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དམངས་ཅིས་ཚོགས་ཚུབ།  
PARLIAMENT OF BHUTAN  
PUBLIC ACCOUNTS COMMITTEE

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## Report of the Public Accounts Committee

Presented to the Fourth Session of the Third Parliament of Bhutan

(November 26 – December 14, 2020)

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**“As a developing country, we have limited resources. We must manage our available resources wisely, minimize waste, and ensure that all our resources are directed at improving the wellbeing of the people, and in fulfilling our national vision.”**

His Majesty the King’s address to the nation during the 111<sup>th</sup> National Day, Samtse,  
December 17, 2018

A handwritten signature in blue ink, appearing to be a stylized representation of the name 'Jigme Khesar Namgyel Wangchuck'.

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## MEMBERS

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## TERMS OF REFERENCE

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The Public Accounts Committee is mandated to review and report on the Annual Audit Report to Parliament for its consideration or any other reports presented by the Auditor General as enshrined in Article 25(6) of the Constitution of the Kingdom of Bhutan.

The functions of the Committee as per the Rules of Procedures of Public Accounts Committee 2017 are to review and report to the Parliament on:

- The economy, efficiency, and effectiveness in the use of public resources in the implementation of policy rather than on the merits and demerits of the policy;
- Transparency and accountability in the resource allocation and its utilization;
- Various reports of the Auditor General the Committee chooses to review;
- The reports of the independent auditor on operations of the Royal Audit Authority;
- The accounts, financial statements and performances of public corporations, public companies and agencies in which public funds have been invested; and
- Such other accounts and reports as may be referred to the Committee by the Joint Sitting of the Parliament.



## **INTRODUCTION**

The Public Accounts Committee (PAC) presents the Financial Audit Reports to the Fourth Session of the Third Parliament for deliberation. The report mainly consists of the following:

- 1) Annual Audit Report 2019 of the Royal Audit Authority;
- 2) Audit Review Reports from 2010-2018; and
- 3) Public Accounts Committee's Findings and Recommendations.

## **CHAPTER 1 SYNTHESIS OF ANNUAL AUDIT REPORT 2019**

The Annual Audit Report (AAR) 2019 has been compiled from 564 audit reports pertaining to 10 Ministries, 16 Dzongkhags Administration, 40 Gewogs Administration, 14 Autonomous Agencies, eight Corporations, five Financial Institutions, three Non-Governmental Organizations and two Hydro Power Projects.

In accordance with the Committee's established procedures, this chapter reviews Certification of the Annual Financial Statements, unresolved irregularities by categories and agencies, Joint Audit Report of Hydro Power Projects, Compliance Audit Reports and RAA's General Recommendations. The Committee's findings and recommendations are based on the review report of AAR 2019 and Follow up reports of 2010-2018 which provides initial action taken by relevant agencies to the RAA's observation.

### **1. CERTIFICATION OF ANNUAL FINANCIAL STATEMENTS**

The RAA had audited the Annual Financial Statements (AFS) of the Royal Government of Bhutan for the Fiscal Year (FY) 2018-19.

- 1.1 The approved budget for the FY 2018-19 was Nu.45,128.177 million against estimated resources of Nu.39,893.853 million with a fiscal deficit of Nu.5,234.324 million. During the year, the outlay was revised to Nu.49,527.56 6 million and the estimated resources to Nu.43,634.711 million. At the end of the FY, the actual expenditure reported was Nu. 44,054.133 million against the realized resources of Nu. 42,033.296 million resulting into a resource gap of Nu. 2,743.430 million which is about 1.50% of GDP. The resource gaps were financed through the external borrowings of Nu. 3,432.571 million, internal borrowings and principal recoveries of government lending.
- 1.2 As against the revised capital budget of Nu. 20,355.591 million, the actual expenditure was Nu. 16,285.470 million with resultant underutilization of capital budget by Nu. 4,070.121 million, or 20% of the revised capital budget. As compared to underutilization of 15.42% for the FY 2017-18, the underutilization of capital budget increased by 4.58% during the FY 2018-19.
- 1.3 As usual, the reasons for underutilization were attributed to lengthy procurement process, poor quality of work performed by contractors, lack of implementation

capacity, delay in getting various clearances, unforeseen natural calamities, etc.

