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AIN No: 15407



Bhutan Chamber of Commerce and Industry

**PERFORMANCE AUDIT
REPORT ON BHUTAN
CHAMBER OF COMMERCE
AND INDUSTRY**

AUGUST 2018

DISCLAIMER NOTE

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). The audit was based on the audit objectives and criteria determined in the audit plan and programme prepared by the Royal Audit Authority and the findings are based on the information and documents made available by the BCCI.

This is also to certify that the auditors during the audit had neither yielded to pressure, nor dispensed any favour or resorted to any unethical means that would be considered as violation of the Royal Audit Authority's Oath of Good Conduct, Ethics and Secrecy.



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ROYAL AUDIT AUTHORITY

Bhutan Integrity House

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



RAA/PSAD/PA-BCCI/2017-18/ 2335

15 August, 2018

The Secretary General
Bhutan Chamber of Commerce and Industry
Thimphu

Subject: Performance Audit Report on Bhutan Chamber of Commerce and Industry

Sir,

Enclosed herewith please find the **Performance Audit Report on 'Bhutan Chamber of Commerce and Industry'** covering the period 01.01.2013 to 31.12.2017. The Royal Audit Authority (RAA) conducted the audit under the mandate bestowed by the Constitution of Kingdom of Bhutan and the Audit Act of Bhutan 2006. The audit is conducted as per the International Standards of Supreme Audit Institutions on performance auditing (ISSAI 3000).

The overall objective of the audit was to ascertain the Economy, Efficiency and Effectiveness of the operations of Bhutan Chamber of Commerce and Industry (BCCI) in private sector development.

The audit sub-objectives are:

- I. To ascertain whether BCCI has adequate legal and policy framework, effective management systems and strategic focus vis-à-vis its role in private sector development;
- II. To assess whether operations of BCCI are financially sustainable and whether it has effective control mechanisms in place for financial management including revenue & expenditure management;
- III. To ascertain the effectiveness of programs and activities of BCCI including entrepreneurship and human resource development of private sector; and
- IV. To assess whether BCCI has effective HR management framework including policies and strategies;

The report highlights significant accomplishments and initiatives as well as shortcomings and deficiencies observed by the RAA. Based on the audit findings and

comments received from the Bhutan Chamber of Commerce and Industry (BCCI), the RAA has provided certain recommendations that may help improve accountability and enhance efficient and effective implementation of plans and programs.

RAA would appreciate receiving an **Action Plan with definite timeframe for implementation of each audit recommendation on or before 13th November 2018**. In line with the directives of the Parliament, the RAA will be fixing accountability on the officials responsible to implement recommendations provided in the report. **Therefore, we would request the BCCI to identify officials responsible for implementation of each recommendation and submit the duly filled signed Accountability Statement to the RAA along with the Action Plan (attached in Appendix II and III). In the event of non-submission of the Accountability Statement or responsible officials not identified, the RAA shall fix the responsibility for implementation of the recommendations on the Head of the Agency.** The RAA will follow-up implementation of the recommendations based on the timeline identified in the Action Plan submitted by the BCCI. Failing to adhere to the timeframe for implementation of each recommendation may result in taking appropriate actions, which may include suspending audit clearances to the accountable officials.

RAA would once again like to acknowledge the officials of the BCCI for rendering necessary co-operation and support that had facilitated smooth completion of the audit assignment.

Yours sincerely,

(Tshering Kezang)

Auditor General of Bhutan

Copy to:

1. Hon'ble Lyonchhen, Royal Government of Bhutan, Thimphu;
2. Hon'ble Gyalpoi Zimpon, Office of Gyalpoi Zimpon, Tashichho Dzong, Thimphu;
3. Hon'ble Speaker, National Assembly, Thimphu;
4. Hon'ble Chairperson, National Council, Thimphu;
5. Hon'ble Opposition Leader, National Assembly, Thimphu
6. Hon'ble Chairperson, Public Accounts Committee, National Assembly, Thimphu
(enclosed five copies);

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

7. Hon'ble Secretary, Ministry of Economic Affairs, Thimphu;
8. Hon'ble Secretary, Ministry of Finance, Thimphu;
9. The President, BCCI, Thimphu;
10. Office copy.

TITLE SHEET

REPORT ON PERFORMANCE AUDIT OF BHUTAN CHAMBER OF COMMERCE AND INDUSTRY

Title of the report	:	Performance Audit of Bhutan Chamber of Commerce and Industry
AIN	:	15407
Name of Audited Agencies	:	Bhutan Chamber of Commerce and Industry, Doebum Lam, Chubachu Thimphu Bhutan.
Intimation Letter No.	:	RAA/PSAD-BCCI/2017-18/22 dated 1 st January 2018
Schedule of Audit	:	01.01.2018-15.04.2018
Audit Team Composition	:	1. Team Leader ▶ Namgay Wangchuk, Audit Officer, 2. Team Members ▶ Subarna Pradhan, Audit Officer, ▶ Phuntsho Choden, Asst. Audit Officer, ▶ Sonam Rabgay, Asst. Audit Officer, ▶ Tashi Chophel, Auditor II,
Supervising Officer	:	Chhoden, Offtg. Assistant Auditor General
Overall Supervisor	:	Chimi Dorji, Dy. Auditor General

ACRONYMS & ABBREVIATIONS

Acronyms and Abbreviations

AGM	:	Annual General Meeting
AMF	:	Annual Membership Fees
BCCI	:	Bhutan Chamber of Commerce and Industry
BFA	:	Bhutan Film Association
BSD	:	Business Support Department
DFSME	:	Danish Federation of Small & Medium Enterprise
DNB	:	Department of National Budget
DRC	:	Department of Revenue and Customs
ECM	:	Executive Committee Meeting
FDOV	:	Sustainable Entrepreneurship & Food Security
GAD	:	General Administrative Department
GPP	:	Green Public Procurement
MoEA	:	Ministry of Economic Affairs
MSEs	:	Micro & Small Enterprise
ODTP	:	One District Three Product
PIP	:	Program Implementation Paper
SG	:	Secretary General
SIED	:	Sustainable & Efficient Industrial Development

TABLE OF CONTENTS

EXECUTIVE SUMMARY	11
CHAPTER 1: ABOUT THE AUDIT.....	13
1.1. MANDATE	13
1.2. AUDIT STANDARDS	13
1.3. AUDIT OBJECTIVES.....	13
1.4. AUDIT SCOPE	13
1.5. LIMITATIONS	14
1.6. AUDIT METHODOLOGY	14
CHAPTER 2: INTRODUCTION	15
2.1. CHAMBERS OF COMMERCE AND INDUSTRY AROUND THE GLOBE:	15
2.2. BHUTAN CHAMBER OF COMMERCE AND INDUSTRY (BCCI)	15
CHAPTER 3: AUDIT FINDINGS.....	19
PART 1: ACHIEVEMENTS AND POSITIVE DEVELOPMENTS INITIATED BY BCCI	19
PART 2: DEFICIENCIES AND SHORTCOMINGS	23
3.1. LEGAL, POLICY AND ORGANIZATIONAL SYSTEMS OF BCCI.....	23
3.1.1. LACK OF CLEAR LEGAL MANDATE.....	23
3.1.2. LACK OF WELL-DEFINED ORGANIZATION STRUCTURE RESULTING IN UNCLEAR LINES OF REPORTING	24
3.1.3. INADEQUATE STRATEGIC FOCUS AND PLANNING FRAMEWORK	25
3.1.4. LACK OF COMPREHENSIVE DETAILS IN THE BCCI CHARTER ON THE DUE PROCESS OF ELECTION OF PRESIDENT, VICE-PRESIDENT AND REGIONAL REPRESENTATIVES	26
3.1.5. LACK OF TOR'S FOR VICE-PRESIDENTS RESULTING IN UNCLEAR LINES OF REPORTING.....	27
3.1.6. IRREGULAR INCREASE IN THE TERMS OF OFFICE FOR THE PRESIDENT AND VICE PRESIDENTS	27
3.1.7. NEED TO UPDATE THE OUTDATED PROVISIONS OF BCCI CHARTER	28
3.1.8. LACK OF WELL-DEFINED WORKING MODALITY BETWEEN BCCI AND SECTOR SPECIFIC ASSOCIATIONS	29
3.1.9. LACK OF FINANCIAL RULES AND REGULATIONS GOVERNING ITS FINANCIAL OPERATIONS.....	30
3.1.10. INADEQUATE INTERNAL CONTROL SYSTEM AND RISK OVERSIGHT.....	31
3.2. FINANCIAL OPERATIONS BCCI AND OBSERVATIONS THEREOF.....	31
3.2.1. REVENUE MANAGEMENT AND RELATED OBSERVATIONS.....	32
3.2.1.1. INADEQUATE LEGITIMACY OF MEMBERSHIP FEE COLLECTION AND UNDERPERFORMANCE OF ANNUAL MEMBERSHIP FEE COLLECTION	32
3.2.1.2. UNSUSTAINABLE REVENUE OPERATIONS OF BCCI - A CAUSE FOR CONCERN	34
3.2.1.3. WEAK GOVERNANCE AND OVERSIGHT OF BCCI MANAGEMENT ON REVENUE OPERATIONS.....	36
3.2.1.4. LACK OF MONITORING OF ANNUAL MEMBERSHIP FEES COLLECTED AND DEPOSITED BY REGIONAL OFFICES.....	37
3.2.1.5. NON-RECOGNITION OF ACCOUNTS RECEIVABLE TO THE TUNE OF NU. 1.908 MILLION	38
3.2.1.6. UNSYSTEMATIC PRINTING, RECORD KEEPING AND CUSTODY OF REVENUE RECEIPTS	40
3.2.1.7. 19 BOOKLETS OF UNUSED MONEY RECEIPT MISSING	41
3.2.2. BUDGETING, EXPENDITURE MANAGEMENT AND RELATED OBSERVATIONS	42
3.2.2.1. ABSENCE OF PROPER BUDGETING PROCESSES AND SYSTEMS	42
3.2.2.2. LACK OF UNIFORM RECORDING AND REPORTING OF ACCOUNTING DATA BETWEEN HEAD QUARTER AND REGIONAL OFFICES	43
3.2.2.3. SUBSTANTIAL AND UNECONOMIC EXPENDITURE ON HOSPITALITY AND ENTERTAINMENT.....	44
3.2.3. PROCUREMENT AND IRREGULARITIES THEREOF	45
3.2.3.1. IRREGULARITIES IN DIRECT AWARD OF EVENT MANAGEMENT WORKS TO M/S DRUK EVENTS AMOUNTING TO NU. 14.48 MILLION	45
3.2.3.2. DIRECT AWARD OF SERVICES (FOOD AND LODGING) AMOUNTING TO NU. 2.45 MILLION	46
3.2.3.3. DIRECT AWARD OF VEHICLE HIRE SERVICES TO THE TUNE OF NU.0.359 MILLION	48
3.2.3.4. IMPROPER AWARD OF BCCI CANTEEN SERVICES	48

3.3.	IMPLEMENTATION OF PROJECTS AND OBSERVATIONS THEREOF	49
3.3.1.	LACK OF CLEAR LINKAGE OF PROJECT OBJECTIVES WITH THE OBJECTIVES OF BCCI	49
3.3.2.	UNSUCCESSFUL PILOT PROJECTS UNDER ONE DZONGKHAG THREE PRODUCTS (ODTP) INITIATIVE.....	51
3.3.3.	HIGH PORTFOLIO AT RISK (PAR) OF MICRO & SMALL ENTERPRISE (MSEs) DEVELOPMENT LOAN SCHEME NU. 26.558 MILLION	53
3.4.	TRAINING AND DEVELOPMENT OF PRIVATE SECTOR ENTITIES AND OBSERVATIONS THEREOF	54
3.4.1.	LACK OF TRAINING NEEDS ASSESSMENT AND GAP ANALYSIS OF PRIVATE SECTOR ENTITIES	54
3.5.	HUMAN RESOURCE MANAGEMENT OF BCCI AND OBSERVATIONS THEREOF;.....	55
3.5.1.	LACK OF HUMAN RESOURCE MASTER PLAN	55
3.5.2.	ERRATIC AND IRRATIONAL SUBMISSION OF PERFORMANCE APPRAISAL FORMS	55
3.5.3.	NON-SUBMISSION OF TOUR REPORTS ON RETURN FROM THE OFFICIAL TRAVELS	56
CHAPTER 4: RECOMMENDATIONS		57
1.	LEGAL, POLICY AND INSTITUTIONAL SYSTEMS	57
1.1.	NEED FOR A LEGAL RECOGNITION OF BCCI	57
1.2.	NEED TO REVISE AND UPDATE BCCI CHARTER.....	57
1.3.	NEED TO INSTITUTIONALIZE STRATEGIC PLANNING FRAMEWORK.....	58
1.4.	NEED TO DRAFT ITS OWN FINANCIAL MANUAL GOVERNING ITS FINANCIAL OPERATIONS	58
1.5.	INTERNAL AUDIT FUNCTION NEED TO BE INSTITUTED	58
2.	IMPLEMENTATION OF PROJECTS AND PRIVATE SECTOR DEVELOPMENT	58
2.1.	NEED TO DEVELOP SYSTEMS OF ASSESSMENT AND PROTOCOLS BEFORE UNDERTAKING PROJECTS	59
2.2.	BCCI MUST UNDERTAKE TRAINING NEEDS ASSESSMENT OF THE PRIVATE SECTOR ENTITIES.....	59
3.	FINANCIAL OPERATIONS	59
3.1.	LONG TERM FINANCIAL SUSTAINABILITY OF BCCI MUST BE REVIEWED	59
3.2.	NEED TO STRENGTHEN CONTROLS OVER REVENUE MANAGEMENT	59
3.3.	NEED TO STRENGTHEN SYSTEMS OF REVENUE RECOGNITION AND FOLLOW-UP MECHANISM ON TRADE FAIR REVENUES	60
3.4.	BCCI SHOULD STRENGTHEN BUDGETING SYSTEM AND PROCESSES.....	60
3.5.	BCCI NEED TO EXERCISE PRUDENCE OVER INFRACTUOUS EXPENDITURE	60
3.6.	NEED TO STRENGTHEN PROCUREMENT FUNCTION OF THE BCCI	60
4.	HUMAN RESOURCE MANAGEMENT	61
4.1.	BCCI MUST DRAW HR MASTER PLAN	61
4.2.	BCCI MUST ENSURE COMPLIANCE TO BCCI SERVICE RULES AND REGULATIONS	61
CHAPTER 5: CONCLUSION		62

Executive summary

The Royal Audit Authority (RAA) had conducted the “Performance Audit on Operations of Bhutan Chamber of Commerce and Industry” as mandated by Article 25.1 of the Constitution of the Kingdom of Bhutan and Section 3 and 38 (b) of Audit Act of Bhutan 2006.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAI 3000) and Performance Audit Guidelines of Royal Audit Authority. The overall audit objective was, to ascertain the Economy, Efficiency and Effectiveness of the operations of Bhutan Chamber of Commerce and Industry (BCCI) in private sector development.

The overall objective was bifurcated into the following audit sub-objectives:

- I. To ascertain whether BCCI has adequate legal and policy framework, effective management systems and strategic focus vis-à-vis its role in private sector development;
- II. To assess whether operations of BCCI are financially sustainable and whether it has effective control mechanisms in place for financial management including revenue & expenditure management;
- III. To ascertain the effectiveness of programs and activities of BCCI including entrepreneurship and human resource development of private sector; and
- IV. To assess whether BCCI has effective HR management framework including policies and strategies;

The Performance audit was conducted based in BCCI headquarters entailing visits to its regional offices for review of the revenue operations and site visits to projects executed under the ODTP project. It also entailed visits to Department of Trade and Department of Industry under Ministry of Economic Affairs to obtain data of registered license holders and legal recognition of BCCI. The team also visited Department of National Budget under Ministry of Finance to obtain data on grants and their basis. The performance audit covered the period 2013-2017.

