Contract shall be the base price and shall be subjected to price adjustment. The advance payment was not deducted from the base price in EM-1 Package for price adjustment unlike other EM Packages. Accordingly, Nu. 278.350 million was paid as price adjustment/variation (PVC) to M/s BHEL with resultant extra payment of Nu.27.530 million. *(AIN: 14137; Para B7; Accountabilities: Direct: T.K Sen, Project Manager, WAPCOS (Consultant); Supervisory: T.K Sen, Project Manager, WAPCOS (Consultant))*

#### 5.2. Mangdechhu Hydroelectric Project Authority

During the period, the RAA had issued one audit report of the Joint Audit of Mangdechhu Hydroelectric Project Authority. There were 33 observations pointed out in the report involving Nu. 1,941.317 million, out of which no observations were resolved prior to compilation of the Draft AAR 2016.

Based on the responses received after the issue of the draft AAR 2016 and action taken by the Project Authority, observations amounting to Nu. 1,695.024 million were either resolved or were not material enough for inclusion in the AAR 2016. The total unresolved significant irregularities reflected in the AAR 2016 amounted to Nu. 246.293 million as summarized below:

Sl. No.	Observation	Nu. in Million
5.2.1	Payment of Additional mobilization advance without provisions in the contract	138.300
5.2.2	Non-deduction of interest free advance from escalation payment	18.243
5.2.3	Appointment of local representative in Electro-mechanical Package works	-
5.2.4	Excess payment	29.250
5.2.5	Inadmissible advance payment to contractor	60.500
5.2.6	Non-achievement of milestone in respect of C-1 package	-
5.2.7	Extra works for acceleration/compression of schedule in HM(C-4) Packages	-
	<b>Total</b>	<b>246.293</b>

The unresolved significant irregularities are as indicated below:

##### 5.2.1 Payment of Additional mobilization advance without provisions in the contract - Nu. 138.300 million

The MHPA had made payments amounting to Nu. 138.300 million as interest free additional mobilization advances which were not provided for in the contract document with resultant

undue benefit to the contractors. Nu. 69.000 million was paid to M/s Jaiprakash Associates Limited (JAL) and Nu. 69.300 million to M/s Gammon India Ltd. for the HRT (C-2 package). *(AIN: 14059; Para: A2; Accountabilities: Direct: Rajiv Kumar, Chief Engineer CID No.:19196017170111; Supervisory: A.K Mishra, Managing Director, CID No. 1958375; Praveen Nandwana, Director (Finance) CID No. 1959357; R.K Chaudhary, Director (Technical) CID No. 171703277521100)*

#### **5.2.2 Non-deduction of interest free advance from escalation payment - Nu. 18.243 million**

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The MHPA had not deducted interest free mobilization and equipment advances amounting to Nu. 20.243 million provided to the contractors for Dam (C-1) and Power House (C-3) packages during the computation and payment of price adjustment with resultant inflation of the adjusted value of work done to that extent. The total escalation paid till the 43<sup>rd</sup> RAB to M/s Jaiprakash Associates Limited (JAL) was Nu. 293.840 million and to M/s. GIL Nu. 184.680 million. The deductible interest free advances from the escalation payment as specified in the contract till 17<sup>th</sup> RAB amounted to Nu. 20.243 million.

The project management reported of having recovered Nu. 2.000 million from package C3, leaving a balance of Nu. 18.243 million. *(AIN: 14059; Para: A3; Accountabilities: Direct: Rajiv Kumar, Chief Engineer CID No.:19196017170111; Supervisory: A.K Mishra, Managing Director, CID No. 1958375; Praveen Nandwana, Director (Finance) CID No. 1959357; R.K Chaudhary, Director (Technical) CID No. 171703277521100)*

#### **5.2.3 Appointment of local representative in Electro-mechanical Package works**

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The Mangdechhu Hydroelectric Project Authority (MHPA) had awarded Electro-Mechanical package EM-1 to M/s BHEL for the execution of CIF/CIP supply and Ex-Works supply of all equipment and materials including mandatory tools and tackles and mandatory spares for Nu. 5,162.728 million. Further, BHEL appointed M/s Bhutan Ventures Trading (BVT) as local representative for facilitating smooth execution of project as envisaged in the contract document @1.35% of the contract value with financial implication of **Nu. 69.697 million** [i.e. Nu. 5,162,727,803 x 1.35%] to the project. *(AIN: 14059; Para B1; Accountabilities: Direct: Kaushik Maulik, Chief Engineer, Work Permit No. 2263450; Supervisory: A.K Mishra, Managing Director, CID No. 1958375; Chenchu Tshering, Jt. Managing Director, CID No.: 0810000601; Praveen Nandwana, Director (Finance) CID No. 1959357)*

#### **5.2.4 Excess payment – Nu. 29.25 million**

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The Mangdechhu Hydroelectric Project Authority (MHPA) had made excess payment of Nu. 29.950 million to M/s. Jaiprakash Associates Limited for the C-1 package for Construction of Dam. The excess payment had occurred due to non-deduction of interest free advances including Special Advance while determining price adjustment in contravention to Clause 45 of the General Conditions of Contract.

