

Exhibit - B

Audit Report: Performance Audit Report on Food Corporation of Bhutan Limited (AIN 14129)
Schedule of Audit: 10th April 2016 – 15th July 2016
Date of Issue: 06th January 2017
Period covered by Audit: 2011 to 2015
Name of Agency: Food Corporation of Bhutan Limited

No.	Recommendations	Action taken (as per the detailed action plan/report submitted)	Status/progress of corrective actions taken by the auditee agency	Reasons for non-completion of action
4.1	<p>Government should provide clarity in the powers and responsibilities of authorities</p> <p>Ambiguity in roles and responsibilities among the oversight authorities would create confusion in policy implementation. Overlap in the powers and responsibilities of governing authorities and conflicting provisions in the legislations and guidelines would result in creating confusion, and thus resulting in conflicting direction and poor accountability. The powers, roles and responsibilities of the Ministry of Finance as the shareholder, Ministry of Agriculture & Forests as the portfolio ministry and the Board of Directors as the governing body should be clarified and misunderstandings sorted out. This will enable the FCBL to function with clear direction and purpose in fulfilling its organizational goals. Conflicting rules and regulations also need to be addressed to provide each authority with clear jurisdiction on the governance of the FCBL.</p>	<p>The Action Taken Report of the FCBL was received vide letter No. FCB/F & A/20/2017/428 dated 04/07/2017.</p> <p>The Food Corporation of Bhutan Limited (FCBL) reported that the MoF as the portfolio ministry along with MoAF as the sector ministry must provide clarity on the powers and responsibilities to the governing authorities and FCBL management by providing clear non- conflicting directives and authority along with responsibility, as it plays critical role in the good governance and policy making front and avoids ambiguity.</p> <p>Regarding the timeframe the FCBL had intimated to ask the MoF and MoAF.</p>	<p><u>Not Implemented</u></p> <p>The RAA had intimated FCBL and the concerned Ministries vide letter No. RAA-HQ (FUCD-08) 2017/1973 dated 12/7/2017 to provide the latest updates on the status of recommendations.</p> <p>Although the RAA did not receive any further comments from the concerned portfolio Ministers it was informed during discussion with the Public Accounts Committee on 9/10/2017 that the FCBL had already informed the MoF and MoAF regarding the issue.</p> <p>However, It was reported that the concerned Ministries have not intimated action taken, if any, regarding the issue.</p>	<p>The MoF as the portfolio ministry and MoAF as the sector ministry are to provide clarity on the powers and responsibilities.</p> <p>While RAA notes the action by FCBL, the observation has been categorized as not implemented as actions taken, if any, by the Ministries are not intimated to RAA.</p> <p>During the Meeting with the Hon’ble Members of PAC on 9/10/2017 it was agreed that the PAC shall write to the concern Ministries on the actions taken.</p>