Although BCCI is not bestowed clear mandates specifically to carryout private sector development initiatives, it is granted funds that sustained its operations so far. Besides one of the main sources of revenue for BCCI is fees collected from the members of the private sector entities. As asserted by BCCI in its Charter, it is the apex body of the private sector working towards representing the interest and development of the private sector. Further, BCCI is administering huge amount of public funds.

RAA decided to conduct this Performance Audit to ascertain the performance of BCCI in terms of its institutional systems, revenue management and prudence in expenditure in relation to private sector development.

The BCCI had made some positive developments in the last few years. BCCI participated and facilitated in 30 bilateral and International events such as meetings, conferences and workshops between 2013 and 2017. BCCI had conducted 25 local and International trade fairs between 2013 and 2017 besides promoting trade.

BCCI had also facilitated and participated in 26 business delegation exchange programs.

Notwithstanding the positive developments, RAA observed lapses, deficiencies and rooms for improvement in various areas of which significant ones are highlighted hereunder:

- ▶ Lack of clear legal mandates for BCCI;
- ▶ Inadequate strategic focus and planning framework;
- ▶ Irregular increase in the terms of office for the President, Vice President and other members;
- ▶ Inadequate legitimacy of membership fee collection and underperformance of Annual Membership Fee collection;
- ▶ Unsustainable revenue operations of BCCI - a cause for concern
- ▶ Non-recognition of accounts receivable to the tune of Nu. 1.908 million
- ▶ Missing money receipt books (19 Nos.)
- ▶ Irregularities in Direct award of event management works to M/s Druk Events amounting to Nu. 14.48 million
- ▶ Erratic and Irrational Submission of Performance Appraisal forms

BCCI is limited mainly by the lack of clear legal basis and legitimacy in its operations. BCCI is also challenged by the lack of proper systems, policies such as financial rules and regulations and internal audit functions. The lack of due diligence on the part of officials concerned resulted into the lapses such as imprudent revenue and expenditure management. The operations are also challenged by lack of proper supervision and monitoring by the supervisors concerned. Based on the findings, RAA has provided 15 recommendations. The recommendations are provided to help strengthen the legal and policy framework of BCCI. It is recommended to strengthen institutional systems such as financial propriety, revenue management and sustainable revenue operations. The recommendations are also aimed at improving the project and HR management capabilities. It is also aimed at instituting appropriate monitoring and control mechanisms to ultimately enable BCCI in fulfilling its organizational objectives of representing and developing private sector.

Chapter 1: About the Audit

1.1. Mandate

The Royal Audit Authority conducted the “Performance Audit on Bhutan Chamber of Commerce and Industry” as mandated by the Constitution of the Kingdom of Bhutan and Audit Act of Bhutan 2006 under the following article and sections:

Article 25 (1) of the Constitution of the Kingdom of Bhutan and Section 3 of the Audit Act of Bhutan 2006 provide that “There shall be a Royal Audit Authority to audit and report on the economy, efficiency, and effectiveness in the use of public resources”; and

Section 38 (b) of the Audit Act of Bhutan 2006, under the ‘functions of the Royal Audit Authority’ stipulates the Authority shall, “Conduct Performance Audit to ascertain and report on the economy, efficiency and effectiveness of the operations of agencies audited”.

1.2. Audit Standards

This audit was conducted in accordance with the International Standards of Supreme Audit Institutions on performance auditing (ISSAI 3000). The RAA followed audit procedures as prescribed under the RAA’s Performance Audit Guidelines to maintain uniformity and consistencies of approaches in auditing.

1.3. Audit objectives

The overall audit objective was to, ‘Ascertain the Economy, Efficiency and Effectiveness of the operations of Bhutan Chamber of Commerce and Industry (BCCI) in private sector development’.

The overall objective was bifurcated into the following audit sub-objectives:

- i. To ascertain whether BCCI has adequate legal and policy framework, effective management systems and strategic focus vis-à-vis its role in private sector development;
- ii. To assess whether operations of BCCI are financially sustainable and whether it has effective control mechanisms in place for financial management including revenue & expenditure management;
- iii. To ascertain the effectiveness of programs and activities of BCCI including entrepreneurship and human resource development of private sector; and
- iv. To assess whether BCCI has effective HR management framework including policies and strategies.

1.4. Audit Scope

The performance audit of BCCI was carried out for the period covering 01.01.2013 to 31.12.2017. It entailed visits to the Head Quarters of BCCI and its regional offices in Bumthang, Monggar, Samdrup Jongkhar, Gelephu and Phuentsholing.

1.5. Limitations

The audit was primarily focused on four sub-objectives of the audit outlined under 1.3 above. However, emphasis was placed on legal basis and financial sustainability of its operations and was limited to the extent of existing legal and regulatory framework including rules and regulations in the financial operations.

It was difficult to ascertain contributions of BCCI in private sector development due to lack of segregated statistics and baseline data.

1.6. Audit methodology

In carrying out the performance audit of BCCI, following methodologies were adopted:

- I. Review of legal and regulatory frameworks of the government in terms of policies towards development of private sector;
- II. Review of existing BCCI operations in relation to its existing rules and regulations;
- III. Review of minutes of General Body (AGM) and Executive committee meetings;
- IV. Review of Organizational restructuring exercises and the reports of the same;
- V. Review of MoU's and project agreements signed with various International Partners;
- VI. Reconciliation of revenue receipts including physical verification of stock of revenue receipts;
- VII. Reconciliation of revenue collected and deposited;
- VIII. Review of financial sustainability of BCCI;
- IX. Visits to Department of National Budget(DNB), and Department of Trade(DoT) and Department of Industry (DoI) to obtain information pertaining to license information and grants received;
- X. Site visits to ODTP Project sites in Lhuntse, Haa, Gelephu, Wangkha and Chasilakha under Chukha Dzongkhag;
- XI. Visits to regional offices in Bumthang, Monggar, Samdrupjongkhar, Gelephu and Phuentsholing especially for reconciliation of revenue; and
- XII. Review of records, interviews and system walk-throughs of various operations.

Chapter 2: Introduction

2.1. Chambers of Commerce and Industry around the Globe:

Chambers are usually membership organizations representing the business community and comprised of enterprises and individuals engaged in trade, industry and services. Their general purpose is to protect and promote business.¹ The chambers are usually not for profit, self-administered mutually beneficial organizations promoting members interests and supporting the roles of governments.

Historically, the Chambers has roots in European Corporations and Merchant guilds set up to protect and regulate their trades. The modern form of chambers was started in France between 1802 and 1804 as the so called “*Chambres de commerce*”.

There are three models of Chambers in the world today, namely *Continental Model*, *Anglo- American Model* and *the Mixed Models* differentiated based on their legal & members status and regulatory relationship with the authorities.

Under Continental Model Chambers are created out of National Law and membership is compulsory. They are obligated to perform certain functions specified by government and comes under the oversight of public authorities. In return governments must consult the Chamber in deciding on economic matters affecting its members. Chambers in Germany and France follow the continental Model.

Anglo-American Model operates in total contrast to the Continental Model. Chambers in Anglo-American model does not have legal protection meaning not created by a specific law but must adhere to laws under which it is registered. The membership is voluntary and there are several Chambers within a given territory being competitive. Under this model the Chambers activities are not regulated and not required to fulfil any functions delegated by the State. Examples of such Chambers can be found in USA, Singapore, India and Sweden.

Third system is the Mixed Model like in Japan and Thailand. In this system the Chambers are created by National Legislation, but the membership is voluntary.

2.2. Bhutan Chamber of Commerce and Industry (BCCI)

Bhutan Chamber of Commerce & Industry (BCCI) was established under the Royal Command of His Majesty the Fourth King in 1980, in a meeting with the business community. BCCI started to function as an Intermediary Business Organization (IBO) intended to develop, promote and encourage participation of the private sector in economic development of the Nation. Therefore, private sector development and representation is the core function of BCCI.

Since May 1988 until 1996, BCCI had functioned in accordance with the ‘Memorandum of Association’. Currently, BCCI functions under the auspices of the **Charter** endorsed by its members on 6 May 1996. BCCI has drafted a bill and

¹ A primer on the organization and role of chamber systems, P. Markus, M. Ralf for Center for International Private Enterprise (CIPE) Washington, D.C., 1995

submitted to the government, but it could not be enacted, and BCCI was directed by the Parliament to get registered under CSO Act. However, BCCI did not get registered.

The General Body of the BCCI is the apex forum that comprises of business representatives from twenty Dzongkhags elected for the term of three years by the respective business members in each Dzongkhags. Next tier of management is the Executive committee. The Executive Committee consist of President, Vice Presidents, and Presidents of ten Sector Associations. Five additional regional Executive Committee members are elected by the General Body members during the Annual General Meeting for a term of five years. The General body and Executive Committee is supported by the BCCI secretariat. The Secretariat is managed by a salaried Secretary General who executes day-to-day operations of the organization.

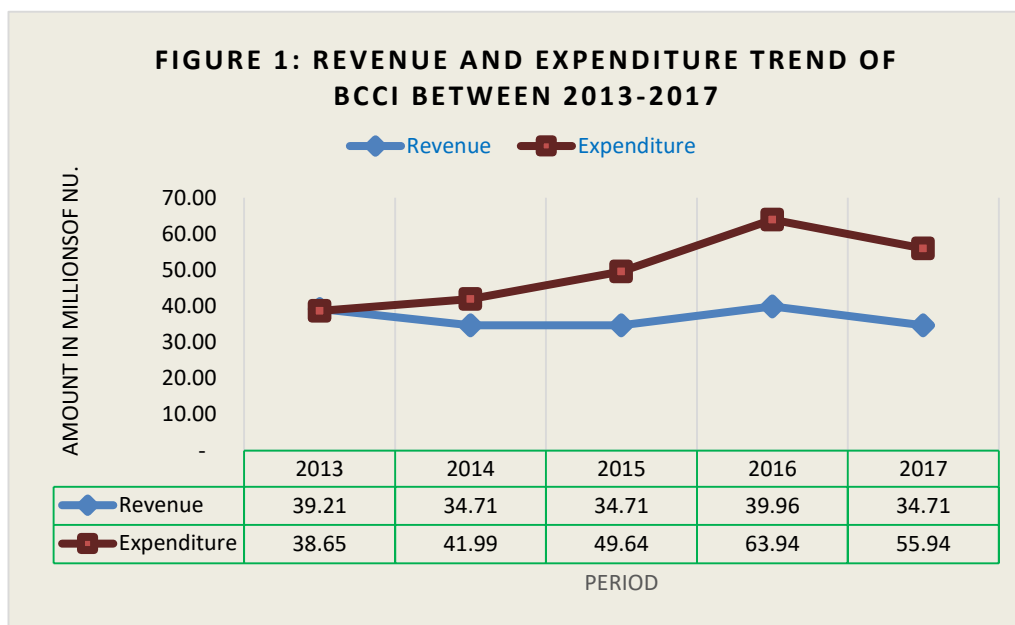
The BCCI Secretariat has three departments to deliver services to the business community namely Business Support Department (BSD), General Affairs Department (GAD) and Research and Policy Department (RPD). To widen their reach BCCI had established five regional offices. The regional offices are in Phuentsholing, Monggar, Bumthang, Gelephu and Samdrupjongkhar. Currently, there are a total of 42 staff in the secretariat and the regional offices combined.

The activities of the BCCI are financed by the membership contributions, government subsidies and revenue generating trade-fairs. The government as of FY 2016-17 was providing an activity-based subsidy of Nu.10.5 million annually. The primary source of revenue is the membership fees and trade fairs. The financial highlights of BCCI is as follows;

Table 1: Financial highlights of BCCI 2013-2017

Particulars		2013	2014	2015	2016	2017
Revenue	RGoB Grant	6.00	10.50	10.50	5.25	10.50
	Membership fees	18.65	24.95	25.48	33.44	27.95
	Trade fairs	18.47	20.80	26.66	27.81	22.52
	Others	2.09	3.75	2.67	1.34	2.10
Total Revenue		45.21	59.99	65.31	67.84	63.07
Expenditure		38.65	41.99	49.64	63.94	55.94
RGoB Grant as a percentage of Expenditure		16%	25%	21%	8%	19%
<i>Source: BCCI</i>						

As can be seen from the table 1, the main source of revenue for BCCI is membership fees and grant from the Royal Government which forms significant portion of the revenue. The revenue and expenditure trend of BCCI is presented in the graph below:



In the 9th FYP (2003-2008), the government has promoted private sector growth and employment generation as one of its five overall goals. Government of Bhutan accorded high priority and initiated various interventions to promote private sector development. However, private sector is relatively still small and underdeveloped².

Of late it is felt that, BCCI as one of the key institutions in terms of encouraging private sector participation towards country’s economic development is critical. There are perceived concerns about its benefit to the members. There are also issues of management being confused over their roles and responsibilities. A concern is also being raised about the inadequacy of legal & policy frameworks and strategic direction. Therefore, the performance audit was conducted to review the performance of BCCI in terms of its stated roles in promotion of the interest of its members and private sector development.

Private sector development is a huge and a long-term mandate, which can only be realized through collective efforts from all the stakeholders including government but more importantly from the members of the private sector and institutions like BCCI.

Vision:

To embark on developing private sector with organization’s slogan of *“Towards Private Sector Development”*

Mission:

- ▶ Act as the pro-active body, inspiring economic growth and development in the country by promoting a dynamic and competitive business in Bhutan.
- ▶ Advocate for a vibrant business sector that promote sustainable economic development through promotion of trade and investment by facilitating competitiveness and growth for increased investment, productivity and trade.

² ADB, Country Partnership Strategy, Bhutan, 2014-2018, Private sector assessment summary.

- ▶ Connect businesses and expand member opportunities by providing outstanding member services, with an aim to contribute to Bhutan Sustainable Economic development through expansion and institutional linkages and networks in the region and the global market.
- ▶ Safeguard the overall rights and benefits of members and provide leadership and quality services to foster an enabling business environment, generate gainful employment and create wealth for the country.
- ▶ Facilitate entrepreneurship through Human Resource Development of the Private Sector

Chapter 3: Audit Findings

This chapter is divided into two parts: Part 1 highlights the positive developments initiated and achieved by BCCI and Part 2 discusses the shortcomings and deficiencies in the operations of BCCI.