The management reported of having recovered Nu. 9.200 million. (AIN: 14059; Para B2; Accountabilities: Direct: R D P Kapri, Chief Engineer, CID No.: 171703011407098; Supervisory: R.K Chaudhary, Director (Technical), CID No.:171703277521100)

## 5.2.5 Inadmissible advance payment to contractor - Nu.60.50 million

The Mangdechhu Hydroelectric Project Authority (MHPA) had made inadmissible payment of Nu. 60.500 million to the contractor for the construction of Dam Package C-1 due to payment of Mobilisation and Equipment Advances of Nu. 1,254.500 million instead of Nu. 1,194.000 million. (AIN: 14059; Para B3; Accountabilities: Direct: R D P Kapri, Chief Engineer, CID No.: 171703011407098; Supervisory: A.K Mishra, Managing Director, CID No. 1958375; Praveen Nandwana, Director (Finance) CID No. 1959357; R.K Chaudhary, Director (Technical) CID No. 171703277521100)

## 5.2.6 Non-achievement of milestone in respect of C-1 package

The work for contract package C-1 awarded by the Mangdechhu Hydroelectric Project Authority (MHPA) for execution to M/s Jaiprakash Associates Limited within 59 months from the date of commencement of the contract had not achieved any of the milestones as provided in Clause 47 of General Conditions of Contract Agreement as summarized below:

Mile stone	Physical works to be completed	Period for Milestone completion	Scheduled Month of milestone completion	Actual Date of Milestone completion	Delay
1	River Diversion through Diversion Tunnels	11 months	February 2013	23rd June 2013	04 months
2	Construction of upstream and downstream coffer dams	17 Months	August 2013	October 2014*	14 months
3	Completion of River Bed excavation & Foundation & Treatment	25 Months	April 2014	July 2015	15 months
4	Dam Concreting upto Spill ways crest level( El 1702 m)	44 Months	Nov 2015	Information not furnished.	

(AIN: 14059; Para B6; Accountabilities: Direct: R D P Kapri, Chief Engineer, CID No.: 171703011407098; Supervisory: R.K Chaudhary, Director (Technical) CID No. 171703277521100)

## 5.2.7 Extra works for acceleration/compression of schedule in HM(C-4) Packages

The Mangdechhu Hydroelectric Project Authority (MHPA) had awarded extra works to M/s PES Engineers Private Limited for acceleration/compression of installation/erection of HM equipment a total cost of Nu. 110.00 million in addition to contract package C-4 (First contract and Second Contract). The following observations were made:

- a) The MHPA first proposed for Compression schedule for completion of the project in March 2015 where as the erection fronts availability dates as per contract had

started from May 2014 to December 2015. This led to extension of contract period up to March 2019 from the original completion schedule of August 2017.

- b) The delays in availability of erection fronts for the HM Contractor were due to the slow progress of the other civil works. Had the delay been addressed in time, the necessity of compressed schedule and the extra cost of the acceleration/compression works of Nu. 110.000 million could have been avoided.
- c) An amount of Nu. 2.500 million included as Compression charges for Radial gate erection in Dam was irregular as the compression was not necessary for 'Dam Package' and 'HM works at Dam'.
- d) The contractor was paid mobilisation advance of Nu. 50.00 million as against the admissible amount of Nu. 8.495 million resulting in excess advance payment of Nu.41.500 million. The project management reported of having recovered Nu. 21.400 million as on 31<sup>st</sup> March 2017, leaving a balance of Nu. 20.100 million.

*(AIN: 14059; Para B8; Accountabilities: Direct: Akhilesh Kumar, Chief Engineer, CID No.: 2250545; Supervisory: R.K Chaudhary, Director (Technical) CID No. 171703277521100)*

# CHAPTER 6

## RECOMMENDATIONS

In accordance with the Section 44 of the Audit Act of Bhutan 2006, a dedicated chapter on audit recommendations is maintained which are aimed at promoting accountability and improving economy, efficiency and effectiveness in the use of public resources. The recommendations are generic and drawn based on the overall findings and deficiencies noted in the operations of audited agencies as well as based on the experiences and observed issues that require to be addressed through appropriate interventions.