- 1.4 The government debt as on 30th June 2019 was Nu. 184,174.524 million, of which Nu. 5,059.597 million accounts for domestic debt and Nu.179,114.926 million for external debt. Overall, the national debt decreased by Nu. 1,137.546 million compared to the previous year.

## 2. ANNUAL AUDIT REPORT 2019

Overall, the total unresolved irregularities amounted to Nu. 1,415.153 million as on 31st March 2020. It has increased by 134% compared to the irregularities of Nu. 604.506 million reported in AAR 2018. .

### 2.1 IRREGULARITIES BY AGENCY

The significant unresolved issues pertain to 10 Ministries, 16 Dzongkhags Administration, 40 Gewogs Administration, 14 Autonomous Agencies, eight Corporations, five Financial Institutions and three Non-Governmental Organizations (NGOs). The significant increase in irregularities are attributed mainly to construction of Gyelposhing-Nganglam Road Project under the Ministry of Works and Human Settlement(MoWHS), overdue loans and advances under Bhutan National Bank Limited and embezzlement of funds reported under Drungkhag Administration, Samdrupcholing in Samdrup Jongkhar.

**TABLE: 1 UNRESOVLED IRREGULARITIES BY AGENCY AS OF 31<sup>ST</sup> MARCH 2020**

SL No.	Agencies	Amount (Nu. in millions)	% share
1.	Ministries	643.899	45.50
2.	Dzongkhags	233.395	16.49
3.	Gewogs	34.601	2.59
4.	Autonomous Agencies	139.729	9.87
5.	Corporations	38.842	2.74
6.	Financial Institutions	294.488	20.81
7.	(NGOs)	30.200	2.13
	<b>Total</b>	<b>1,415.153</b>	

2.1.1 Of the total unresolved irregularities of budgetary bodies, ministries accounted for 45.50% (Nu. 643.899 million). MoWHS has the highest amount of irregularities with Nu. 520.026 million followed by Ministry of Home and Cultural Affairs with Nu. 46.183 million.

2.1.2 Likewise, 16 Dzongkhags Administration accounted for 16.49% (Nu. 233.395 million) of the total unresolved irregularities. The highest amount of



irregularities is reported in Samdrup Jongkhar Dzongkhag amounting to Nu. 135.833 million, which among others included Fraud and Corruption cases of Nu. 0.800 million and Embezzlement with Nu. 7.598 million.

- 2.1.3 The 40 Gewogs Administration under 10 Dzongkhags accounted for only 2.59% (Nu. 34.601 million) of the total irregularities. Drugyelgang Gewog Administration has the issue of embezzlement of Rural Taxes of Nu. 0.065 million.
- 2.1.4 Autonomous agencies accounted for 9.87% (Nu.139.729 million) of the total irregularities. The highest amount of irregularities is reported under Thimphu Thromde with Nu. 35.512 million followed by Gelephu Thromde with Nu. 32.558 million and Dratshang Lhentshog with Nu. 18.397 million.
- 2.1.5 Eight Corporations accounted for 2.74% (Nu. 38.842 million) of the total irregularities. The Bhutan Postal Corporation Limited has the highest irregularity of Nu. 21.112 million followed by Food Corporation of Bhutan Limited with embezzlement amount of Nu. 6.504 million.
- 2.1.6 Five Financial Institutions accounted for 20.81% (Nu. 294.488 million) of unresolved irregularities. The highest amount of irregularity is reported under Bhutan National Bank Limited with Nu. 229.901 million followed by National Pension and Provident Fund with Nu. 54.427 million.
- 2.1.7 Three NGOs accounted for 2.13 % (Nu.30.200 million) of the irregularities. The Construction Association of Bhutan has the highest irregularity with Nu. 16.656 million.

## 2.2 IRREGULARITIES BY CATEGORIES

The observations are grouped into five broad audit categories. The new category “Embezzlement” has been separated from the category Fraud, Corruption and Embezzlement.

**TABLE: 2 UNRESOLVED IRREGULARITIES BY CATEGORIES**

SL No.	Observation category	Amount (Nu. in millions)	% share
1.	Fraud and Corruption	2.469	0.17
2.	Embezzlement	29.443	2.08
3.	Mismanagement	67.056	4.74
4.	Non-compliance to Laws and Rules	444.801	31.43
5.	Shortfalls, Lapses and Deficiencies	871.384	61.58
	<b>Total</b>	<b>1,415.153</b>	<b>100</b>

The highest amount of irregularities of Nu. 871.384 million (61.58%) was reported under the category ‘Shortfalls, Lapses and Deficiencies’ followed by Nu. 444.801 million (31.43%) under the category ‘Non-compliance to Laws and Rules’.