Part 1: Achievements and positive developments initiated by BCCI

During the audit, RAA observed notable achievements made by BCCI. Some of the achievements and positive developments made by BCCI are highlighted below:

► Policy and legal interventions

BCCI has made policy inputs to the government during the period under review in the form of reports and papers such as:

- ✓ Private Sector Development – The Way Forward (position paper);
- ✓ Private Sector Development – Critical Areas for Interventions (position paper);
- ✓ BCCI inputs for Accelerated Economic Development Plan (Issues statements);
- ✓ Impact of 5% fuel green tax on Bhutanese economy (position paper);
- ✓ Inclusive representation on power tariff revision (representation/advocacy);
- ✓ Private sector proposal on excise duty refund procedures; and
- ✓ Balance of Payment Report (Private sector perspective)

► Participation and facilitation bilateral and international events

BCCI had represented and participated in 30 bilateral and International events such as meetings, conferences and workshops between 2013 and 2017 as listed below:

Year	Activities
2013	<ol style="list-style-type: none"> 1. 57th Executive Committee Meeting and 18th General Assembly Meeting of SAARC Chamber of Commerce and Industry (CCI) from 21st -22nd April 2013 at Kathmandu, Nepal 2. 58th Executive Committee Meeting of SAARC CCI on 17th August 2013 at Male, Maldives 3. Capacity building workshop on 28th November 2013 at Taj Tashi Hotel, in Thimphu, Bhutan.
2014	<ol style="list-style-type: none"> 1. Business delegation for the 5th SAARC Business Leaders Conclave on 16-17th Jan 2014, in New Delhi, India 2. Plan worked out to further invigorate SAARC CCI on June 14, 2014, New Delhi 3. 18th SAARC Summit from 26–27 November 2014, Kathmandu, Nepal. 4. Emergent meeting of SAARC CCI on November 27, 2014, Kathmandu, Nepal
2015	<ol style="list-style-type: none"> 1. 62nd Executive Committee & the 20th General Assembly Meeting of SAARC CCI on March 10, 2015 at New Delhi, India

	<ol style="list-style-type: none"> 2. 63rd Executive Committee meeting of SAARC CCI on 24th July,2015, in Paro, Bhutan 3. 64th Executive Committee and 20th General Assembly of SAARC CCI on 8th December 2015 at Islamabad, Pakistan. 4. Conference on Energy Cooperation and Climate Change on July 25, 2015, at Paro- Bhutan
2016	<ol style="list-style-type: none"> 1. SAARC CCI handing over ceremony, 65th Executive Committee Meeting from 14th -16th March 2016, Kathmandu, Nepal. 2. SAARC CCI President's Visit to Bhutan on 5th & 6th May,2016 3. 13th SAARC Trade Fair from 8th -12th September,2016, Thimphu 4. SAARC CCI Delegation Activities in Afghanistan, Pakistan and India from 12th -19th April,2016 5. 66th Executive Committee meeting and Extra Ordinary General Assembly meeting on 4th June,2016, Sri Lanka 6. The 67th SAARC CCI Executive Committee Meeting on 23rd September, 2016, Mumbai 7. "Unleashing SAARC-What it takes" on November 13, 2016. at Kathmandu, Nepal 8. Energizing SAARC: Creating Synergies on November 14th, 2016, Kathmandu, Nepal.
2017	<ol style="list-style-type: none"> 1. Multi-Stakeholder Consultation Dialogues" on March 24- 25, 2017 in Kathmandu, Nepal. 2. 69th Executive Committee and 21st General Assembly Meeting on April 15, 2017 in Dhaka, Bangladesh 3. 70th Executive Committee Meeting on 23rd July,2017, Thimphu 4. SAARC Young Entrepreneur Forum and SAARC Chamber Women Entrepreneur Council on 24th July,2017, Thimphu 5. Round Table on Tourism and Connectivity –Magic that is South Asia on 25th July 2017, Thimphu. 6. SAARC Investment Forum on 6th September,2016, Sri Lanka 7. SAARC Trade Fair 2017, aligned to SAARC Investment Forum, was held on September 7-9, 2017, Sri Lanka Colombo. 8. 8th South Asia - Sichuan Business Roundtable from 12-15, September 2017. Chengdu, China 9. 71st Executive Committee Meeting of SAARC CCI on October 23, 2017 Chennai 10. South Asia Youth Summit" on November 2, 2017 in Kathmandu Nepal 11. Communication Workshop from 30-31st October, Pakistan

► Provision of business facilitation services

i. Private sector's visa recommendation

The BCCI recommend visa and route permit for private sectors entities for delegation such as participants to trade fairs and expos and special permits and extensions. Annually on average BCCI facilitated 800 visa applications and route permits.

ii. Programma Uitzending Managers (PUM)

BCCI organized series of meetings with the PUM (Programma Uitzending Managers' is a body of Netherlands senior experts formed towards connecting entrepreneurs) officials with stakeholders and sector Associations and briefed

the on the PUM and its services. The main objective of the meeting was to create awareness amongst the sector associations on PUM and its services for further dissemination of the opportunities to the members. Many companies have benefited through the PUM programs in Bhutan through the trainings.

iii. Micro and Small Enterprises (MSEs) Development Loan Scheme in Partnership with BDBL

The scheme was officially launched on 14th April 2010 in the BCCI Regional office, Monggar and disbursed the loan to 14 clients of Monggar Dzongkhag with the ceiling about of Nu. 100,000.00 at the rate of 10% interest rate.

This scheme has benefited about 4,139 small and micro enterprises across the country that could not avail loan from other conventional banking institutions. The BDBL had disbursed the total amount of Nu. 538.200 million across the country.

► **BCCI conducted local and International trade fairs**

Between 2013-2017, BCCI besides promoting trade, had conducted 25 local and international trade fairs as summarized under:

Year	Name of Trade Fairs and Expos
2013	3rd Bhutan International Education fair
	4th Bhutan Construction Expo.
	4th Bhutan India Regional Friendship Trade Fair
	4th Bhutan International Trade Fair
2014	5th Bhutan India Regional Friendship Trade Fair
	4th Bhutan International Education fair
	1st Agri-Fair
	5th Bhutan Construction Expo.
	5th Bhutan International Trade Fair
2015	2nd Agri-Fair
	6th Bhutan Construction Expo.
	5th Bhutan International Education fair
	6th Bhutan International Trade Fair
	Gelephu Winter Trade Fair
	Consumer Fair
2016	6th Bhutan India Regional Friendship Trade Fair
	Bumthang Fair
	7th Bhutan Construction Expo.
	6th Bhutan International Education Fair

	Monggar Fair
	13th SAARC Trade Fair
2017	7th Bhutan India Regional Friendship Trade Fair
	Bhutan Education Fair
	8th Bhutan Construction Expo.
	7th Bhutan International Trade Fair

- ▶ BCCI had facilitated and participated in 26 business delegation and exchange programs;
- ▶ BCCI had conducted five training programs for the members of the private sector in 2017 including among others on culinary and accounting standards for SME's; and
- ▶ Organized and facilitated the celebration of the 60th Birth Anniversary programs and Kusung Thugi Mendrel on behalf of private sector

Part 2: Deficiencies and shortcomings

Notwithstanding the achievements and contributions made by BCCI, the RAA while reviewing the legal and policy frameworks, institutional systems, operations and internal controls of the BCCI observed many deficiencies and shortcoming/lapses which are as detailed hereunder:

3.1. Legal, policy and organizational systems of BCCI

3.1.1. Lack of clear legal mandate

Currently there are three broad categories of business Chambers worldwide namely, Continental Model, Anglo-American Model and Mixed Model. Under Continental Model Chambers are created out of National Law and membership is compulsory. Chambers in Germany and France follow the continental Model.

Anglo-American Model operates in contrast to the Continental Model. Chambers in Anglo-American model does not have legal protection meaning not created by a specific law but must adhere to laws under which it is registered. The membership is voluntary and there are several Chambers within a given territory. Examples of such Chambers can be found in USA, Singapore, India and Sweden.

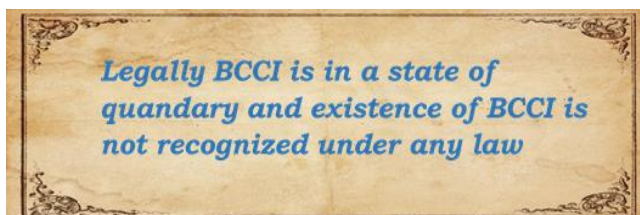
Third system is the Mixed Model like in Japan and Thailand. In this system the Chambers are created by National Legislation, but the membership is voluntary. Taking cognizance of the Chambers Internationally, they are either created out of a law or registered under law of some sort.

BCCI on the contrary is not created out of law or registered under any legal instrument. Upon review of the relevant documents and discussions with BCCI officials, it was revealed that in April of 1980, His Majesty the Fourth King had granted an audience to a group of prominent businessmen, whereupon they were sounded on formation of a business chamber. BCCI was supposedly formed in 1980 and remained without operation until 1988.

Thereafter in 1996 the members ratified the BCCI Charter and currently its operations are governed by it. BCCI is not registered under any other law or Statute as such.

BCCI had drafted a Bill in 2006 and submitted to the Parliament but it could not be enacted. Instead BCCI was suggested by the Speaker, National Assembly to get registered under Civil Society Organization Act 2007. However, BCCI did not register stating that as an interest-group representing business and private sector it did not have social mandates like other CSOs and there were limitations of scope of activities it could undertake.

Legally BCCI is in a state of quandary and existence of BCCI is not recognized under any law. For an institution like BCCI which as it claims to be the apex body for private sector development and representation, it is vital to have a legal basis.



This state of quandary is emphasized by the statement of reasons in the concept note for BCCI Bill prepared by the Secretary General in 2012 that, *“The proposed Bill will not only provide a legal basis for the existence of the Chamber but also enhance the participation of the Chamber in the economic development of the nation”*.

Further this status quo is reiterated in the Regulatory Impact Assessment Report as follows:

“The Bhutan Chamber of Commerce and Industry is not able to effectively foster meaningful private sector development due to lack of legal recognition which is further compounded by the fact that most of its sector associations are registered CSOs”.

As transpired from the minutes of 26th Annual General Meeting held on 31st October 2011 BCCI discussed on the need for a legal basis and its pursuit.

In the 28th Annual General Meeting convened on 25th April 2014, the members further discussed about addressing the issue of legal and policy uncertainty. It decided to follow-up on the Royal Assent since BCCI Bill did not get enacted, but this approach was not pursued further.

BCCI had signed 12 MoU's with International and local partners including SAARC Chamber of Commerce and Industries. BCCI had also signed several project agreements. It is therefore even questionable the position of BCCI and the legality of the MoU's and agreements drawn in absence of its legal basis.

The need for a legal basis has become an imminent requirement to function effectively towards private sector development. With a comprehensive mandate and legal teeth, BCCI will have a renewed sense of direction and purpose in pursuit of its objectives.

BCCI responded that it fully acknowledges the observation made by Royal Audit Authority (RAA) and wishes to submit that its intention to put in place a legal statute for institution legitimacy is being accorded with top most priority and shall be pursued consistently with the relevant government authority. It was stated that this observation in fact reinforces requirement of a legal statute to govern the chamber's operation.

The additional response from the BCCI stated that it is established under the Royal Decree and patronage that has provided the Chamber with legal statute for its functional operation. (For details refer Appendix I)

3.1.2. Lack of well-defined organization structure resulting in unclear lines of reporting

It is inevitable for any relatively large organization to have a well-defined Organogram with clear lines of reporting. The National Internal Control Framework of Bhutan requires, *“the head of the agency to ensure that the department has an up-to-date organization chart”*.

Further the DHI Corporate Governance Code underscores the need for an effective management accountable to the stakeholders and the Board when it states that, *“the corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders”*.

The management structure of BCCI is like a corporate entity. It has General Body and Executive Committee which is required to provide guidance to the management headed by the Secretary General.

Apart from a broad outline in BCCI Charter on its organizational set-up in Articles 4 to 9, there is no defined and documented organogram of BCCI. This fact is iterated in the organizational development exercise undertaken in 2017 about the confusion in the organization set-up of BCCI and various interpretation of the same.

In practice, the existence of General Body and Executive Committee tend to be duplicating and unnecessary. There is no evidence of Executive committee reporting its decisions to the General body. The two tiers of the management tend to be operating parallel to each other which is unnecessary.

The BCCI Charter also recognizes President as the Chief Executive of the Chamber, at the same time Charter also recognizes Secretary General to manage the day to day operations of the BCCI. To have effectiveness in the direction of the organization, it is critical to have an unambiguous organogram with clear lines of reporting.

BCCI responded that the Organization Development Plan for BCCI that has been adopted from April 2018, which addresses a part of the concerns raised under this para. It also stated that beyond, the amendment of BCCI Charter that is being carried out under the directives of the 104th Session of the ECM shall delineate the Terms of Reference (ToR) for Executive Office Bearers as well as put in place a well-defined mandate for the Executive Committee (EC) and the AGM. (For details refer Appendix I)

3.1.3. Inadequate strategic focus and planning framework

Today organizations are faced with unprecedented change in the environment and so too their relevance in relation to their stakeholders' expectations. Strategic planning framework is an important tool for the improving organizational efficiency and effectiveness in achievement of its targets generating value to the stakeholders. Strategic plan amongst other provides clarity in the organizational vision and mission. It provides a road map as to where an organization intends to head to within a reasonable timeframe and provides adequate focus on the achievement of specific and clear objectives. Strategic plans usually span over a period of five to ten years.

BCCI on the other hand do not have an adequate strategic planning framework although it has endorsed the vision and mission statements in 28th AGM held in April of 2014. Apart from framing the vision and mission statements, BCCI do not have a documented long term strategic plan. The stated vision and missions do not articulate the objectives outlined in the BCCI Charter.

BCCI undertakes an annual planning exercise which is largely confined to programmes and activities without clarity as to how they are going to contribute towards achievement of BCCI's vision and mission. Most programmes and activities either provide a remote or no linkage with the BCCI's objectives stated in its Charter.

For instance, BCCI had prepared a program chart 2017. The program chart activities mostly do not relate with its objectives and its value in terms of its contributions to the members and private sector is not articulated. Without a proper focus on the programmes and activities the achievement is unlikely.

For an organization to remain relevant in the ever-changing environment and to be responsive to the expectations of the stakeholders, need to position itself strategically mainly in terms of funds and man power.

BCCI responded that, while it acknowledges the need for a long-term plan coined to its institutional vision and mission but with limited resources and other inherent constraints, it has to continue with the Annual Planning System until the Chamber builds up its capacity for sustainable long-term planning. It stated that the existing Annual Plans and Programs are drawn out based on the broad objectives derived from the BCCI Charter and its vision and mission statements. (For details refer Appendix I)

3.1.4. Lack of comprehensive details in the BCCI Charter on the due process of election of President, Vice-President and Regional Representatives

Election of President and Vice Presidents are important milestones for BCCI. Election of these office bearers comes about every three years and it is a recurrent activity. Standard documented election procedure is a prerequisite to ensure free and fair elections.

The BCCI Charter Article-7 only states that, “*One President & two Vice Presidents for the Chamber shall be elected in the General Body meeting amongst the members of the forum.*”

Until now BCCI President and Vice-Presidents are elected by the General Body, however there is no documented election procedures in place.

As transpired from the undertakings made by the contestants of the election of President and Vice Presidents on 20 April 2016, it was revealed that the contestants abide by the provisions of the Guidelines for the Conduct of Elections in schools, Institutions and other Agencies. It is not clear which guidelines it is referring to in the absence of a proper reference to a stipulation.

In practice, the nominations are solicited from various sector specific associations and the members of General Body from amongst themselves. The nominees are then elected using the conventional EVM's by the General body members.

Apart from the Article there is no mention of the election procedure in any of the documents, rules and regulations of BCCI.

Even the minimum criteria for their educational and professional capacity is not made mandatory. For the post of management in the organization like BCCI it is critical to have qualified, professional and experienced officials.

Without a standard election procedure in place, elections could be unsystematic. They can be susceptible to undue influences and election of right officials could be undermined and impeded.

BCCI responded that the BCCI Charter provides broad guidelines for election of honorary office bearers. However, the Chamber ensures to accommodate as recommended processes in the Charter that is being reviewed. (For details refer Appendix I)

3.1.5. Lack of ToR's for Vice-Presidents resulting in unclear lines of reporting

Terms of Reference (ToR) document serves as the basis for working arrangement between employee and the organization. It sets the parameters against which the success of the employment can be measured, and the expectations are outlined.

The BCCI do not have clearly defined ToR for their Vice-Presidents. Broad descriptions of the responsibilities of President and Secretary General are stipulated under Article 10.1.1 (a to d (for President)) and Article 9.2.1 to 9.2.7 (for the Secretary General) respectively. The BCCI Charter did not stipulate any specific roles to the Vice-Presidents except when delegated by the President.

As transpired from the minutes of the meetings, the need for a well-defined ToR was recognized and discussed in the 98th Executive Committee Meeting convened on 18th April 2016 before the election of the current President and Vice-Presidents. It was decided to review chain of command within BCCI.

There are confusions persisting over the roles, position and even lines of reporting of the Vice-Presidents in the overall operation of BCCI management.

BCCI responded that roles and responsibilities are clear as per the recent OD Plan. In addition, it stated that the Secretary General has exhaustive Terms of Reference (ToR) drawn up and endorsed by the Executive Committee (EC). For the Vice Presidents the BCCI stated that the development of a proper ToR has already been identified as one of the priority matters for the Chamber. (For details refer Appendix I)

3.1.6. Irregular increase in the terms of office for the President and Vice Presidents

Article 10.1 and Article 10.2 of the BCCI Charter stipulates the tenure of the President, Vice Presidents and other members as three years

However, during the 30th AGM convened on 20th - 21st April 2016, the terms for the office of the President, Vice President and Secretary General was increased to five years from three years. It was endorsed by the General Body in the 30th AGM. This increase in the term of the office for the President and Vice President was Ultra-vires to the Charter.