Apart from the recommendations in the individual audit reports, the RAA also formulates AG Advisory Series containing the findings and recommendations on significant and frequently occurring issues or on specific issues of potential significance requiring timely attention of the Government. Besides, performance audit reports also contain recommendations that are formulated on the basis of findings contained therein.

The recommendations contained in this chapter are further intended to draw kind attention of the government and authorities to address issues that are noted by the RAA.

### **1. Ensure effective utilization of Infrastructure/equipment**

The RAA noted cases of non/underutilization of infrastructure/equipment for which the Government spent huge money every year in building infrastructures, acquiring equipment, assets and stores defeating the very purpose of investments and acquisition. This included non-operation of chiller plants costing Nu. 21.000 million; wasteful expenditure of Nu. 4.893 million on water supply scheme; wasteful expenditure of Nu.0.327 million due to supply of damaged HDPE pipes; and wasteful expenditure of Nu.1.550 million on procurement and installation of IT equipment and software.

*There is thus a need for issuing appropriate directives to ensure effective utilization of infrastructure/equipment and acquiring such assets only on need basis.*

### **2. Insurance of ongoing construction works needs to be streamlined**

In terms of the Procurement Rules & Regulations and contract agreements, cost of insurance for ongoing construction works should be included in the item rates. The contractors are required to provide the policies and certificates of premium paid for the insurance coverage to the clients. The RAA noted cases wherein the contractors were allowed to bid for insurance as a separate item in the BoQ and the entire amount released to contractor without providing the insurance policies and premium paid. The RAA observed that the actual insurance premium paid were much lesser than the quoted amount resulting into substantial financial loss to the government. The procuring agencies also did not ascertain the actual premium paid by the contractors.

*The RAA recommends that the Government should review the practice of insurance costs being included as a separate BoQ item and making payment without ascertaining the actual insurance*

*costs, besides prescribing requirements to lodging insurance claims in the event of damages to infrastructures during construction period. Alternatively, the Government may consider the possibility of arranging insurance coverage directly by the procuring agencies.*

### **3. Award of additional works in constructions should be minimized through adequate planning**

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The RAA noted cases of huge additional works awarded mostly due to inadequate planning including scoping of infrastructures requirements prior to awarding of contract works which also entailed inclusion of completely new packages/items of works. In many cases, the value of the additional works were significantly high when compared with the initial contract amount which impeded the economy, transparency and competitive bidding. Due to awarding of additional works beyond the allowable deviation limit, the contractors were paid at analyzed rates which were at times as high as over 200% of the quoted rate.

The Procurement Rules and Regulations allow awarding of additional works up to 20% of the original contract amount and the threshold ceiling for limited bidding process whichever is lower. The granting of additional works could also provide scope for indulging in unhealthy practices and usually leads to time and cost overruns impeding the objectives of the projects.

*The RAA recommends that the government should issue directives to procuring agencies for carrying out adequate planning and exercising due prudence and diligence in the execution of construction works. The government may also look into the possibilities of controlling indiscriminate application of analysed and market rates, which usually results in huge additional financial implications to the government by prescribing maximum limit/ceiling on the allowable rates over and above the agreed BoQ rates.*

### **4. Community Contracts should be awarded as per Community Contracting Protocol**

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The RAA noted irregularities in implementation of Community Contracts. Clause 14: Eligibility of Associations of Local Residents to act as Community Contractors of the Community Contracting Protocol states “A Community Contractor must be an association of local residents based on a written Memorandum of Understanding which has the consensus of the entire community and is endorsed by the Gewog Tshogde. The association must have officers including a Chairperson, a Secretary and a Treasurer. The officers must be persons of good character and must be able to read and write. Elected or appointed officials of the Gewog may not serve as officers of a Community Contractor”.

Contrary to the above provisions, the RAA noted cases where community contracts were either awarded to a single person or to two persons without the consensus of the entire community and GT endorsement as well as to one member association without a Chairperson, a Secretary and a Treasurer. Besides, the works executed through Community Contracts were of poor quality and workmanship in many cases.