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<p>4.2</p>	<p>Board of Directors should be provided with adequate autonomy to effectively discharge its functions as the governing body of the FCBL</p> <p>As provided under the Companies Act of the Kingdom of Bhutan 2000 and the Public Finance Act 2007, the Board of a SOE is the highest decision making authority with its members nominated and appointed by the Royal Government. The independence and authority of the Board is also critical in providing a clear direction and ensuring that the organizational goals is achieved. Therefore, the adequate autonomy to effectively discharge the functions of the governing Board of the FCBL should be ensured and the powers for determining employees’ remunerations should be clearly sorted out in cognizance of the provisions of the relevant legislations.</p>	<p>The FCBL responded that <i>“the Board of Directors as enshrined in the Companies Act, 2016 and Public Finance Act, 2007 and in compliance to all guidelines issued from time to time by the MoF to effectively discharge its functions as the governing body of the FCBL, must be provided with the legitimate authority and independence for appropriate and effective decision-making and functioning of the company.”</i></p>	<p><u>Not Implemented</u></p> <p>The RAA had intimated FCBL and the concerned Ministries vide letter No. RAA-HQ (FUCD-08) 2017/1973 dated 12/7/2017.</p> <p>Although the RAA did not receive any further comments from the concerned portfolio Ministers it was informed during discussion with the Public Accounts Committee on 9/10/2017 that the FCBL had already informed the MoF and MoAF regarding the issue. However, It was reported that the concerned Ministries have not intimated action taken if any regarding the issue.</p>	<p>The MoF as the portfolio ministry and MoAF as the sector ministry are to provide clarity on the powers and responsibilities.</p> <p>While RAA notes the action by FCBL, the observation has been categorized as not implemented as actions taken if any by the Ministries are not intimated to RAA.</p> <p>During the Meeting with the Hon’ble Members of PAC on 9/10/2017 it was agreed that the PAC shall write to the concern Ministries on the actions taken.</p>
<p>4.3</p>	<p>Government should allocate adequate funds for maintenance of NFSR and SAARC Food Security Reserve</p> <p>Lacks of adequate fund are one of the main challenges confronting FCBL in the maintenance of NFSR and SAARC Food Security Reserve. The food reserves will help the nation during emergency situations like drought, earthquakes,</p>	<p>The FCBL management has presented to its board during the 98th Board Meeting its submission of a revised stock for emergency based on current population along with implication on the Company to which the Board directed the FCBL to further consult the relevant ministry, MoAF on policy</p>	<p><u>Partially Implemented</u></p> <p>The recommendation has been partially implemented as the draft proposal has been prepared and submitted to MoAF.</p>	<p>The FCBL has initiated the actions.</p>

	<p>floods and other natural or man-made calamities. Therefore, the government should ensure that adequate funding is provided to the FCBL for maintaining these reserves and developing infrastructures for proper storage of such important reserves.</p>	<p>and budget implications for review, who will decide & provide strategic directives to FCBL.</p> <p>The FCBL reported that on 31st March 2017 it reported its position on the national food stock reserve to its 98th Board Meeting. It is also reported that it has been submitted to Hon'ble Lyonpo, MoAF, via email the draft proposal for review by MoAF.</p>		
4.4	<p>Minimum level of National Food Security Reserve should be reviewed</p> <p>The minimum level of NFSR to be maintained was determined as early as 1989. Current food reserve level calculated during FCBL's inception period has become irrelevant due to growing population and may not be adequate during emergency situations and natural disasters. Therefore, there is a need to review the existing food reserve level as a part of disaster preparedness plan for any impending disaster in the country.</p>	<p>FCBL submitted during its 94th Board meeting held on 6th May 2016, the inadequacy of the food stock based on population increase and the need for revision, followed by submission to MoAF based on population of 2015 proposal for new stock reserve along with request for the necessary policy directives and budget implications.</p>	<p><u>Partially Implemented</u></p> <p>The inadequacy of the food stock based on population increase and the need for revision submitted to MoAF.</p> <p>Detailed submission of the proposal made to the 99th Board Meeting on 7th July 2017.</p>	<p>RAA notes the action taken by the FCBL. However, details of actual outcome of the proposal and activities implementation if any needs to be followed up and intimated.</p>
4.5	<p>FCBL should institute a system to report both its social and commercial activities</p> <p>FCBL carries out both social and commercial activities. However, the performance of the FCBL was reported only based on the financial performance. There is no mechanism to gauge</p>	<p>The management has proposed to its Board in the past but could not take any concrete decision due to lack of clarity and authority.</p>	<p><u>Implemented</u></p> <p>The FCBL presents its Annual Director Report to shareholders, which also includes a separate heading known as Social Activity, which forms a part of social</p>	<p>N/A</p>