The tenure of the President, Vice President and the Secretary General were extended without amending the provisions of the charter. The increase in the tenure were also made without proper analysis. Details of studies and analyses if any were not on record. Decisions such as these must be backed by proper analysis and careful considerations of the future implications.

Therefore, the increase in the tenure of the President, Vice President and Secretary General is irregular and the decision of the AGM is not valid without the amendment of the BCCI Charter.

Further, Charter also states the term of **Other Members** as three years only. It is not clear whether Secretary General is the other members of Executive Committee when Secretary General is required to be present in all the affairs of the Executive Committee. If the SG is considered as the other members of the Executive Committee, the extension of the tenure of SG is also not in line with the BCCI Charter.

BCCI responded that, as a development partner that works together with the government for private sector development has seen the need for aligning itself with planning and development process of the government. This was the reason to increase the term from 3 to 5 years which is also to award sufficient time for the incumbent to achieve the vision they bring in for the institutional dynamism.

BCCI stated that in the case of SG, the extension of term of office is well covered in the BCCI Service Rule 2015 that provides for a term to a maximum of 5 years with one term extension. (For details refer Appendix I)

3.1.7. Need to update the outdated provisions of BCCI Charter

BCCI charter is the primary legal and policy document which guides operations of BCCI. It is important to be updated and reflective of the changes in the legal and policy environment.

On the contrary, the BCCI Charter was adopted in 1996, and since then contents have remained same when the legal and policy changes were happening in the macro environment.

Various Sections and Clauses of the BCCI Charter are clearly out of date and irrelevant today. The outdated sections and clauses are as follows:

Section 8.2 of BCCI Charter: The liaison officers shall represent in the respective Dzongkhag Yargay Tshogchung (DYT) as representative of the local business community

Section 9 of the Local Governments Act of Bhutan 2007 stipulates that:

“The Dzongkhag Tshogdu shall be the highest decision-making body in the Dzongkhag. It shall comprise the Gup and Mangmi as the two elected representatives from each Gewog, one elected representative to represent the Dzongkhag Thromde and one elected representative to represent the Yenla Throm.”

As stipulated above, the Dzongkhag Tshogdu do not recognize the Liaison officers of the BCCI as a representative of the local business community, rather it recognizes elected representative to represent the dzongkhag and Yenla Throm.

Similarly, section 10.1.1 a) of the BCCI Charter stipulates the President to *represent Business community in the National Assembly as National Assembly Member (Chimmi)*.

Since the introduction of Parliamentary democracy the membership to National Assembly has changed as can be seen from Section 9 of the National Assembly Act of Bhutan 2008 which states, *“The National Assembly shall have a maximum of fifty five members elected by each Dzongkhag in proportion to its population, provided that no Dzongkhag shall have less than two members and more than seven members, for which purpose Parliament shall, by law, provide for each Dzongkhag to be divided into constituencies through appropriate delimitation, and for the voters in each constituency to directly elect one member to the National Assembly.”*

As stipulated above, the National Assembly Act of Bhutan 2008 do not recognize President of BCCI as a member.

Section 11.3.4 (f) of the BCCI Charter on functions of the Executive Committee states that the “*Executive Committee shall decide upon points for submission to the National Assembly of Bhutan as and when required.*”

The need to amend the BCCI Charter 1996 and its Sections was recognized as transpired from the minutes of 30th AGM (agenda 4) and 98th ECM (agenda 98.7) convened on 21 April 2016 and 18th April 2016 respectively. Further, the need to amend the BCCI Charter was reiterated in the Executive Committee meeting 103 (agenda 103.2) convened on 27th October 2017.

Accordingly, the BCCI Charter amendment was drafted along with BCCI financial manual by engaging M/s Infinity Solutions upon payment of Nu. 120,000.00 as a consultancy fee but it was neither ratified nor adopted. Following a fall-out between the management and the Consultant during the review meeting, the fees were refunded, and the draft Charter was not used thereafter.

There were no clear terms and conditions laid out before engaging the consultant especially the capacity of the consultant to carry out the task. The amendment was also proposed for the change in the terms of BCCI office bearers, governance structure and rules of procedures for Executive Committee. Ever since the termination of contract with the consultant no progress was made in amendment of the BCCI Charter.

In absence of a clear legal and policy framework for the BCCI, it is difficult to ascertain as to what are the appropriate channels of communication and modes of engaging with the government and its members. For efficient operations, it is imperative for BCCI to have its Charter up to date.

BCCI responded that, as per the directives of the 104th session of the Executive Committee, the BCCI Charter which is being reviewed for amendment shall address the issues raised in the observation. It was stated that this has also been reemphasized in the subsequent session of the Executive Committee meeting. (For details refer Appendix I)

3.1.8. Lack of well-defined working modality between BCCI and sector specific associations

The members of the private sector are organized under 10 Sector specific Associations. Having ratified the BCCI Charter, these associations are members of BCCI. Review of the records pertaining to policy framework revealed that there is no mention of how the sector specific associations and BCCI shall work in relation to each other.

The BCCI Charter is silent about the relationship between the sector specific associations and BCCI. In absence of any document specifying the working relationship of BCCI and the sector specific associations there are possibilities of duplication of efforts.

Since these sector specific associations are separate legal entities independent of BCCI they can engage at their own level with various government and non-government entities. If a clear line is not drawn, there could be duplication of efforts without any visible value addition on the part of BCCI. The President of the Bhutan ICT and

Training Association (BICTTA), stated that most of the works done by BCCI and sector associations are similar and there are possibilities of duplication of efforts.

Further, there are concerns being raised by the members about the double collection of membership fees both by the BCCI and the sector specific associations as evident from the discussions from the 102nd Executive Committee meeting convened on 4th September 2017.

BCCI responded that, the revival of Committee of the General Secretaries (CoGS) endorsed during the 105th EC shall provide the deserving platform to bring in larger understanding and cooperation between the BCCI and the sector associations and among sector associations. The BCCI stated that it shall put in place proper ToR for the CoGS. (For details refer Appendix I)

3.1.9. Lack of financial rules and regulations governing its financial operations

Financial operations of an organization are an important aspect of day-to-day functioning and effective achievement of the organizational goals. For transparent, efficient and effective operations it is important to have rules governing financial operations.

However, BCCI currently do not have its own financial rules. BCCI management asserted that, up till now BCCI had been following RGoB Financial Rules and Regulations i.e. FRR 2001 and PRR 2009. The need for financial manual is highlighted in the OD 2017 report. The requirement for a financial manual was reiterated in the minutes of 102nd Executive Committee meeting (agenda 102.6) convened on 4th September 2017.

BCCI had called quotations from two consultancy firms M/s Infinity Solutions and M/s Kuenfen Consult on 9th September 2017. The work was awarded to M/s Infinity Solutions being the lowest evaluated bidder. An agreement was signed on 10th September 2017 between BCCI and the consultant on drafting of Finance and Accounting Manual and the review of BCCI Charter 1996. The duration of contract was for one month from the date of signing of the contract. The consultant submitted the draft to the Executive Committee on 26th October and 22nd December 2017 for review.

M/s Infinity Solutions opted to terminate the contract and refund the amount paid since the Executive Committee expressed reservations on the work and capacity of the consultant. The main reason for the termination of the contract was in the pre-bid terms and the contract terms which were not comprehensive. The parameter for requisite capacity of the prospective consultant was not mentioned in the request for proposal floated vide letter no.BCCI/GAD/AFD/2017/851 dated 5th September 2017. The deliverables under the terms of contract was too generic and not specific. It was therefore not objective on the part of the Executive Committee to question the capacity of the consultant and the quality of job performed as these parameters were not specified appropriately.

Currently BCCI is following the RGoB financial rules and regulations pertaining to financial operations. Although broad principles of financial propriety and prudence could be replicable, specific practices and accounting treatments may not be applicable. Operations of BCCI are different from that of a government entity since the organizational structure and goals are different. Moreover, government follows cash

basis of accounting and BCCI system is neither a Cash basis nor Accrual basis of accounting, it practices mix of both.

BCCI responded that, as per the directives of the 104th Executive Committee Meeting it is in the process of drafting its financial manual. (For details refer Appendix I)

3.1.10. Inadequate internal control system and risk oversight

The Corporate Governance good practices such as DHI code of Corporate Governance requires that, “*the board (the General Body and Executive Committee) shall be responsible for the governance of risk and shall establish a sound risk management framework and control system for the protection of shareholders’ (members) interests and assets.*”

National Internal Control Framework states that, “*Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or even of a transaction or event.*”

On the other hand, BCCI generally lacks any internal control system and risk oversight. There is no mention in the BCCI Charter about delegation of financial powers. There are instances of concentration of powers in the hands of few senior management levels going by the documents of the financial transactions. The financial controls such as threshold levels for various levels of management is generally lacking.

BCCI do not have internal audit function established either. This was highlighted in the OD report 2017. It was suggested that an internal audit cell was required but dedicated personnel was not justifiable to be identified. However, it recognized the importance of the internal audit function.

For instance, the financial operations of the regional offices are not monitored on a periodical basis. There are no systems of monitoring the status of funds and revenues of regional offices including stock of revenue receipts. There are instances of non-deposit of revenues of membership fees collected for the period. There are also instances of missing records of money receipts, which highlighted the absence of proper control procedures in printing, issuance and custody of cash value documents such as money receipts.

BCCI responded that it accepts the deficiencies and would ensure effective internal control system once they have the financial manual.

In its additional response BCCI stated that establishment of internal audit cell is in sync with the outcome of the OD exercise as well. (For details refer Appendix I)

3.2. Financial operations of BCCI and observations thereof

Observations under this section are divided under two categories namely issues pertaining to revenue and expenditure management. There are various issues being observed under revenue operations and those related to imprudent expenditure.

3.2.1. Revenue management and related observations

BCCI sustains its operations from Annual membership fees of the business entities, voluntary fees, rental income, sale proceeds of form, and documentation fees of GGLSS (Group Guarantee Lending and Saving Scheme). BCCI also receives grants from the government.

Over the period of five years BCCI has generated total revenue of Nu. 258.669 million and received RGoB grant of Nu. 42.750 million. Table 2 shows revenue details of BCCI.

Table 2: Revenues of BCCI

Revenue/Year	2013	2014	2015	2016	2017	Total
Events	18.468	20.796	26.661	27.807	22.516	116.248
SAARC Chamber of Commerce & Industry	2.093	2.197	2.066	0.240	2.000	8.596
Research & Policy Department (external grants)		1.551	0.603	1.097	0.102	3.353
Secretariat (membership fees)	18.649	24.946	25.476	33.443	27.949	130.463
RGoB Grant	6.000	10.500	10.500	5.250	10.500	42.75
Total	45.21	59.99	65.306	67.837	63.067	301.41

Source: BCCI

A further break down of revenue generated by BCCI shows that 50.44% of the revenues were generated from the Annual Membership Fees and 44.94% from Rental Income of Events and Trade Fairs. Annual Membership fees were collected from across the 20 Dzongkhags from the willing members of the private sector business entities.

The RAA conducted detailed review of revenue management of BCCI and following discrepancies were observed:

3.2.1.1. Inadequate legitimacy of membership fee collection and underperformance of Annual Membership Fee collection

In absence of a clear legal and policy framework for the BCCI, the legitimacy over collection of membership fees is another disputable matter.

Article 3.1 of the BCCI Charter states that membership shall be composed of sector associations, voluntary individuals and interested enterprises. It transpired that the membership fees were collected on a voluntary basis having determined a structure based on quantum of investment. There is lack of strong basis for collection of membership fees for BCCI. It was contingent on member's willingness.



With the economic prosperity of the country there is an unprecedented proliferation in the number of business enterprises. However, BCCI could not tap the potential revenue base apparently due to inadequacy of legal basis to collect the fees. RAA had undertaken a comparative study on the potential revenue base using data of registered license holders in the country vis-à-vis actual revenue performance by BCCI as summarized in table 3 and detailed in **Annexure I** :

Table 3: Revenue performance of BCCI 2013-2017

Potential/Actual	2013	2014	2015	2016	2017	Total/Average
Potential Revenue*	35,097,922.73	35,452,447.20	35,810,552.73	36,172,275.48	36,514,120.50	179,047,318.63
Actual collection	7,449,780.00	7,602,902.00	8,164,605.00	8,510,250.00	8,577,215.00	40,304,752.00
Difference	27,648,142.73	27,849,545.20	27,645,947.73	27,662,025.48	27,936,905.50	138,742,566.63
Revenue Performance	21.23%	21.45%	22.80%	23.53%	23.49%	22.51%
Performance of regional offices						
Head Office	18.32%	16.45%	18.78%	20.03%	19.27%	18.57%
Bumthang	20.91%	17.05%	8.65%	11.37%	14.16%	14.43%
Monggar	35.40%	30.56%	33.80%	36.61%	30.24%	33.32%
Samdrup Jongkhar	22.89%	28.69%	39.87%	42.86%	42.86%	35.43%
Gelephu	12.78%	14.69%	14.94%	15.44%	18.78%	15.33%
Phuentsholing	30.99%	35.88%	35.25%	32.70%	32.41%	33.45%
<i>Source: Information on no. of registered license holders from Department of Trade and Department of Industry, MoEA, Actual collection data from BCCI</i>						
<i>*Potential revenue is estimated using the license holder information and the membership fee structure of BCCI</i>						

As indicated in table 3, BCCI could have collected about Nu.179.047 million during the period (2013-17) but it could collect only Nu.40.304 million constituting only 22.51% of the total potential revenue.

Comparative study of the regional offices in terms of revenue collection revealed that Bumthang's revenue performance was 14.43%, Gelephu 15.33%, Samdrup Jongkhar 35.43%, Phuentsholing 33.45% and Monggar 33.32%.

As transpired from the rationale provided by the BCCI regional office in Gelephu in May 2013 in response to audit observation on under performance of revenue, one main reason for the underperformance in revenue collection is the lack of explicit legitimacy to impose the fees.

In addition, value and benefits of BCCI to the individual business entities are not clearly visible. The officials who are deputed in the field for collection of membership fees expressed difficulty in convincing the private entities over value and benefits of BCCI's services. Some employees even shared concerns over facing harassments during the collection process.

If, the BCCI must sustain its operations in the long term, it must have a clear strategy pertaining to legitimacy and certainty of its revenue sources. Membership fees are main sources of revenue for BCCI currently and it is critical to the day-to-day sustenance of the organization.