### **2.2.1 FRAUD AND CORRUPTION**

The irregularities under this category aggregated to Nu. 2.469 million representing 0.17% of total irregularities. Out of this, Nu. 1.669 million (67.60%) pertained to autonomous agencies, followed by Dzongkhags Administration with Nu. 0.800 million (32.40%).

### **2.2.2 EMBEZZLEMENT**

The category Embezzlement amounted to Nu. 29.443 million (2.08%) of the total irregularities. The highest irregularity is reported under ministries with Nu. 14.113 million (47.93%) followed by Corporations with Nu. 7.667 million (26.04%), Dzongkhags Administrations with Nu. 7.598 million (25.81%) and Gewogs Administration with Nu. 0.065 million (0.22%).

### **2.2.3 MISMANAGEMENT**

The total irregularities reported under the Mismanagement category amounted to Nu. 67.056 million (4.74%). The highest irregularities were reported under autonomous agencies with Nu. 25.566 million (38.13%) followed by Ministries with Nu. 20.432 million (30.47 %) and NGOs with Nu. 16.298 million (24.31%).

### **2.2.4 NON-COMPLIANCE TO LAWS AND RULES**

The total irregularities reported under the category of 'Non-compliance to laws and rules' amounted to Nu. 444.801 million representing 31.43% of the total irregularities. Ministries have the highest irregularities amounting to Nu. 342.843 million (77.08%) followed by autonomous agencies with Nu. 35.855 million (8.06%) and Dzongkhags Administrations with Nu. 34.997 million (7.7%) of the total irregularities.

### **2.2.5 SHORTFALLS, LAPSES AND DEFICIENCIES**

The amount of irregularities reported under this category amounted to Nu. 871.384 million representing 61.58% of the total irregularities. Financial Institutions have the highest irregularities amounting to Nu. 288.801 million (33.19%) followed by Ministries with Nu. 268.151 million (30.82%).

## **2.3 SUMMARY OF JOINT AUDITS OF HYDRO POWER PROJECTS**

The irregularities reported under the two Joint Audits of Hydro Power Projects - Mangdechhu Hydro Electric Project Authority (MHEPA) and Punatsangchhu-I Hydro-Electric Project (PHEP-I) amounted to Nu. 380.624 million. MHEPA has irregularities of Nu. 231.954 million and PHEP-I has Nu. 148.670 million. The highest irregularities for two hydro power projects were reported under Non-compliance to laws and rules amounting to Nu. 241.065 million (63.33%) and Nu.139.559 million (36.67%) under Shortfalls, lapses and deficiencies.

MHEP has irregularities of Nu.208.305 million under Non-compliance to laws and rules and Nu. 23.649 million under Shortfalls, lapses and deficiencies. Likewise, PHEP-I has irregularities of Nu. 32.760 million under Non-compliance to laws and rules and Nu. 115.910 million under Shortfalls, lapses and deficiencies.

## **2.4 COMMITTEE'S FINDINGS**

### **2.4.1 EXCESS/OVER/INADMISSIBLE PAYMENT**

Out of total irregularities of Nu. 1,415.153 million reported in the AAR 2019, Nu. 229.087 million (16.19%) pertained to observations such as excess/over/inadmissible payments. Such payments were repeated in 49 cases as reflected in the report.

### **2.4.2 PAYMENT/BOOKING OF EXPENDITURE FOR WORKS/MATERIALS NOT EXECUTED/RECEIVED/INCOMPLETION OF WORKS**

17 cases in 16 different agencies worth Nu. 18.591 million have been reflected in AAR 2019. Phuntsholing Thromde has the highest irregularities with Nu. 3.606 million followed by Mongar Dzongkhag Administration with Nu. 2.583 million, Ministry of Economic Affairs with Nu. 2.570 million and Gewogs Administrations of Darla and Nangkor with Nu. 2.330 million and Nu. 1.739 million respectively. As reported in the past, such booking of expenditures take place towards the end of the financial year to avoid budget lapses.