	and report performance on the social activities undertaken by the FCBL. Wholesome reporting should be initiated in the FCBL to enhance transparency, accountability and informed decision-making in the activities carried out by the FCBL.		activities report. FCBL initiated to report on social activities separately beginning 2015.	
4.6	<p>FCBL should improve its human resource policies and management</p> <p>Adequate and appropriate human resource policies and management are prerequisites for effective functioning of any organization. FCBL has been facing various human resource challenges that stem from the lack of appropriate policies and management practices. The FCBL should develop and improve on its existing policies on incentives, transfers, trainings, promotions, recruitment and separation to encourage efficient discharge of duties by its employees and create conducive working environment. Such improved policies and practices will encourage its employees to strive harder in achieving its organizational goals. Further, the FCBL should also ensure that information on policies is properly disseminated to promote transparency and accountability.</p>	<p>The management has improved its human resource based on the size of the company. Service Rule covering transfer, promotion, recruitment, and separation was amended as per MoLHR in 2013. Welfare and performance and monitoring systems in place since 2013.</p>	<p><u>Implemented</u></p> <p>FCBL has taken various actions in order to improve its human resource policies and management.</p> <p>Further, the FCBL during the meeting held between PAC, FCBL and RAA on 09th October 2017, responded that, the management has formulated and incorporated Service Rules and Regulations 2013 and has also improved its human resource based on the size of the company where Service Rule covering transfer, promotion, recruitment, and separation was Amended as per MoLHR in 2013. Welfare, performance and monitoring systems in place since 2013. The management has also developed the master plan of Human Resource and has</p>	N/A

			passed the information to all the employees. In total employee strength has been increased by 326% (including wage, contract and GEP) from 2014 to till date.	
4.7	<p>FCBL should develop adequate modern facilities for storage, transportation and basic food processing</p> <p>With the mandate of maintaining affordable food supply to the nation for all times, the FCBL lacks adequate facilities to store and transport food items in the most efficient way. Besides increasing the shelve life of food items, it will ensure delivery of quality products to its outlets and stabilize the prices during offseason. The FCBL should therefore, develop modern storage and transport facilities which minimize loss due to extreme weather condition and infestation. There is also a need to set up value-added food processing facilities and enhance a shelve life for food items. This will reduce the wastages from losses due to improper storage, transportation and damaged food items.</p>	<p>The management would like to submit that the FCBL has renovated the Warehouses in Phuentsholing, Samdrup Jongkhar and in Gelephu, which is not adequate for storage for longer duration. Further if fund support is provided by the Government, adequate modern storage & transport facilities and food processing shall be put in place</p>	<p><u>Partially Implemented</u></p> <p>The FCBL has renovated the Warehouses.</p>	<p>The FCBL depends on government funding supports for building infrastructure and modern storage facilities.</p>

<p>4.8</p>	<p>FCBL should strengthen Internal Control System The main controls regarding food quality and safety are in the institution of effective quality control. The Quality Control Division was functioning without a clear roles and responsibilities. Therefore, there is a need to strengthen the division with adequate staffs possessing competence and qualification. Effective quality control will ensure minimum wastages and damages besides enhancing professionalism in the conduct of FCBL procurement, distribution and storage. Besides, the FCBL should also constitute Audit Committee and the adequate autonomy provided to the internal auditors to report their findings to the Board as required by the PFA 2007. The Internal Audit Unit should also be strengthened through appropriate reinforcement with experienced and qualified staff.</p>	<p>FCBL Internal controls Division has been strengthened and soon would be recruiting additional staffs to be placed in the Regional Offices to further improve the Internal Control System.</p>	<p><u>Implemented</u> FCBL has reported that it has strengthened the Internal controls Division & the Regional Offices.</p>	<p>N/A</p>
<p>4.9</p>	<p>FCBL should formulate an integrated and realistic Procurement Planning Framework based on the supply-demand chain approach The FCBL should prepare an annual procurement plan and develop a standard template for procurement planning. It should also clearly define key performance indicators of the procurement process and reporting requirements regarding periodic monitoring and evaluation of the procurement process. This would ensure that cases of shortages and misuse are minimized besides a systematized procurement process enabling the FCBL to</p>	<p>The management has formulated the procurement policies and has recruited staff to man Indenting, Procurement and Claims to ease, integrate and to have realistic procurement process and reporting requirements.</p>	<p><u>Implemented</u> FCBL has reported that the procurement policies have been formulated and has recruited additional manpower.</p>	<p>N/A</p>

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	procure right quantity at the right time. Such system will also help in allocation of transportation and storage facilities effectively and prevent huge dumping needs.			
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