The BCCI responded that, it is in process of devising new strategies to ensure efficient and effective collection of membership fees. It stated that the lack of legal

statute and statutory hold over the members has been a burning reason behind not being able to tap all the membership fees today. (For details refer Appendix I)

3.2.1.2. Unsustainable revenue operations of BCCI - a cause for concern

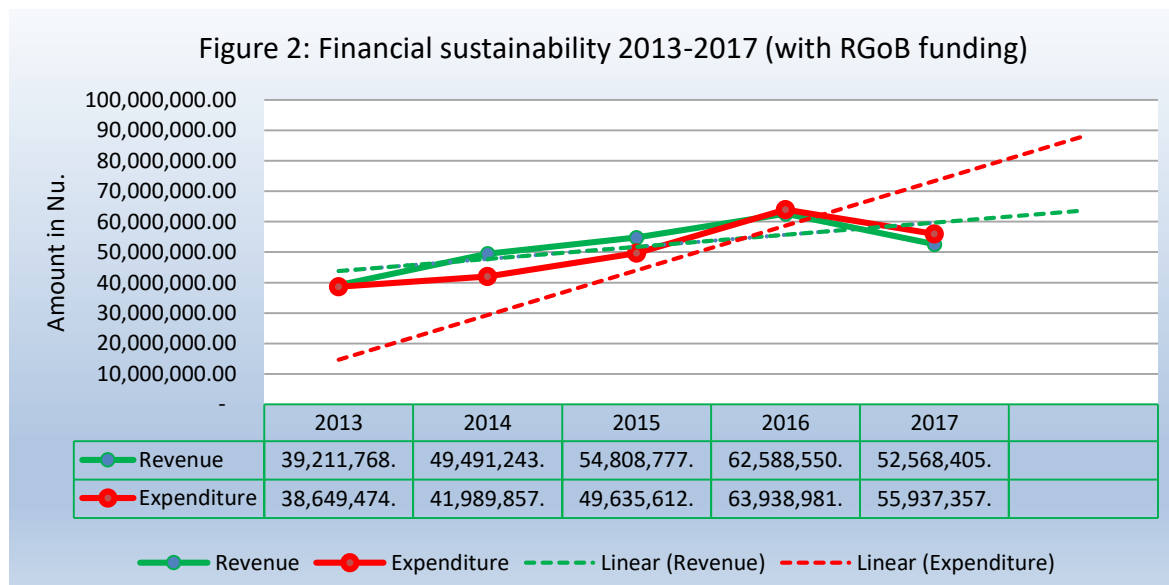
RAA undertook an analysis of operations of BCCI and it was revealed that operations are financially not sound. BCCI's main sources of revenue are trade fairs, membership fees, and RGoB grant. Membership fees are

Currently BCCI operations are barely sustained by the grant provided by the RGoB. Without the grants from the RGoB, BCCI operations are not feasible at all

uncertain due to questions of legitimacy over collections, trade fairs are expenditure-intensive and RGoB subsidies shall not be perennial. The expenditures were mostly driven by pay & allowances and hospitality & entertainment expenses.

BCCI had been in operation for more than two decades and it is not yet financially secure. BCCI management had not yet devised a strategy for securing the financial soundness of the organization.

Figure 2 shows the increasing trend of expenditure against the revenue sources which were not secure and are increasing but relatively less compared to expenditures.



From the figure above, it can be deduced that the revenues of BCCI were barely able to meet the day-to-day expenditures of the organization until 2016. In 2017 there was a deficit expenditure of Nu.3.368 million.

The forecast lines (red for expenditure and green for revenue) indicated that the deficit gap is going to widen into the future. Thus, it is clear from above that the BCCI is financially not sound.

Currently BCCI operations are barely sustained by the grant provided by the RGoB. Without the grants from the RGoB, BCCI operations are not feasible at all. Should the RGoB discontinue with the grant, BCCI's financial outlook is bleak in absence of strategies for self-sustenance. Even the pay allowances and expenditures are mostly met from the government grant as detailed in the table 4:

Table 4: Financial sustainability vis-a-vis pay and allowances

Particulars	2013	2014	2015	2016	2017	Total
Pay and allowances	8,416,296.00	9,813,129.00	11,597,746.18	12,542,917.16	13,842,533.16	56,212,621.50
Annual Membership fees collected	7,449,780.00	7,602,902.00	8,164,605.00	8,510,250.00	8,577,215.00	40,304,752.00
(Deficit)/Surplus	(966,516.00)	(2,210,227.00)	(3,433,141.18)	(4,032,667.16)	(5,265,318.16)	(15,907,869.50)

Source: BCCI

The annual membership fees were not even able to meet the pay and allowance expenditures of BCCI. The net revenue from trade fairs and events was Nu.1.34 million in 5 years (2013-17) and were essentially expenditure intensive. Therefore, it was clear that pay and allowances were being met from the grant provided by the government.

Further, the regional offices operations were financially unsound too. The annual membership fees collected from the business entities under their jurisdiction was not even able to cover their operating expenditure. Except for Phuentsholing and Samdrup Jongkhar which were marginally surviving in terms of revenue and expenditure. The regional offices of BCCI showed the following trend in terms of financial operations:

Table 5: Sustainability of operations of regional offices

Sl. No	BCCI Regional Office	Year	Revenue Collected	Expenditure	(Deficit)/Surplus
			(A)	(B)	(A)-(B)
1	Bumthang	2013	470,000.00	663,523.50	(193,523.50)
		2014	387,103.00	962,920.00	(575,817.00)
		2015	198,255.00	1,014,420.18	(816,165.18)
		2016	263,400.00	12,849,591.16	(12,586,191.16)
		2017	331,300.00	1,474,162.03	(1,142,862.03)
Total			1,650,058.00	16,964,616.87	(15,314,558.87)
2	Monggar	2013	830,280.00	858,128.00	(27,848.00)
		2014	723,950.00	980,000.00	(256,050.00)
		2015	809,000.00	800,000.00	9,000.00
		2016	885,000.00	1,711,413.00	(826,413.00)
		2017	738,350.00	1,481,334.80	(742,984.80)
Total			3,986,580.00	5,830,875.80	(1,844,295.80)
3	Samdrup Jongkhar	2013	517,500.00	875,057.00	(357,557.00)
		2014	655,099.00	618,092.00	37,007.00
		2015	919,500.00	168,809.00	750,691.00
		2016	998,400.00	1,066,437.00	(68,037.00)
		2017	998,400.00	1,294,779.73	(296,379.73)
Total			4,088,899.00	4,023,174.73	65,724.27
4	Gelephu	2013	816,800.00	946,419.90	(129,619.90)
		2014	948,400.00	944,640.60	3,759.40
		2015	974,200.00	959,151.50	15,048.50
		2016	1,016,700.00	1,390,716.00	(374,016.00)
		2017	1,249,700.00	1,572,784.94	(323,084.94)
Total			5,005,800.00	5,813,712.94	(807,912.94)

5	Phuentsholing	2013	1,984,100.00	1,473,747.76	510,352.24
		2014	2,320,400.00	1,414,327.00	906,073.00
		2015	2,302,900.00	1,726,738.00	576,162.00
		2016	2,157,700.00	2,012,480.00	145,220.00
		2017	2,159,800.00	1,940,716.50	219,083.50
Total			10,924,900.00	8,568,009.26	2,356,890.74
Overall			25,656,237.00	41,200,389.60	(15,544,152.60)
<i>Source: BCCI</i>					

The operations of the regional offices were aggravating the financial health of the BCCI which is already faced with dearth of resources.

If BCCI is not able to sustain operational expenditures such as pay and allowances, then there is no scope for delivering on the broader mandate of private sector development.

BCCI responded that, in all fairness it should have been a stronger institution by now in terms of its sustainability. It stated that, there have been multiple reasons that have led to the state that it is today. One pertinent drawback according to management is legitimacy of existence and operation.

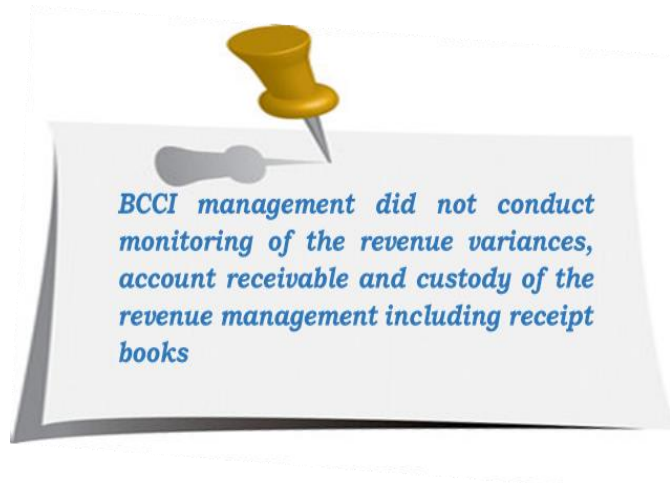
It was stated that, to mitigate the issues that have been mentioned in the observation OD Plan has been developed and implemented that provides for proper internal control and check, staff reshuffling has been undertaken to ensure that right person is in right place and institutional focus is clear to work for legal statute.

In the additional response, management further stated that while it is concerned about the financial sustainability being aggravated by the operation of the regional offices, it was important to view private sector development in holistic perspective and the need for a balanced regional development. (For details refer Appendix I)

3.2.1.3. Weak governance and Oversight of BCCI management on revenue operations

BCCI is financially distressed, and it is imperative to institute proper systems and controls in revenue management. The BCCI management had not exercised adequate control over revenue management. For instance, management did not have ready data on revenue receipt books printed during the period (2013-17), RAA had to reconstruct the data upon visiting the regional offices and literally counting the books available.

A strong governance framework is essential to manage revenue within the revenue spending authority in the agency. Various components contribute to a strong governance framework for managing revenue



including identified roles and responsibilities, adequate revenue monitoring and oversight and effective approval mechanisms over revenue related activities.

Although BCCI has identified roles and responsibility of collecting Annual Membership fees, but it lacks proper guidelines that would clearly illustrate revenue collection plans, objectives and procedures. Clear roles and responsibilities of revenue collections and management are not defined and understood by the department concerned.

BCCI management did not conduct monitoring of the revenue variances, account receivable and custody of the revenue management including receipt books.

In absence of a well-defined revenue management system and proper controls, it is most susceptible to fraud and corruption. It is also in the interest of the organization to pluck the leakages in the already constricted revenue base.

BCCI responded that, there has been unintentional omission as reflected in the observation. The management stated, that the Organizational Development Plan that has been put in place provides for compliance and internal audit units.

It was also stated that, to provide defined processes and procedures, financial manual shall be drawn up and implemented that should serve as a guiding document for controlling reported unintentional lapses. (For details refer Appendix I)

3.2.1.4. Lack of monitoring of annual membership fees collected and deposited by regional offices

The RAA verified the revenue collections and deposits of the five regional offices and noticed that the regional offices did not report the actual revenue collections to head office. The actual amount collected as per receipts do not reconcile with the total receipt amount transferred to Head Office as detailed in the table 6;

Table 6: Variances in reporting actual collection of Membership Fees by the regional offices

Year	Region	As per receipt (A)	Transferred to HQ (B)	Variances (A)-(B)
2013	Monggar	683,550	830,280	(146,730)
	Bumthang	470,000.00	468,268.00	1,732.00
2014	Monggar	723,950	459,990	263,960
	Bumthang	387,000	385,000	2,000
2015	Monggar	809,000	675,810	133,190
	Bumthang	198,225	205,000	(6,775)
2016	Monggar	885,000	1,138,000	(253,000)
	Bumthang	263,400	262,000	1,400
	Samdrup Jongkhar	959,150	932,000	27,150
2017	Monggar	738,350	944,350	(206,000)
	Bumthang	331,300	300000	31,300
	Samdrup Jongkhar	998,400	950,000	48,400

Source: BCCI

There were instances of excess and short transfer of revenue from the regional offices as per receipt booklet and amount transferred as reflected in bank statement of secretariat account. There were excess deposits of Nu. 0.612 million and shortage of Nu. 0.509 million.

Upon review, it was revealed that shortages were utilized for operational expenses of the regional offices. There were also excess deposits by the regional offices which could possibly be deposits from the previous periods.

It was observed that BCCI did not adequately monitor the status of revenues collected, deposited and transferred by the regional offices. Although, General Administrative Department (GAD) took the initiative to collect reports of revenue collected from all the five regional offices, actual verification and monitoring was not conducted. The GAD merely compiled the report without any review.

The absence of formal review and appropriate reporting would increase errors in calculation of the final fees and result in inaccurate recording of the actual fees collected in the Secretariat account. Lack of effective control mechanism on revenue collected report was the main reason for not reporting the actual collected amount to the head office.

Lack of such controls at the head office could also provide room for mismanagement of revenue at the regional offices.

BCCI responded that, they agree to the observation made by the RAA and agrees to the fact that the excess and short deposit are the result of previous year collections and application of revenue for operating expense directly by the Regional office. To avoid this, the BCCI stated that it shall institute a regular monitoring system through central tally facility (as its resource demand may allow for) followed by half-yearly detailed verification of records. (For details refer Appendix I)

3.2.1.5. Non-recognition of accounts receivable to the tune of Nu. 1.908 million

BCCI conducted 25 trade fairs from 2013 to 2017 and invited international participants via consultants. BCCI generated revenue by renting out of exhibition space to the prospective participants both local and international. Events and trade fairs are one of the major activities of BCCI.

Review of rental income vis-à-vis list of participants revealed that, some of the participants did not pay rent for the space occupied during the trade fairs and exhibitions. It was also not recognized as receivable in the accounting records of the BCCI. The rent for the BCCI canteen was also not collected for the year 2017 as detailed in table 7;

Table 7: Details of unaccounted accounts receivable

Particulars	Amount (Nu.)	Years	Remarks
M/s Alpha Associates	1,748,938	2013-2017	Out of total receivable of Nu. 1,928,938.00 Nu.180,000.00 was recovered subsequent to issue of draft performance

			audit report and the outstanding balance is Nu. 1,748,938.00
Mr. Raj	100,000.00	2016	Bumthang Consumer fair
M/s. National Polymer Group (Bangladesh)	55,000.00	2017	8th Bhutan Construction Expo
BCCI Canteen	4,800.00	2017	Out of Nu.52,800.00 of rent receivable and penalty, Nu.48,000.00 recovered subsequent to issuance of draft performance audit report and the outstanding balance is Nu.4,800.00
Total	1,908,738.00		
<i>Source: BCCI</i>			

As can be seen from the table 7, BCCI had not recognized an amount of Nu.1.908 million from four parties.

Program Implementation Paper (PIP) was signed between BCCI and local consultants for the trade fairs. Generally, the PIP agreement states that in case of any problem with the collection from the participants, the consultants shall be responsible for settling the payments. The agreement also states that 50% of the total fees shall be paid to BCCI on submission of the list and remaining and 50% five days prior to commencement of the fair. It was revealed, that PIP agreements were not implemented by the BCCI management. BCCI accepted the international participant M/s Alpha Associates without even receiving 50% advance.

It was also noted that work was repeatedly awarded to M/s Alpha Associates despite failure to pay stall fees to BCCI. The consultant could not pay Nu. 620,840.00 since 2013 but his services were again availed in 2017.

The PIP did not include penalty clauses for late payment. The management had not considered the terms of PIP seriously in terms of their legal strength and future implications.

Similarly, rental income on account of BCCI canteen to the tune of Nu.52,800 was not recognized in the accounting records of BCCI. As per Clause 3 of the lease agreement between the Canteen Operator and BCCI states, "*the lessee was required pay rent for the property described for the sum of Nu.4000 only per month. The lessee shall pay the above rent before or on the 5th day of the following month, failing which will be charged 10% penalty for the delayed rent for that particular month. If the lessee fails to pay the rent continuously for 2 months, then the lessor shall have right to terminate the lease agreement without notice.*"

However, the agreement signed between BCCI canteen and BCCI management was not implemented. The canteen operator did not pay the rent for the year 2017 and no actions were taken thereafter.

The instances as enumerated hereinabove clearly indicated lack of follow-up and recovery processes initiated. It is also case of dereliction of duties and management apathy right from the top management till the operational level staff. BCCI is already under considerable stress financially and yet not exercising due care in recognition and follow-up of its revenue.

BCCI responded that, the management has been following up with event partners to resolve the matter within the provisions of the relevant document executed with partners.

The management stated that after decisions of the 104th executive committee meeting, they followed-up with M/s Alpha Associates and had recovered Nu. 180,000.00 as on date of audit exit meeting. It stated that the dues receivable from the Canteen (Nu.48,000.00) have been fully recovered (attached the money receipt issued)

It was also stated that written commitment from the partner to settle the dues within 2018 had been obtained.

BCCI responded that it will henceforth strictly abide by the provisions of the PIP. It was stated that the 104th Executive Meeting has also directed the management to make all these agreements legal by notarizing it.

It was stated that the pending due with M/s National Polymer Group shall be fully recovered and accounted. (For details refer Appendix I)

3.2.1.6. Unsystematic printing, record keeping and custody of revenue receipts

Receipt books are important cash-value documents and it needs to be managed in a systematic manner. It is important to have proper controls over printing, authentication, recording and keeping safe custody of the receipts. The system of receipt book management is lax in BCCI.