### **2.4.3 EMBEZZLEMENT**

There are 21 instances of embezzlement amounting to Nu. 29.443 million - Nu. 21.776 million in the Budgetary agencies and Nu. 7.667 million in the Non-Budgetary agencies. MoWHS is reported with Nu. 14.113 million (47.93%) followed by Samdrupcholing Drungkhag Administration, Samdrup Jongkhar with Nu. 7.598 million. In the Corporation sector, FCBL is reported with Nu. 6.504 million and Bhutan Telecom Corporation Ltd. with Nu. 1.163 million.

### **2.4.4 NON/SHORT LEVY OF LIQUIDATED DAMAGES FOR DELAYED WORKS/SUPPLY OF GOODS AND SERVICES**

This is a common and recurring lapses where the implementing agencies failed to levy liquidated damages for delaying the completion of work and supply of goods. There are 23 cases of non/short levy of liquidated damages reflected in AAR 2019 amounting to Nu. 98.958 million.

### **2.4.5 OUTSTANDING ADVANCES**

35 cases of such irregularities were reflected in AAR 2019 worth Nu. 389.175 million - BNBL with Nu. 223.110 million, MoWHS with Nu. 2.211 million, MoLHR with Nu. 9.938 million, Dratsang Lhentshog with Nu. 13.602 million and Gelephu Thromde with Nu. 11.058 million.

### **2.4.6 ACCEPTANCE OR NON-RECTIFICATION OF DEFECTIVE WORKS**

18 cases amounting to Nu. 8.587 million were reflected under this category. MoHCA had accepted defective works of Nu. 5.669 million followed by Ministry of Education with Nu. 1.782 million and Nubi Gewog under Trongsa Dzongkhag with Nu. 0.957 million.

#### **2.4.7 DOUBLE PAYMENTS**

Double payment is one of the common irregularities reflected in every annual report. It is observed that six cases with Nu. 2.834 million were reported as double payments and MoHCA has the highest with Nu. 1.874 million.

#### **2.4.8 UNJUSTIFIED EXPENSES FROM HOSPITALITY AND ENTERTAINMENT BUDGET**

The secretariats of various ministries had incurred unjustified expenses amounting to Nu.9.809 million on account of payments for *soelra, nyendar, tshokchang, khaddar and semso* from the Hospitality and Entertainment budget. MoE had booked Nu. 2.467 million (Nu. 1,469.00 million for FY 2016-17 and Nu. 0.996 million for FY 2017-18). MoF had booked Nu. 1.734 million for the FY 2017-18 and similarly MoFA had incurred unjustified expenditure of Nu. 0.170 million for the FY 2016-18. MoH had made payment amounting to Nu. 2.518 million (Nu. 1.453 million for the FY 2016-17 and Nu. 1.065 million for FY 2017-18), MoIC incurred Nu. 1.795 million for the FY 2016-18, MoLHR incurred Nu. 1.650 million for the FY 2017-2019 and MoWHS incurred Nu. 1.650 million for the FY 2016-18.

### **2.5 COMMITTEE'S RECOMMENDATIONS**

The Committee noted that a number of observations pointed above were recurrent lapses reflected across different budgetary and non-budgetary agencies, year after year. The irregularities occurred not because of a lack of rules and regulations, procedures or systems, but failure on the part of implementing agencies to comply with.

The Committee also observed that in many cases, agencies have not taken seriously to learn from the past audit observations and put in place the recommendations of RAA and PAC to prevent such recurring lapses.

The Committee therefore, reiterates the RAA's recommendations:

#### **2.5.1 REVIEW THE PRACTICE OF GRANTING ADVANCE TO CONTRACTORS BEYOND THE SCOPE OF PRR**

The Procurement Rules and Regulations 2019 specifies only forms of advances to be released to contractors engaged by the government procuring agencies; mobilization and secured advances. The mobilization advance of 10% of the contract price and the secured advances against the construction materials brought at site by the contractor subject to maximum of 75% of the cost of materials delivered at site must be granted. The recoveries are to be made from the interim progress payments in the months in which these materials are used in the works.

#### **2.5.2 NEED FOR GUIDELINES ON HOSPITALITY AND ENTERTAINMENT EXPENSES**

The use of the Hospitality and Entertainment budget was one of the thrust areas of audit in the FY 2018-19. The RAA noted various inconsistent practices adopted in the use of this budget. Therefore, in the absence of

appropriate guidelines to regulate such expenditure, there is a risk of indiscriminate use and misappropriation of government fund.