*The RAA recommends that the government should issue appropriate directives to ensure strict compliance with the Community Contracting Protocol in awarding Community Contracts. The Government may also consider exploring the possible ways and means to enhance the capacity of Community Contractors.*

**Exhibit I: AUDITOR'S REPORT ON THE AUDIT OF ACCOUNTS & OPERATIONS OF THE RAA  
FOR THE FISCAL YEAR ENDED 30<sup>TH</sup> JUNE, 2016**

**S. N. Mukherji & Co.**  
CHARTERED ACCOUNTANTS

**AUDITORS' REPORT ON THE RECEIPTS & PAYMENTS STATEMENT OF LC ACCOUNT NO. 108.01/01-LC  
OF THE ROYAL AUDIT AUTHORITY OF BHUTAN FOR THE FINANCIAL YEAR ENDED 30<sup>TH</sup> JUNE, 2016**

1. We have audited the attached Receipts and Payments Statement of LC Account No. 108.01/01-LC of the **Royal Audit Authority of Bhutan (RAA)** for the Financial Year ended 30<sup>th</sup> June, 2016 and the annexed Expenditure Statement for the year ended on that date as required under Section 83 of the Audit Act of Bhutan, 2006.
2. The preparation of these financial statements is the responsibility of the Management. Our responsibility is to express an opinion on these financial statements based on our audit.
3. We have conducted our audit in accordance with the Auditing Standards generally accepted in Bhutan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit also includes assessing the accounting principles used and significant estimates made by the Management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
4. We report that:
  - a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit.
  - b) We have audited the accounts maintained at the Head Office of the Authority at Thimphu and relied on the returns received from four Regional Offices which have been found to be adequate for the purpose of consolidation and preparation of the financial statements under our audit.
  - c) In our opinion, proper books of account as required under the Financial Rules & Regulations, 2001 have been maintained by the RAA so far as it appears from our examination of those books and records.
  - d) The Receipts and Payments Statement of LC Account No. 108.01/01-LC and the Expenditure Statement referred to in this report are in agreement with the books of account.
  - e) In our opinion and to the best of our information and according to the explanations given to us the said Receipts and Payments Statement and the Expenditure Statement give the information required by the Financial Rules & Regulations, 2001 in the manner so required and give a true and fair view;
    - i. In the case of the Receipts and Payments Statement of the Receipts and Payments of the said Authority for the year ended 30<sup>th</sup> June, 2016; and
    - ii) In the case of the Expenditure Statement, of the expenses of the said Authority for the year ended on that date.

Date: 17.02.2017

Place: Thimphu



For S. N. Mukherji & Co  
Chartered Accountants  
FRN No. 301079E

Sudip K Mukherji  
-Partner  
Membership No. 13321

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## For the Period Ending 30th June - 2016





## Exhibit – II: Glossary of Terms

Following words in the AAR 2016 shall mean the commission or omission of the actions stated against it.

<b>A</b>	Malpractices and abuses	Unethical and improper practices and abuses of authority by the government functionaries for payments made for the works not executed, materials not received at sites, acceptance and payments for substandard works with ulterior intention.
<b>B</b>	Misappropriation	Willful malpractice by public functionaries either for direct or indirect personal gains.
<b>C</b>	Intentional double bookings/irregular/unauthorized payment	Double/excess/irregular/unauthorized payments made intentionally for ulterior motives. Payments/booking of expenditures unauthorized duly or in excess of amount done intentionally.
<b>D</b>	Non/short accountal	Failures by the functionaries to account the government properties, funds, taxes and revenue.
<b>E</b>	Mismanagement of fund	Improper management of funds
<b>F</b>	Mismanagement of revenue and taxes	Improper management of revenue and taxes
<b>G</b>	Management of properties	Improper use and management of properties
<b>H</b>	Violation of accounting norms	Non-compliance of accounting requirements in relation to maintenance of accounting records, receipts, payments including sanctioning and authorization.
<b>I</b>	Violation of procurement norms	Works and supply contracts made in deviation to procurement manuals and contract terms and agreement
<b>J</b>	Violation of Acts, Directives and Policies	Non-compliance to directives, Acts and Policies framed/issued by the government functionaries.
<b>K</b>	Over inadmissible/irregular/double payment	Payment made in excess of what was actually inadmissible, payment not as per the rules and regulations and payment made twice for the same purposes.
<b>L</b>	Non/improper recording in books	Non-updating books of accounts and improper maintenance of accounts.
<b>M</b>	Non reconciliation/certification of balances	Non-reconciliation, confirmation and certification of balances.
<b>N</b>	Irregularities in advances	Money lying in the hands of suppliers, contractors, employees and third parties beyond the reasonable period due to irregular and excess payment as well as inadequate records keeping and follow up.
<b>O</b>	Irregularities in recoveries	Non/short recovery of amounts due to government.
<b>P</b>	Irregularities in property management	Deficiencies in management, uses, physical safeguards, custody and control of properties.
<b>Q</b>	Non/short deductions	Non-deduction or short deduction of taxes, rebates and advances, etc. from the bills claimed.
<b>R</b>	Shortfalls and uneconomical operations	Deficiencies and lapses in the operations, resulting in inefficiencies, losses and non-attainment of intended goals.

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