Procurement division at the head office is responsible for printing, issuance and custody of money receipts. However, it was noted that records of printing and proper stock registers were not maintained owing to which RAA could not get ready data pertaining to stock of receipt books both in BCCI head office and regional offices. RAA had to undertake the physical verification to arrive at the figures of receipts printed, issued and balances thereof.

For instance, there are no established system of transportation and acknowledgement of receipts between the regional offices and the head office. Sometimes the receipt books are sent through public transport buses without any details as to the number and date of transportation. There was no acknowledgement of receipt by the regional offices concerned.

The procurement division at the head office issues the number of receipt books as requested by the regional offices concerned. There is no stock taking at the financial year end too. There is also no logical sequence in printing of the money receipts. Some serial numbers are repeated in multiple years.

Further, receipt books lack security features which creates room for printing fake books.

In absence of a definite revenue base, enforcing control on receipts is the only option to stop any form of revenue pilferage.

BCCI responded that enforcement of control mechanism on official receipts for avoiding possible pilferages is fully acknowledged.

To bring in proper system, the BCCI stated that it shall:

- **Devise proper numbering system possibly with security features**
- **Maintain proper record/acknowledgement for reference**
- **Adopt safe mode of delivery system**
- **Designate dedicated staff for safe custody, issuance and maintaining proper records.**
- **Adequately groom personnel handling this responsibility. (For details refer Appendix I)**

3.2.1.7. 19 booklets of unused money receipt missing

RAA conducted a physical verification of the money receipt books from 2013 to 2017 of all the five regional offices and head quarter. Initially a total of 37 money receipt books were found missing. However, after the issuance of draft audit report, 18 money receipt books were traced leaving as balance of 19 money receipt book still missing as detailed in the table 8:

Table 8: Summary of money receipts printed, issued and balance thereof;

Year	Opening balance	Printed during the year	Total	Issued	Closing balance	Missing receipts
2013	03	100	103	93	10	37
2014	10	130	140	121	19	
2015	19	150	169	147	22	
2016	22	150	172	72	100	
2017	100	150	250	77	136	
Total	154	680	834	510	287	37**

Source: BCCI, Joint physical verification report

**Subsequent to issuance of draft report 18 receipts were traced out leaving a balance of 19 books still missing

BCCI had printed 834 receipt books (including opening balance), of which 510 had been used and there was a balance of 136 books as per joint physical verification undertaken on 13.04.2018.

Control procedures are generally lacking in printing, issuance and custody of receipt books. There were records of stock taking on a periodical basis, but it was ineffective as the stock balances were incorrect. Procurement section under GAD was manned by two staff both of whom do not have relevant qualifications for the job. Mr. Dorji Wangchuk is cultural officer by designation and Mr. Tshering Wangchuk is a technician. It must be because of irrational deployment of staff to the procurement section and lack of monitoring of their works by the supervisor (Dy. Secretary General GAD).

By nature, receipt books are cash value documents and susceptible to fraud and corruption. Therefore, there is an imminent need to institutionalize a system of check and balance on the printing, issuance and balances of receipt books.

In the response, subsequent to two meetings (exit meeting on 24 July 2018, another meeting in RAA office on 30 July 2018) **BCCI stated that further course of action was undertaken as enumerated below:**

- **Out of 37 missing money receipts, 16 money receipts book was found and verified by the relevant official from RAA before the exit meeting. Two additional money receipts books was found and submitted to RAA for verification on 30 July 2018.**

- *The office did a major search within the head office including all the staffs on 28 July 2018 which will be continued until resolved.*
- *As resolved, the office shall further conduct a major search in the regional offices.*
- *A notification in this regard has already been submitted for publication in Kuensel as a measure to control any misuse.*
- *Management expressed that there is no breach of trust on the responsibility delegated to dealing official in keeping proper records, however, due to lack of proper store space the receipt might have been misplaced.*

The BCCI management stated that the maintenance of accounts of issuance of money receipt books (issues and receipts) shall be strictly and vigilantly administered as per the job description of the store in charge stipulated under his job description in the Organizational Structure 2018. (For details refer Appendix I)

3.2.2. Budgeting, Expenditure management and related observations

There are issues pertaining to budgeting system and imprudent expenditures in BCCI. The issues are as detailed hereunder:

3.2.2.1. Absence of proper budgeting processes and systems

The budget process essentially involves determination of resources and their uses to attain the organizational objectives. A primary task of budgeting is to estimate the level of resources that will be needed in the future to support the activities of the organization. It helps in identifying and assessing alternative ways that resources could be used more effectively to accomplish a given set of goals.

BCCI prepares annual budget proposal every year based on the projected revenue and expenditure. Each year BCCI reports revenue collections, expenditure for the current year and budget projections for the subsequent year in the Executive Committee Meeting and Annual General Meeting. On review of related documents following anomalies were observed:

- a. There were no established guidelines for preparation of the budgets and lines of reporting and accountability for exercising budgetary controls.
- b. It was revealed the budgets proposed were neither endorsed by the appropriate authorities nor executed as proposed.
- c. Budgetary controls and monitoring if any were not on record.
- d. There was no evidence on allocation and prioritization of budgets for the activities of the organization in line with its primary mandates. For instance, BCCI had received Nu.42.75 million between 2013-17 from the government of which only 18.71% were spent on SAARC Chamber of Commerce and Industry activities and remaining 81.29% of funds were not allocated for priority activities and it was used to meet general operational expenditures.
- e. Representatives of the regional offices were not involved in the budget discussions. It is quite important to engage them since they are the ones who

knows the practical difficulties and responsible to execute the plans in the regions.

- f. Currently, the regional offices are required to submit monthly budget requisitions to the head office. The requirement of submitting monthly budget requisition was found impracticable. This requirement is repetitive and unnecessary.

Given the current scenario, BCCI need to institutionalize a proper system of budgeting. It will help in prioritizing and utilizing the limited financial resources in the focus areas to create desired impact.

BCCI responded that, it conducts in-house discussion including BCCI regional representatives to prepare budget for annual work plan and present to Executive Committee for endorsement at Annual General Meeting (AGM). However, it was stated that BCCI fully acknowledged the observation made by RAA that it does not have proper guideline for preparation of budget. The BCCI stated that it will include budgeting guideline in the financial manual that would be followed consistently for future purposes. (For details refer Appendix I)

3.2.2.2. Lack of uniform recording and reporting of accounting data between head quarter and regional offices

Review of recording and reporting accounting data, revealed that regional offices do not have a uniform system. The five regional offices maintained different methods of financial recording and reporting of accounting data. Bumthang, Gelephu and Phuentsholing regional office maintains manual cash book system to record the daily operational expenditures. Monggar and Samdrup Jongkhar maintain Microsoft excel to record its daily operational expenditures.

The focal person at the head quarter reviewed the documents through the monthly submission of the expenditure details of the regional offices and did not conduct any authentication of the accounting records and expenditures.

The reports submitted by the regional offices presented some errors in accounting classification, because of difference in recording methods. The accounting classification of the same expenditure varies from one regional office to another. BCCI management had not undertaken;

- a. Review and follow up on the variances and differences in the reporting formats;
- b. Routine verification of financial transactions such as reconciliations, actual verification of the accounting systems maintained by the regional offices and status report of the expenditures.

The lack of uniformity in the recording and reporting of accounting information could be because of lack of direction from the management and lack of efforts from the focal person responsible for consolidation of the accounting records.

Should there be a uniform recording and reporting system of accounting data in all the offices of BCCI, it would be easier to consolidate the accounting data. It would also reduce the risk of misstatement and accounting errors.

BCCI responded that, in absence of centralized accounting system, there is possibility of variances on the account heads maintained in the head office and regional offices.

It stated that henceforth, BCCI shall put in place standard accounting guidelines and prepare uniform reporting format for all regional offices as recommended by RAA. (For details refer Appendix I)

3.2.2.3. Substantial and uneconomic expenditure on hospitality and entertainment

As discussed in various sections of this report BCCI is constrained by dearth of resources and was facing financial distress. BCCI management should have exercised prudence over non-essential expenditures.



However, on review, it was revealed that BCCI had incurred substantial amount of expenditure on hospitality and entertainment. Review of expenditure data for 2015 - 2017 revealed that BCCI had spent about 70% to 80% of its revenue from membership fees of the five regional offices on hospitality and entertainment as can be seen below:

Table 9: Summary of expenditure on hospitality and entertainment

Hospitality and Entertainment	2015	2016	2017
Events account	1,526,452.50	2,554,896.26	1,806,511.22
SAARC CCI account	517,709.78	112,824.00	399,170.64
Secretariat account	1,621,848.60	1,675,912.80	2,416,297.25
Total	3,666,010.88	4,343,633.06	4,621,979.11
Total membership fees	5,203,855.00	5,321,200.00	5,477,550.00
% of total membership fees	70%	82%	84%

Source: BCCI

BCCI incurred Nu.3.66 million in 2015 to Nu.4.62 million in 2017 on hospitality and entertainment expenditures. It can be deduced hereby that almost all the membership fees were used up for hospitality and entertainment. Most of the expenditures were found unnecessary and avoidable. It is also showing an increasing trend over the years.

If prudence is not exercised by reducing and even eliminating unfruitful expenditures on hospitality and entertainment, it could jeopardize and deteriorate the financial health of the organization.

BCCI responded that, it entertains ad-hoc programs and Government delegations which amounts to substantial spending on entertainment and hospitality. BCCI stated that, such ad-hoc programs are often imposed on BCCI by the government whenever foreign government delegates with business itinerary visits the country and are often unavoidable.

It was responded that the Chamber is also obliged to be mindful about the reciprocity element while considering hospitality and entertainment of guests

and participants particularly from the region and from nations that the Chamber has established formal relations with such as counterpart chambers.

BCCI however stated that as recommended by RAA, they shall be guided by the financial manual once it is put in place. BCCI also assured that due diligence shall be applied while considering accommodation of the ad-hoc programs. (For details refer Appendix I)

3.2.3. Procurement and irregularities thereof

BCCI had availed the services of events managers, restaurants and the BCCI canteen during the period under review. There were various irregularities observed about procurement of these services as detailed in the following paras:

3.2.3.1. Irregularities in direct award of event management works to M/s Druk Events amounting to Nu. 14.48 million

BCCI has conducted 25 trade fairs from 2013 to 2017 generating revenues of Nu.116.25 million. Until 2015, the construction of stalls for the events were provided to M/s Norling Events as it was the only professional event management company that could deliver such services.

In 2015, during the 2nd International Agri-flori Expo, M/s Norling Events could not complete construction of 80 out of 260 stalls. By the mid of 2015, M/s Druk Events also came into business and the remaining construction works were completed by M/s Druk Events.

From the letter dated 7th December 2015, written by the Managing Director of M/s Druk Events addressed to Secretary General, BCCI, it transpired that some exchange of favours between M/s Druk Events and BCCI had happened. The letter proposed that M/s Druk Events would take up all the events and fairs for the year 2016 in exchange for Nu. 468,300.00 receivable by M/s Druk Events for 2nd International Agri-Flori Expo conducted in 2015 from BCCI. In response, the event committee under the Chairmanship of the Secretary General decided to award the works of Trade Fairs for 2016 directly to M/s Druk Events without following due processes required by PRR 2009. All works for 2016 and 2017 were awarded to M/s Druk Events without tendering.

As BCCI was guided by the provisions of the PRR 2009, it had to undertake competitive bidding process since there were number of event management companies capable of undertaking the work.

Further, instead of negotiating on reduction of rates, BCCI had paid increased rates for stalls constructed for 13th SARRC trade fair from Nu. 8000 to Nu. 10,000 per stall.

The focal person of the events imposed 10% penalties for delay in construction of Bhutan Education Fair stalls amounting to Nu. 730,160.00, on 9th April 2017. However, BCCI management reduced the penalty to 5%.

As transpired from letter No. BCCI/GAD-01/2015/1517 date: 12/09/2015, the event division was responsible for preparing and calling the quotation for construction of the stall during the events (Trade fairs/exhibition) in close consultation with Deputy Secretary General (GAD). The construction of stalls for 2016 and 2017 were neither

procured as per the requirements of the acquisition threshold of PRR 2009, nor did BCCI management initiate tendering of the installation works.

BCCI responded by accepting the procurement lapses but asserted that there was no fraud and corruption associated with the award of work to M/s Druk Events.

They stated that, the work for construction of physical facilities was based on the number of stalls confirmed in the initially planned period. M/s Druk Events built the structure, but it was stated that BCCI could not fill up the stalls due to cancellation of participation by the companies from India. The cost of construction to be paid to M/s Druk Events was Nu. 468,300/- which BCCI stated could not be raised fully from the stall fees, as almost all the stalls remained empty during the event. Overall, it was stated that this expo was totally a failure.

BCCI stated that, M/s Druk Events offered to waive off construction charges for the 2nd International Agri-flori Expo against solicited consideration of awarding the firm with one-year contract for 2016 at the same rate quoted for 2nd International Agri-flori Expo.

BCCI stated that, another one-year contract extension request was received from M/s Druk Events with an offer to execute the works at the same rate quoted for 2016. It was stated that the matter was discussed in the management meeting and felt that the BCCI benefited working with M/s Druk Events in terms of services & costs. It was stated that considering the experience, the committee strongly felt that floating open quotation may result in increase in the rates and chances of forming syndicate as there are only two event management firms in Bhutan. It was stated that, based on that analysis, the committee agreed to award the contract to M/s Druk Events for the development of infrastructure for the year 2017.

About increased rate paid for 13th SAARC Trade Fair, BCCI stated that it had considered increment only for 150 stalls hired from India and rest were as per agreed rate of Nu. 8,000.00

BCCI stated that, since majority of the structure components got damaged by the heavy snowfall in RENEW fair, it affected in timely construction of structure for BCCI fair. It was stated that, BCCI levied 10% penalty as per terms of contract. Considering the devastating loss due to snowfall that the firm which happens to be one of BCCI members, had to bear, the event committee upon a brief verbal consultation agreed to levy 5% penalty for breaching the contract agreement.

It was stated that, as far as BCCI was concerned, there was no engagement of fraud or corrupt practices neither the event committee had any kind of inclination that such a consideration would be construed as corruption. (For details refer Appendix I)

3.2.3.2. Direct award of services (Food and lodging) amounting to Nu. 2.45 million

As per clause 4.2.5 of the procurement rules and regulations 2009, direct contracting shall be applicable only in purchases to the maximum of Nu.0.02 million in the day-to-day administration amongst others.

BCCI availed catering services during the Trade Fairs. Most of these services were directly awarded to some hotels and restaurants. It was revealed, that food and lodging worth Nu. 2.449 million were procured directly without following a proper tendering process. In all the instances the value of the contract was more than Nu.0.02 million.

The details of the expenditure are mentioned in Table 10;

Table 10: Direct award of catering services

Sl. No	Particulars	Amount	Remarks
1	Hotel Osel	210,616.00	Dinner during 13th SAARC trade fair and Bhutan education fair
2	Ri Rab Villa	348,300.26	serving lunch to BCCI staffs and other guest, providing food and lodging for regional conference
3	Garuda Inn	128,832.00	Serving tea, lunch, refreshments and dinner
4	Termalinca Resort	336,100.80	Dinner
5	Dhensa	527,902.00	Lunch and dinner
6	Tendrel Expenditure	860,033.00	Tendrel expenditure for President and 2 Vice President
7	Seday Kitchen	36,800.00	Refreshments
Total		2,448,584.06	
<i>Source: BCCI</i>			

On verification of the payment vouchers, the bill rates of the above-mentioned hotels/resorts are relatively high and there were no records of negotiations undertaken and due diligence exercised.

For instance, during the tendrel ceremony of President and 2 Vice-Presidents the lunch was directly catered from Sampheling Catering Unit for 550 people at 1000 per head. Consequently, BCCI had to pay out Nu. 550,000 for lunch and Nu.110,000 for Service Charge and tax.

Such direct awards impeded soliciting economical rates and value for money in procurement of catering services. Since the expenditure on hospitality and entertainment was substantial, the drain on the limited financial resources of the organization is huge.