In order to provide appropriate control over this expenditure head, there is a need to develop guidelines that specifies principles, scope and purpose of such expenditure.

### **2.5.3 NEED FOR RECTIFICATION/RECONCILIATIONS OF DIFFERENCES IN ACCOUNTS OF BUDGETARY AGENCIES**

Initiating rectification of accounts by the respective budgetary agencies in consultation with the Department of Public Accounts since it is a centralized system.

### **2.5.4 NEED FOR AGENCIES TO ENFORCE CONTRACTUAL PROVISION OF INSURANCE FOR MEDIUM AND LARGE SCALE WORKS**

In order to ensure adequate safeguard and protection of interest of both the contractors and the government, the relevant authorities must take it mandatory for contractors to comply with the insurance requirement as per the standard bidding documents.

## **CHAPTER 2 FOLLOW UP ON REVIEW REPORTS OF AAR 2010-2018**

### **1. OVERVIEW OF UNRESOLVED/RESOLVED IRREGULARITIES (AAR 2010-2018) AS OF 30<sup>TH</sup> SEPTEMBER 2020**

As of 30<sup>th</sup> November 2019, total unresolved irregularities of Nu. 3,402.205 million were reported for the period 2010-2018. Table 3 provides details by agencies and year.

**TABLE: 3 UNRESOLVED IRREGULARITIES BY AGENCIES AND YEAR WISE AS OF 30<sup>th</sup> NOVEMBER 2019 (NU. IN MILLIONS)**

Sl. No.	Agencies	AAR 2010	AAR 2011	AAR 2012	AAR 2013	AAR 2014	AAR 2015	AAR 2016	AAR 2017	AAR 2018
1.	Ministries	3.053	189.607	11.535	9.107	31.751	23.648	40.765	50.699	198.325
2.	Dzongkhags	0.105	0.143	0.334	3.377	16.851	0.331	7.766	1.457	132.698
3.	Gewogs	-	-	0.122	0.353	0.045	0.083	0.497	6.239	30.360
4.	Autonomous Agencies	-	-	0.023	-	115.962	22.524	48.663	37.549	24.956
5.	Corporations	-	-	0.251	-	3.856	53.906	7.496	98.014	195.348
6.	Financial Institutions	-	-	Included with Corp.	-	Included with Corp.	Included with Corp.	20.297	-	-

7.	NGOs	-	-	-	3.387	-	-	-	18.034	22.643
8.	Hydro Power Projects	-	-	-	-	-	198.118	-	-	1,771.927
	<b>Total year-wise</b>	<b>3.158</b>	<b>189.750</b>	<b>12.265</b>	<b>16.224</b>	<b>168.465</b>	<b>298.610</b>	<b>125.484</b>	<b>211.992</b>	<b>2,376.257</b>
	<b>Grand Total</b>									<b>3,402.205</b>

**TABLE: 4 UNRESOLVED/RESOLVED IRREGULARITIES OF YEAR-WISE AS OF 30<sup>TH</sup> SEPTEMBER 2020 (NU. IN MILLIONS)**

Sl. No.	AAR	Unresolved irregularities reported in the third session of Third Parliament in March 2020	Irregularities resolved as on 30 <sup>th</sup> September 2020	Balance irregularities as on 30 <sup>th</sup> September 2020	Percentage of irregularities resolved as on 30 <sup>th</sup> September 2020
1.	2010	3.158	-	3.158	0
2.	2011	189.750	0.143	189.607	0.08
3.	2012	12.265	0.251	12.014	2.05
4.	2013	16.224	12.228	3.996	75.37
5.	2014	168.465	117.981	50.484	70.03
6.	2015	298.610	201.882	96.728	67.61
7.	2016	125.484	50.072	75.412	39.90
8.	2017	211.992	142.893	69.099	67.40
9.	2018	2,376.257	1,091.572	1,284.685	45.94
	<b>Total</b>	<b>3,402.205</b>	<b>1,617.022</b>	<b>1,785.183</b>	<b>47.53</b>

As evident from table 4, Nu. 1,617.022 million (47.53%) of the total irregularities of Nu. 3,402.205 from AAR 2010-2018 got resolved leaving a balance irregularities of Nu. 1,785.183 million as of 30<sup>th</sup> September 2020.