This has apparently happened due lack of capacity in the procurement section which is manned by two staff with mostly irrelevant qualifications.

BCCI responded that, most of the programs in BCCI were conducted on an ad-hoc basis and with limited time to call for quotation, the logistics had to be arranged at available and appropriate venue. It was stated that during the trade fairs or events, the chamber received delegation with high profile and accordingly the chamber had to arrange the programs in standard hotels. BCCI stated that it negotiated the rate with the service providers through verbal communication.

BCCI stated that, as recommended by RAA, the BCCI shall strictly follow the procurement norms once the new financial manual was implemented. (For details refer Appendix I)

3.2.3.3. Direct award of Vehicle Hire services to the tune of Nu.0.359 million

BCCI had hired vehicles for pick and drop of various guest and international delegates during Trade Fairs and Events. The works were directly awarded to various vehicle owners without following proper tendering process. The details of the works are mentioned in **Annexure II**.

The supporting documents did not clearly authenticate the payments made to the service providers. Most of the vehicle logs did not contain daily records of travels. In those claims, the service providers had claimed maximum of 610 KM for 4 days without any supporting documents. The vehicle owners had also claimed Nu.19 per kilometer, which is relatively high.

This had apparently happened due to lack of capacity of the staff of the procurement section. Moreover, BCCI did not institutionalize a procurement committee and systems for review of the works undertaken by the staff of procurement section.

BCCI responded that, while it had oversighted the norms of PRR 2009, it was driven by cost saving. It was stated that, the Chamber is in the process of drawing up its own procurement manual which shall guide future procurements. (For details refer Appendix I)

3.2.3.4. Improper award of BCCI canteen services

In 2012 BCCI invited quotations for office canteen services via print media and two bidders participated. Mr. Chungdu Tshering being the lowest evaluated bidder was awarded the contract for one year. After the completion of the duration the work was not tendered but passed on to Ms. Kelden Wangmo and further passed on to several canteen operators names if any were not on record. On 1st July 2016 the canteen operation works were passed on to current operator Ms. Karma Uden without calling quotations.

The canteen operator has written to BCCI stating that she wanted to operate from 1st July 2016 to 31st July 2018. From 2017 the rates of items were also increased without approvals from the BCCI management.

The procurement operations were irregular mostly resorting to direct awards not even taking initiatives to negotiate the rates. These has roots in the lack of proper procurement process or rules guiding the procurement activities and failure on the part of the Procurement section to exercise due diligences in discharging those activities. There is also clear indications of laxity and apathy on the part of the management to monitor the performance of the procurement section and deriving value for money in procurement operations.

BCCI acknowledged that the existing canteen services provider has been operating without following the proper procurement procedure. It was a lapse from the previous years and the trend continued. It was stated that, once the term of the current canteen operator expires, it shall ensure that proper procurement process be followed, and such lapses shall not be repeated in future. (For details refer Appendix I)

3.3. Implementation of projects and observations thereof

During the period 2013-2017 BCCI had implemented six projects as summarized hereunder:

Table 11: Summary of projects

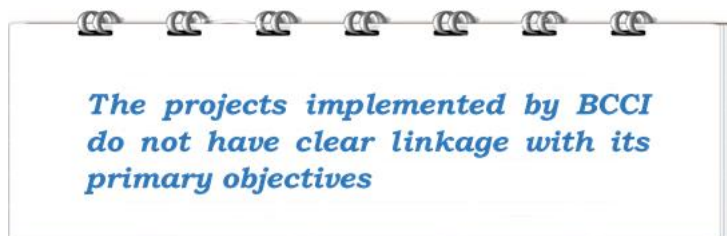
Sl. No.	Project Name	Donors	Fund	Term
1	Danish Federation of Small & Medium Enterprises (DFSME)	DANIDA	Dkk 1,002,492	Jan 2012-Dec 2014
2	FDOV (Sustainable Entrepreneurship and Food Security Facility)	Netherlands Enterprise Agency	1400, 000 Euros	Jul 2015-Dec 2019
3	Green Public Procurement(GPP)	Switch-Asia, European Union	136,063 Euros	Jan 2014-July 2017
4	SEID (Sustainable and Efficient Industrial Development)	Switch-Asia, European Union	94955 Euros	Jan 2012-Nov 2015
5	Micro and Small Enterprise Development Loan (MSE) scheme	BDBL	N/A	2017
6	ODTP (One District Three Product)	BCCI	3,541,905	N/A

Source: BCCI

BCCI had implemented these projects in collaboration with various agencies. The projects have not been as successful in delivering the results and creating impact as mandated towards private sector development. The discrepancies observed are detailed below:

3.3.1. Lack of clear linkage of project objectives with the objectives of BCCI

The projects implemented by BCCI do not have clear linkage with BCCI's primary objectives. The projects such as FDOV are focused on food security and One Dzongkhag Three Products (ODTP) is focused on agricultural product development and Green Public Procurement (GPP) on promoting sustainable procurement in the country. There were not much done for the existing members directly except the SME loan project which benefited the small and medium enterprises.



- a. For instance, FDOV based on multi-stakeholder project model, is primarily focused on milk supply chain development for Zindra Foods Private Limited, envisaged to benefit milk supplying farmers of Samtse and Chukha. This project was not slated to benefit its members.

Food security in the country is a national concern and it is the central theme of the 11th FYP. There are agencies responsible for implementation of the programmes. BCCI had work at hand to develop the capacity of its members instead.

- There are no direct benefits to its members except Zimdra Foods Private Limited, as of now as most of the Dairy Farmers Groups (DFGs) are already existent and been selling their dairy products in the market with technical backstopping from Department of Livestock.
- b. Green Public Procurement is another project which is focused on encouraging green features of consumption and procurement. Sustainable consumption and procurement is a national concern but there are relevant agencies of the government such as Ministry of Finance, Government Procurement and Property Management Division (GPPMD). This has very remote linkage with the primary objectives of developing the members of the private sector. There was no visible impact on the members of the private sector except advocacy.
 - c. One Dzongkhag Three Products (ODTP) was the flagship project undertaken by BCCI replicating the experiences of countries such as Japan, Thailand, China and particularly Nepal. In Nepal it was undertaken by Federation of Nepalese Chambers of Commerce & Industry (FNCCI). The objective to identify potential economic activities for 20 Dzongkhags which would enhance the rural income earning capacity and livelihood of the rural people. There is no direct linkage between this project objectives and needs of the members of the private sector. This too is a National concern and there are successful programmes such as One Gewog One Product (OGOP) under the aegis of Queens's project.

The lack of synergy of the objectives of the projects undertaken vis-à-vis mandates of BCCI and membership development, had happened due to lack of prefeasibility studies and proper impact assessment of such projects.

Should BCCI align its programs and projects upon assessment of actual needs of the members of the private sector and the mandates of the organization, it could accrue immediate and direct benefits to its members. Currently, BCCI is sustaining on the membership fees and there are little to no direct benefits to its members through such projects implementation.

BCCI responded that, it agrees with points raised by RAA that allies with OD finding of serious and adverse repercussions to the Chamber when senior level management staff were fielded in international/bilateral partnership grant projects on their payrolls entailing a full-time job disregard to in-house crucial multifaceted roles and responsibilities.

It was stated that, the activities undertaken by BCCI may appear like there is no linkage with the objectives of BCCI, if viewed strictly within the broad provisions of the Charter which was laid down nearly two decades ago. It was stated that the external agencies assessing the performances of the Chamber without considering the changes in the overall environment, national priorities and expectations in the present context may deter recognizing the additional efforts put by the institution.

As far as One District Three Products (ODTP) program is concerned, BCCI stated that it is aligned with objectives of the BCCI. It was stated that, its overall objective has a clear linkage with the Articles (2.2, 2.3 and 2.5) of objectives spelt out in the BCCI Charter. (For details refer Appendix I)

3.3.2. Unsuccessful pilot projects under One Dzongkhag Three Products (ODTP) initiative

The BCCI has initiated One District Three Product (ODTP) with the objective to identify potential economic activities for 20 Dzongkhags which would enhance the rural income earning capacity and livelihood of the rural people. The project engaged the rural population and considered it as one of the important partners for successful implementation of the ODTP programs. After finalization of Economic Resource Mapping (ERM) exercised in mid-2013, BCCI identified projects that can be implemented as pilot projects, 60 products were identified in 20 districts.

Total of Nu. 3,541,905 was mobilized and allocated for development of ODTP products with funding from various sources as tabulated below:

Table 12: Summary of ODTP funds vs expenditure

Particulars	2013	2014	2015	2016	2017	Total
Committed members	200000	945000	400000			1,545,000.00
DHI		400000	200000			600,000.00
BCCI				600000		600,000.00
Ministry of Agriculture			198000	274115		472,115.00
Kiwi Seedling sales			223700	101090		324,790.00
Total	200,000.00	1,345,000.00	1,021,700.00	975,205.00	-	3,541,905.00

Source: BCCI

Research & Policy Department initiated 5 progressive pilot products under the ODTP as follows:

1. Kiwi cultivation in Chasilakha and Wangkha in Chukha;
2. Cold Water Fishery in Haa;
3. Blueberry cultivation in Gasa;
4. Cherry Pepper in Tangmachu in Lhuntse; and
5. Asparagus cultivation in Gelephu.

As of 31st December 2017, BCCI has incurred Nu. 3,351,009.10 on five projects with 94.61% of the total funds exhausted.

RAA visited all the project sites except Blue berry cultivation in Gasa. From the site visits it was revealed that except cold water fishery, all the three projects were failing or have failed as enumerated below;

1. Asparagus project in Dolungang Gelephu was initiated in May 2016 by planting 24000 crowns in 2 acres by 3 households with investment of Nu. 96,000.00 for the crowns. The project as on date of audit (April 2018) was declared failed. The reasons cited for the failure was selection of unsuitable species of Asparagus crowns (Mary Washington). It was revealed that the species of

Asparagus was not suitable for sub-tropical climate of Gelephu. It is apparent that appropriate feasibility studies were not conducted.

2. Red Cherry pepper project was piloted in 2016 in Zhungkhar village in Lhuntse, where 16 households participated. It was projected to generate revenues in millions, but the production was not even close as detailed below:

Table 13: Forecasts vs actual performance of cherry pepper

Period	Projection	Actual performance
Year 1	980,000.00	6,800.00
Year 2	1,500,000.00	8,000.00

Source: Project Proposal, sales forecast in their Project Paper

The reasons cited were bad weather conditions and lack of rain fall. But the main reasons apparently were lack of monitoring, inadequate research and feasibility studies.



Picture 1: Wilting Cherry pepper plants

3. Kiwi cultivation project in Chasilakha and Wangkha in Chukha were started in 2016 with 1500 grafted saplings being planted at the cost of Nu. 314,168.00. The cultivation site in Wangkha is on tract, however the one at Chasilakha is not yielding fruits due to persistent hailstorms.



Picture 2: Leafless kiwi plants in Chasilakha

Although these projects are on a pilot basis it is nonetheless important to undertake proper prior studies. It was revealed that the ODTP was undertaken based on desk research.

It was revealed that the failures were mainly attributable to lack of prefeasibility studies and timely monitoring of the progresses.

BCCI responded that, as the pilot projects were in different phases of implementation, the one-time assessment in the field may not be enough to draw clear conclusions. It was stated that Timing of field visits may have also influenced on the overall observations made.

- **Asparagus pilot project:**

BCCI stated that, as reported in the observation, unsuitability of species is not the only factor for failure of the project. It was stated that, the heavy rain after the cultivation washed all the top soil and spoil the crowns. Therefore, the asparagus crowns could not generate any growth. It was stated that the species was selected upon recommendation of the District Agriculture officer.

- **Cherry pepper**

Regarding Cherry Pepper, BCCI stated that the bad weather condition was indeed the main reason for project not doing well. It was stated that the heavy hailstorm in the first year damaged the seedlings but could get some production from those plants which survived hailstorm and revived growth.

- **Kiwi cultivation**

It was responded that, Kiwi plants not yielding fruits at Chasilakha was not due to unsuitability of climatic condition. It was stated that, the plants did flower and started fruiting in same year as the plants of Kiwi Demo Farm at Wangkha but hailstorm damaged the plants. The progress at Chasilakha is also on track. (For details refer Appendix I)

3.3.3. High Portfolio at Risk (PAR) of Micro & Small Enterprise (MSEs) Development Loan Scheme Nu. 26.558 million

BCCI in partnership with the Bhutan Development Bank Limited (BDBL) initiated Group Guarantee lending and Saving Scheme (GGLSS). The main objective of the program was to cater the need of those micro small entrepreneurs who could not avail loans under the conventional banking systems and basically enhance the income generating capacity.

The Scheme was officially launched on 14th April 2010 in the BCCI regional office, Monggar and disbursed the loan to 14 clients of Monggar Dzongkhag with the ceiling about Nu.100,000.00 for each client at the interest rate of 10% for three years with collateral free and minimum of three members and maximum of five members in a group. The MoU for second phase was signed on 8th November 2013 with ceiling amount to Nu. 150,000.00, 12% interest rate and changed the name to Micro & Small Enterprise (MSEs) Development loan Scheme. The third phase of MOU increased ceiling amount to Nu. 300,000.00 with interest rate of 11%.

The terms and conditions of MSEs Development Loan Scheme requires overall MSEs loan to maintain PAR 90 days (Portfolio at Risk) of below 8.5% which is in keeping with the management compact with the Board, BDBL shall suspend the MSE loan or branch wise as the case may be, the moment the PAR 90 days exceeds the 8.5%.

As per the branch wise PAR report as of 31st December 2017, total of Nu. 118,147,498 were disbursed and overall PAR was 43.9%. The performance of loan in most of the Dzongkhags showed PAR above 8.5% as detailed in **Annexure III**. Loan portfolio for Pangbang showed 100% PAR which indicates that the loan portfolios are risky.

The default cases were mostly due to migration and closure of shops. In case of Bumthang, due to series of fire incident in Chamkhar town most of the clients were migrated to other Dzongkhags and few were not traceable showing PAR of 83.4%. Limited initiatives were taken by the BCCI to track migrant beneficiaries and report to BDBL.

It was revealed that BCCI and BDBL has not put in collaborative efforts in improving and enhancing the Micro and Small Enterprise Development Loan Scheme. If timely measures are not taken, the portfolios at risk (Nu. 26.558 million) might further deteriorate and become non-performing loans. Should this further deteriorate instead of enhancing the income generating capacity of the borrowers, it could jeopardize their solvency and be counter-productivity.

BCCI responded that, as recommended by the RAA, the BCCI along with the BDBL shall undertake rigorous monitoring and follow-up with defaulting clients to bring down the NPL to an acceptable level for the scheme to continue benefitting the MSMEs. (For details refer Appendix I)

3.4. Training and development of private sector entities and observations thereof

BCCI's primary mandate is private sector representation and development. But nothing significant is achieved in terms of private sector HR development even after three decades of operation. Several observations were made as discussed hereunder:

3.4.1. Lack of training needs assessment and gap analysis of private sector entities

BCCI Charter states that it shall promote private sector development through collective self-reliance base by harnessing complimentary, proposing economic policy mutually advantageous for socio economic development. As it claims, BCCI is the de facto apex body of the private sector entities that it represents. It assumed the responsibility of facilitating training and development of private sector entities. However, there were no data available on the needs and potential of the private sector from BCCI.

BCCI had not undertaken any studies so far to assess the needs of the members in the private sector. Without such studies as a basis, any trainings conducted may not address the gaps. It may not add value to the already existent talent pool in the private sector.

BCCI responded that, the training programs delivered for the private sector were mostly funded externally on which the institutional hold to undertake long term planning is limited. However, BCCI stated that it had been due diligent in assessing the short term needs of the enterprises for production and delivery of capacity building programs.

BCCI informed that as suggested by RAA, the BCCI instituted a dedicated wing within Business Support Department (Pvt. Sector HR division). One core

responsibility of this division would be to undertake training need assessment and gap analysis of private sector entities. (For details refer Appendix I)

3.5. Human Resource Management of BCCI and observations thereof;

Human resource management is a critical function in any organization. Human resource management of BCCI is governed by the provisions stipulated in BCCI Service Rules and Regulations 2015.

The following are the lapses and deficiencies observed in the HR management:

3.5.1. Lack of Human Resource Master Plan

Human Resource Management of an organization must be guided by HR masterplan which amongst others must be aligned with the organizational strategic plan and long-term HR needs of the organization.

On review of the HR management of the BCCI, it was noted that the BCCI do not have Human Resource Master Plan and strategies which is important to process the identification of current and future human resource needs for an organization to achieve its goals. BCCI had made efforts at Organizational Development (OD) exercises twice so far. OD exercises were conducted in 2009 and 2017 and reports were made. But these reports made no impact in terms of HR management as the findings of these OD exercises were not acted upon.

Without HR Master Plan, recruitment, retention and overall HR management will be without strategic focus. Strategies of HR management such as succession planning, capacity building, improvement of employee morale and ultimately retention policies shall flow from a HR master plan. For the effective achievement of its organizational objectives HR management is critical.

BCCI responded that, it acknowledges the need to have a HR master plan in place categorically on intended capacity building programs for the BCCI officials, but resource constraints is the main concern.

It was stated that, BCCI was working on private sector development based on private sector master plan adopted by MoLHR. (For details refer Appendix I)

3.5.2. Erratic and Irrational Submission of Performance Appraisal forms

Section 6.2 of the BCCI service rules and regulations states, “All employees shall undergo a performance appraisal with their immediate managers bi-annually. The first Staff Development Interview (SDI) shall be conducted in continuation of the development of the Annual Action Plan of BCCI in February and the second one approximately six months after e.g. in August or September. The first SDI shall involve evaluation of last year and set goals for the current year and the second shall focus on follow up and adjustment.”

However, performance appraisal system was not implemented as required by the BCCI service rules and regulations. It was revealed that the performance appraisals were undertaken irrationally, erratically and just for the sake of fulfilling promotion formalities and not implemented objectively as required. Some employees submitted performance appraisals but were not evaluated by their immediate supervisors. These instances are detailed in **Annexure IV** and some are highlighted as follows:

- a. Employees appraised their performances only for promotion and service regularization purposes.
- b. Some employees submitted and evaluated performance appraisals for multiple years at once. For, instance performance appraisal of Mrs. Sonam Wangmo (Adm and Finance Officer) for 6 years (2011-2017) was submitted and evaluated in 2017. This indicated that the annual targets were irrelevant and performance targets were not based on periodical deadlines.
- c. There were also situations where performance appraisal was not evaluated and rated by the immediate supervisor. For instance, Mr. Sangay Dorji (Regional secretary of the BCCI Regional office Phuentsholing) submitted his performance appraisal for the period but it was not even rated by the immediate supervisor.

These issues have arisen mainly because of lack of proper supervision and monitoring from the immediate supervisors. It also indicated sheer lack of regard to the established norms such as performance evaluation.

Without a proper performance appraisal system there will not be an objective measure to assess employee's performances.

BCCI responded that, although appraisal format has been adopted from the BSCR, proceedings and system to regulate was considered only during promotion purposes. It was stated that henceforth, the BCCI shall abide by the requirement as reflected in its Service Rule and regulations. (For details refer Appendix I)

3.5.3. Non-submission of tour reports on return from the official travels

According to section 12.12 of BCCI service rules and regulations, it states that *"It is mandatory for every employee to submit report within a week after his/her return."*

On the contrary, BCCI officials had not submitted tour reports from the official travels performed. The travel expenditure is a significant amount in the context of the limited financial resources of BCCI. Comparatively the staff of Business Promotion Division had more frequently travelled but they have never submitted tour reports.

The non-submission of tour report can increase the risk of irrational travel, wastage of resources and non-achievement of objectives of travels.

Therefore, there is a need to institute the system of submission of tour reports strictly as per the BCCI service rules and regulations. The need to submit tour reports can serve as a control measure in rationalizing travels and tours. It would ensure an output-based travels and official tours.

BCCI responded that, the HR has submitted tour reports of BCCI officials who underwent training programs through the secretariat fund. However, it was stated that program reports on trainings/meetings/workshops attended by any officials were not presented due to the reason that funding was all remunerated by organizer agencies. However, BCCI stated that as per the observation made by PA team, the BCCI shall ensure to maintain proper records/feedback. (For details refer Appendix I)

Chapter 4: Recommendations

Based on the deficiencies and shortcomings/ lapses identified under Chapter 3, RAA has formulated series of recommendations aimed at enhancing economy, efficiency and effectiveness in addressing operations of the BCCI. The recommendations presented hereunder are primarily drawn based on inadequacies in the enforcement and lack of policies and regulations by the BCCI.

1. Legal, policy and institutional systems

Although BCCI was in operation for more than three decades, it still does not have adequate legal, policy and institutional systems. RAA recommends the following that would strengthen the operations of BCCI.

1.1. Need for a legal recognition of BCCI

Currently BCCI lacks a legal basis for existence and operation. Its operations are not governed by any law as such and legally it is in a state of quandary. Going by the International good practices, there are business chambers which are governed by specific chamber laws like in Japan and Thailand. There are also chamber that are not regulated by specific chamber laws and are registered under other laws like in USA and Singapore.

There is an imminent need for BCCI to have a legal recognition so that it shall have legitimacy over operations such as representations, establishing institutional linkages, organizing trade fairs, membership fee collections and even the day to day operations. BCCI must insist on enactment of BCCI bill or get registered under Civil Society Organizations Act 2007 as directed by the Parliament. With a comprehensive mandate and legal teeth, BCCI will have a renewed sense of direction and purpose in pursuit of its objectives. In fact, having a comprehensive legal mandate can have an enormous impact on resolving most of the issues reported herein.

1.2. Need to revise and update BCCI Charter

If Chamber Bill do not get enacted as an Institutional legislation, then BCCI must update its Charter. Operations of BCCI are governed by the BCCI Charter. However, the Charter has not been updated or amended with change in the legal and policy environment. The BCCI charter must be comprehensively amended with specific focus on the following:

- ▶ Outdated provisions such as article 8.2, 10.1.1, 11.3.4 which conflict with the extant laws of the land;
- ▶ There are no details of election process of President, Vice-President and regional representatives;
- ▶ Terms of President, Vice-Presidents and other members are increased to five years without amendment of the BCCI Charter which states that it is only three years;
- ▶ BCCI Charter do not have terms of references of Vice-Presidents;
- ▶ BCCI Charter also need to include well-defined organization structure with clear lines of reporting; and

- ▶ BCCI Charter do not spell out anything on the working modality and processes between BCCI and sector specific associations.

BCCI Charter lacks adequate details and the provisions as mentioned above. Therefore, it is recommended to amend the BCCI Charter to address (not limited to) the issues.

1.3. Need to institutionalize strategic planning framework

BCCI do not have a documented strategic and long-term plan. BCCI undertakes an annual planning exercise which is largely confined to annual programmes and activities. The programmes and activities either provide a remote or no linkage with the BCCI's objectives stated in its Charter.

As a relatively large institution, it is important to chart its direction as to where it wants to position within a given time frame and with given resources. It is recommended, that BCCI start a strategic planning process by mapping its resources against its long-term objectives. The annual plans must be drawn from the strategic plans and the individual work plans must provide clear linkage with annual plans.

1.4. Need to draft its own Financial Manual governing its financial operations

Currently BCCI do not have its own financial manual. It is following the RGoB financial rules and regulations pertaining to financial operations. Although broad principles of financial propriety and prudence could be replicable, specific practices and accounting treatments may not be applicable. Operations of BCCI are different from that of a government entity since the organizational structure and goals are different.

It is therefore recommended to draft a financial manual that suits and shall regulate the financial operations of the organization.

1.5. Internal audit function need to be instituted

BCCI do not have an independent internal audit function instituted so far. System of supervision and monitoring is generally lacking in BCCI due to which there were several issues on financial impropriety. Status of funds and revenues of regional offices including stock of revenue receipts were not monitored. There are instances of missing records of money receipts, which highlighted the absence of proper control procedures in printing, issuance and custody of cash value documents such as money receipts. With internal audit function, management have the option to take timely corrective actions and reduce risks of fraud and misstatements.

It is therefore recommended to institute an internal audit function which should be independent of the management, reporting directly to the President.

2. Implementation of projects and private sector development

BCCI had undertaken and implemented six projects during the period 2013-17. Following recommendation are made that is intended to improve the execution and make desired level of impact.

2.1. Need to develop systems of assessment and protocols before undertaking projects

Most of the projects had remote or no linkage with the mandates of BCCI, thereby failing to make desirable impact. BCCI must amongst others:

- ▶ Properly assess any projects that they undertake individually or in partnerships with others. BCCI must ensure that they undertake projects that are in sync with its objectives and having direct linkage in promoting its own mandates that can deliver value and benefits to its members; and
- ▶ Undertake in-depth researches and prefeasibility studies before implementing projects such as ODTP.

BCCI must ensure that the projects that it undertakes has direct linkage with the mandates and can deliver benefits to its members of the private sector.

2.2. BCCI must undertake training needs assessment of the private sector entities

BCCI needs to step up its efforts in terms of HR development of the private sector. BCCI do not have data on the trainings needs of the private sector entities to begin with. BCCI must undertake a training needs assessment of the private sector entities with special focus on the medium and small enterprises which do not fall under the jurisdiction of any other sector specific associations. BCCI must accordingly design courses that can address these needs.

3. Financial operations

There are several irregularities and systemic issues of financial nature being observed. RAA recommended the following, intended to improve the financial operations.

3.1. Long term financial sustainability of BCCI must be reviewed

Operations of BCCI are financially unsound. It is merely surviving on the government grants. Annual membership fees collected are not able to cover the pay and allowance expenses of the BCCI secretariat. The regional offices are into deficit spending. Trade fairs are expenditure intensive and net revenues generated are meagre.

There is an impending risk of financial unsustainability given the current practice of financial management. Therefore, BCCI must review its long term financial sustainability and devise strategies to enhance current revenue base and identify new sources of revenue. There is also a need to review the operation of regional offices since they are expenditure intensive.

3.2. Need to strengthen controls over revenue management

Revenue management practices are weak in BCCI. There are issues of inadequate monitoring over printing, usage and custody of money receipts. In absence of defined membership base, it is important to strengthen controls over collection of membership fees. Given poor revenue performance as against a huge potential there are risks of revenue pilferage through current system of management.

In view of the issues observed BCCI must:

- ▶ Device ways and means of authenticating and adding more security features on money receipts;
- ▶ Institute and strengthen controls over printing, usage and custody of revenue/money receipts;
- ▶ Monitor collection, deposit and remittance of revenues from the regional offices within defined periods of time;
- ▶ Trace out missing money receipts (19 booklets)

It is therefore recommended to institute the controls and systems to enhance revenue management of BCCI.

3.3. Need to strengthen systems of revenue recognition and follow-up mechanism on trade fair revenues

BCCI had not recognized receivables amounting to Nu.1.908million from four parties from various trade fairs between 2013 and 2017. BCCI must institute a system of accurate recognition of revenue and timely follow-up processes for revenues from trade fairs. It must expedite the recovery of Nu.1.908 million from the debtors. There is also a need to review the PIP agreements to include penalty clauses amongst others with the view to encourage prompt payments.

3.4. BCCI should strengthen budgeting system and processes

BCCI do not have a proper system of budgeting and its execution. It is recommended to strengthen budgeting systems and processes of BCCI to enhance its performance in achievement of the organizational objectives through:

- ▶ Documentation of budget processes and systems;
- ▶ Engagement of representatives from regional offices in the budget discussions; and
- ▶ Clear lines of reporting for exercising budgetary controls, monitoring and adherence to budgetary norms.

3.5. BCCI need to exercise prudence over infructuous expenditure

BCCI had not exercised prudence over expenditures in general. It incurred substantial expenditure on hospitality and entertainment during the period 2015-17. Hospitality and entertainment expenditures exhausted more than 70% membership fees collected from all regional offices combined. BCCI must take initiatives to exercise prudence over infructuous expenditure and reduce hospitality and entertainment expenditure. BCCI is recommended to exercise judiciousness in making expenditures that are unnecessary and uneconomical in nature including hospitality and entertainment.

3.6. Need to strengthen procurement function of the BCCI

BCCI had not undertaken open and competitive bidding process in the procurement of services such as trade fairs, catering and vehicle hire resulting in uneconomical expenditures. BCCI must specifically undertake the following:

- ▶ Constitute procurement committees as required by PRR 2009;
- ▶ Depute staff with appropriate qualifications in the procurement section;
- ▶ Exercise due diligence in award of contracts for events management and trade fairs;
- ▶ Undertake competitive bidding processes for procurements where appropriate to derive value for money; and
- ▶ Immediately recover the outstanding rental charges of Nu.4800 from the canteen operator.

BCCI must ensure stringent and improved compliance to the requirements of procurement norms in procuring services such as event management, catering and canteen services.

4. Human Resource management

With 43 employees as on date of audit (April 2018), BCCI is relatively a large organization. HR management is an important function in the achievement of organizational goals. Irregularities are observed in HR management of BCCI. Following recommendations are made to improve and institute systems in HR management.

4.1. BCCI must draw HR master plan

Currently BCCI do not have HR master plan. HR master plan must align with the strategic plan that shall determine the organizational vision and HR requirements to fulfil it.

It is recommended to draw HR master plan which amongst others should address, policies such as HR strength for a given time frame, succession plans, requisite capacities, retention policies etc.

4.2. BCCI must ensure compliance to BCCI service rules and regulations

HR operations of BCCI is guided by its service rules and regulations. There were several issues of non-compliance to various provisions of the service rules and regulations. BCCI must strictly enforce provisions of service rules in the following areas amongst others;

- ▶ Objective performance appraisal systems; and
- ▶ Submission of tour reports for official travels.

BCCI management must take lead role in enforcement of the provisions of its service rules and regulations.

Chapter 5: Conclusion

Private sector is recognized as the driver of Bhutan's economic growth and development since the 9th FYP. But the sector had been punching below its weight so far. With adequate mandates, institutional systems and efficient management, BCCI could be the main partner for the government in its efforts towards private sector development and trend setting.

BCCI is currently impeded by lack of comprehensive legal mandate even to exist and operate. There is lack of legitimacy over collection of revenue. This state of legal quandary is compounded by inadequacy of institutional systems and management impropriety over financial operations. RAA observed lapses and deficiencies regarding its operations such as revenue management, prudence in expenditure, execution of projects, training and development of private sector and its own HR management. The audit covered almost the entire gamut of operations of BCCI.

BCCI Charter is not updated and there was no separate financial manual to guide its financial operations. There were no strategic planning frameworks and budgeting system. The existing control systems were inadequate without internal audit function.

The governance and oversight of revenue management was weak. The operations of BCCI were financially unsustainable, and it was merely sustained by the government grant provision. The system of printing, usage and custody of money receipts was not systematic. BCCI had made imprudent and infructuous expenditures such as hospitality and entertainment.

BCCI had generally not undertaken competitive bidding in procurement of various services such as event management, caterings and vehicle hire. Most projects undertaken by BCCI so far has remote or no linkage with its mandates. There were also issues of inefficient HR management.

The deficiencies and shortcomings/lapses were mainly caused by lack of clear legal mandates, well-defined institutional systems and lack of timely supervision and monitoring by the immediate supervisors. The issues also stem out of non-compliance to extant rules and regulations such as BCCI services rules and regulations. Due to all the issues as discussed above BCCI's contribution towards development of private sector is only remotely visible.

Therefore, BCCI must work towards gaining an adequate legal mandate which shall provide a renewed sense of direction and focus towards developing private sector. BCCI is recommended to address the lapses and deficiencies both at the institutional level as well as individual levels. BCCI must take necessary steps to correct deficiencies in revenue management, procurement and exercise prudence in spending. These recommendations are made with the hope of enhancing and improving the institutional systems of BCCI, ultimately enabling it to deliver its mandates.