### **1.1 UNRESOLVED IRREGULARITIES PERTAINING TO HYDRO POWER PROJECTS FOR AAR 2018**

Out of the total unresolved irregularities of Nu 1,785.18 million as on 30<sup>th</sup> September 2020, hydro power projects have Nu. 1037.07 million (58%) - PHPA I with Nu. 430.768 million and PHPA II have Nu. 606.310 million for the AAR 2018. The issues pertained to non-adherence of contract provisions under C-3 package and incorrect computation of rate analysis for deviated items of work under C-2 & C-3.

## 1.2 UNRESOLVED IRREGULARITIES OF AGENCIES EXCLUDING HYDRO POWER PROJECTS FOR AAR 2010-2018

The unresolved irregularities for those non-hydro agencies amounted to Nu. 748.105 million (42%) for AARs 2010-2018. As evident from the table 5, about Nu. 395.567 million representing 79.03% of the irregularities are under litigation process.

**TABLE: 5 STATUS OF UNRESOLVED IRREGULARITIES UNDER LITIGATION AS OF 30<sup>TH</sup> SEPTEMBER 2020 (Nu. IN MILLION)**

Sl. No.	AAR	Unresolved irregularities as of 30 <sup>th</sup> September 2020 (Amount)	Agency	Amount	Remarks
1.	2010	3.158	MoH	0.662	Sub judice
2.			MoFA	2.391	Sub judice
3.	2011	189.607	MoFA	189.378	Sub judice
4.			MoAF	0.229	Sub judice
5.			Phuntsholing Gewog	-	Sub judice
6.	2012	12.014	MoE	10.618	Sub judice
7.			MoFA	0.676	Sub judice
8.			MoAF	0.241	ACC
9.			Tsirang Dzongkhag	0.334	Subjudice
10.			PCAL	-	ACC
11.	2013	3.996	MoFA	0.266	Sub judice
12.			Gosarling Gewog	0.353	Confirmed that the case will be forwarded to Dzongkhag Court, Tsirang
13.	2014	50.484	MoIC	30.054	Sub judice
14.			Sarpang Dzongkhag	16.429	Sub judice
15.			Naja Gewog	-	The case is under review by ACC
16.			DCCL	0.644	Sub judice
17.			FCBL	3.212	Sub judice
18.			RMAB	-	Sub judice
19.	2015	96.728	MoIC	-	The case has been forwarded to the OAG for prosecution
20.			MoH	6.658	The JDWNRH reported that the OAG has returned the case to ACC as it is not



					able to prosecute since the where about of Kinzang Choden is not known.
21.			Mongar Dzongkhag	0.331	Sub judice
22.			RUB	14.509	Sub judice
23.			ECB	5.235	Sub judice
24.			FCBL	8.068	Sub judice, OAG and ACC
25.			DCCL	22.603	Sub judice
26.			RICB	19.263	Sub judice and OAG
27.	2016	75.412	MoWHS	0.087	Sub judice
28.			MoAF	0.260	Sub judice
29.			MoF	4.115	Sub judice
30.			MoE	6.665	Sub judice
31.			Pemagatshel Dzongkhag	1.962	Sub judice
32.			RUB	43.254	Bhutan Alternative Dispute Resolution Centre (ADRC)
33.			RCSC	0.565	Sub Judice
34.			DCCL	3.434	Sub judice
35.			NRDCL	0.756	Sub judice
36.			BoBL	-	Sub judice
37.	2017	69.099	MoWHS	1.164	Sub judice
38.			MoLHR	0.060	Sub judice
39.			Gakidling Gewog	0.742	Sub judice
40.			Gelephu Gewog	0.349	Sub judice
<b>Total</b>		<b>500.498</b>	-	<b>395.567 (79.03 %)</b>	-
41.	2018	1,284.685	-	-	-
<b>Total</b>		<b>1,785.183</b>	-	<b>395.567 (22.16%)</b>	-

**COMMITTEE'S OBSERVATIONS:**

Out of Nu. 500.498 million irregularities for AAR 2010-2017, 40 cases amounting to Nu. 395.567 million (79.03%) are pending before the Court and the same had been reported in the third session of the third parliament.



**TABLE: 6 LIST OF CASES WHERE COURT JUDGMENTS COULD NOT BE ENFORCED OR REGISTERED BEFORE THE COURT OF LAW DUE TO ACCOUNTABLE PERSONS EITHER 'AT LARGE' OR 'MISSING' PERTAINING TO AAR 2010-2017.**

SL No.	Agency/AAR	Issue	Amount (Nu. in millions)	Status	Remarks
1	MoH, 2010	Outstanding advances	0.662	As per recent High Court Order, the balance amount should be recovered during his prison term, failing which it shall be charged as value based sentencing on the balance amount.	During the Hearing with MoH on 26 <sup>th</sup> November, 2019, Ministry agreed to appeal to the Court by end of December 2019 to charge the balance amount as value based sentencing The report as of 30 <sup>th</sup> September 2020 indicates the status to be the same.
2.	MoAF, 2011	Excess payment	0.229	Case was once registered in the Court but later it was dismissed with the condition that if the Contractor is found, the Ministry can reinstitute the case in the Court.	The Contractor, Mr. Kinley Tshering of Kabji Construction is missing.
3.	Wangchuk Centenary Park, Bumthang, 2012	Misuse of FINIDA Project Fund	0.241	Case was forwarded to OAG for their review	The case is still under OAG's review.
4	PCAL, 2012	Irregular purchase of land belonging to the spouse of a Board Director	-	Case is under review by ACC	As per the 4 <sup>th</sup> bilateral meeting the case has been assigned for investigation team as on 08/06/2017 vide letter No.ACC/DoI-i/Case-08/2017/686.
5	Trashigang Dzongkhag, 2013	Non-refund of salary disbursed during training	0.407	The amount is not yet reflected	Accountable person has not returned from long-term training. The report as of 30 <sup>th</sup> September 2020 indicates the status to be the same.

6	Pemagatshel Dzongkhag, 2013	Non-recovery of advances and penalties	2.970	The Supreme Court directed the contractor to refund the full amount.	Contractor has been reported absconded as of the review report of 30 <sup>th</sup> September 2020.
7	Sarpang Dzongkhag, 2014	Non-recovery of advances	1.338	The Contractor is yet to comply with the verdict passed by Sarpang Dzongkhag Court	Contractor is at large
8	Sarpang Dzongkhag, 2014	Non-recovery of liquidated damages & 20% penalty	0.130	The Contractor is yet to comply with the verdict passed by Sarpang Dzongkhag Court	Contractor is at large
9	FCBL, 2014	Outstanding rent from various tenants	0.095	Outstanding rent not recovered	Accountable person is missing as per the Review Report as of 30 <sup>th</sup> September 2020.
10	Logchina Gewog, 2015	Excess payment	0.033	Not yet recovered	Contractor could not be traced and Dzongkhag could not pursue the matter in the Court of law.
11	Monggar Dzongkhag, 2015	Irregularities in the up-gradation of Out Reach Clinic to BHU-II	0.331	Monggar Dzongkhag Court directed the Contractor to deposit Nu. 1.194	Contractor went missing.
12	NRDCL-SJ 2015	Non-termination of the Contract after stoppage of works	0.657	The case is under review by the larger bench in Supreme court.	Contractor is missing
13	JDWNRH/MoH, 2015	Misuse of revenue	5.602	Unsettled	OAG returned the case to ACC as where about of accountable person Ms. Kinzang Choden is not known.
14	MoIC, 2015	Disbursements not supported by documents – unauthorized and fictitious payments.	-	The criminal suit is not taken	Entire amount of Nu 2.171 million was recovered and deposited. The case was forwarded to OAG for prosecution but could not institute criminal suit as defendant

					was found missing (Pema Chheney, Accountant)
15	Chhukha Dzongkhag, 2016	Excess payment	0.658	The amount is not recovered	Accountable person is serving life imprisonment on account of chorten vandalism
16	Wangchang Gewog, 2017	Irregularities in providing and fixing water pumps and HDPE pipes.	0.980	Issue remained unsettled	Whereabouts of Contractor is not known, and Gewog could not register the case in the Court
17	Trongsa Dzongkhag, 2017	The Dzongkhag Administration, Trongsa had short levy of liquidated damages & inadmissible payments amounting to Nu. 0.153 million to the contractor in the construction of Two-Unit Staff Quarter	0.153	Issue remained unsettled	Contractor could not be located. Therefore the Dzongkhag could not register the case in the Court
18	MoH, 2017	Non-levy of liquidated damages against incomplete medical supplies	0.505	-	It is reported that the Indian supplier Agarwal Healthcare could not be located to register the case in the Court.
<b>TOTAL</b>		-	<b>14.991</b>	-	-

## COMMITTEE'S OBSERVATIONS

1. 18 cases with Nu. 14.991 million pertained to AAR 2010-2017 are reported, where court judgments could not be enforced or registered before the Court of Law due to accountable persons either 'at large' or 'missing'. The same had been reported in the third session of the third parliament.
2. PAC Chairperson along with the Auditor General of Royal Audit Authority submitted to His Excellency Chief Justice of Bhutan to look into the matters of (i) Status of unresolved irregularities under litigation; and (ii) List of cases where court judgments could not be enforced or registered before the Court of Law due to accountable persons either at large or missing. The response from Judiciary is awaited.

## **CHAPTER 3**

### **COMPLIANCE AUDIT REPORTS**

In the AAR 2019, the RAA issued three theme-based compliance audits of Northern East-West Highway Construction, Surface Collection and Dredging of the Riverbed Materials and Government Property Management.

#### **1. NORTHERN EAST-WEST HIGHWAY CONSTRUCTION**

The compliance audit on the GoI funded “Northern East-west Highway Project” (NEHC) was carried out to review the operations, accounting records, internal controls and contract management. The RAA had issued four compliance audit reports as the project was handled by four Regional Offices (ROs) of Department of Roads (DoR) in Thimphu, Lobeysa, Trongsa and Lingmethang. The total estimates for ROs were Nu. 6138.598 million (excluding Project DANTAK of Nu. 1,145.613 million).

The RAA issued five general audit observations to the ROs on non-compliances to existing rules and regulations which were subsequently resolved fully.

#### **REGIONAL OFFICE, DOR, THIMPHU**

Under RO, Thimphu, two audit findings were reflected in the AAR 2019 - non realization of cost difference amounting to Nu. 9.553 million from M/s Raven Builders and Company (P) Ltd and non-return of excessive issue of bitumen VG-10 on completion of bituminous works with resultant misuse amounting to Nu. 14.966 million.

#### **REGIONAL OFFICE, DOR, LOBEYSA**

The RAA had issued audit findings under four broad categories such as Non-compliance to technical specification, Non compliances related to direct award of contract, Change in specification after award of work with resultant extra payments and irregularities in procurement of gabion box with resultant financial implications. From four audit findings, two have been fully resolved (third and fourth).

Under the observation “Non-compliance to technical specification” out of 10 sub audit findings issued to the RO, Lobeysa, six were resolved, and three sub audit findings which have the elements of corrupt practices were forwarded to ACC for further investigation as detailed below.

- i) Inadmissible payments of Nu. 1.411 million for pavement works beyond the approved carriageway width.
- ii) Inadmissible payments of Nu. 1.311 million for works beyond approved width.
- iii) Inadmissible payments of Nu. 2.127 million for pavement works beyond the carriageway width approved in the revised drawing.

Similarly, under the observation “Non compliances related to direct award of contract” the two sub audit findings were forwarded to ACC.

- a) The DoR had directly awarded Package XV of the NEHP to M/s Empire Construction with resultant financial implications to the government amounting to Nu. 15.861 million in contravention to the Procurement Rules.
- b) The DoR had directly awarded package XV of the NEHP with resultant financial implications to the government amounting to Nu. 39.40 million.

#### **REGIONAL OFFICE, DOR, LINGMETHANG**

In the audit of RO, Lingmethang, the RAA issued audit findings on two categories – non-compliance to technical specifications and non-compliances related to direct award of work.

The RO, Lingmethang had not complied with required technical specification and accepted road constructions where the formation width was not maintained at the required 10.5 meters in few chainages/stretchers of the road. Similarly, the RO, Lingmethang under the directives of the Ministry of Works and Human Settlement had directly awarded the contract to M/s Bhutan ZeoCrete Pavement Technologies (JV), a Joint Venture Company on the use of ZeoCrete Pavement Technology. Under the audit finding- non compliances related to direct award of work, out of several audit observations, three observations with elements of corrupt practices were forwarded to ACC while rest were fully settled. The cases with ACC are:

- a) The RO, Lingmethang under the directives of the Ministry of Works and Human Settlement had directly awarded the contract to M/s Bhutan ZeoCrete Pavement Technologies (JV), a Joint Venture Company on the use of ZeoCrete Pavement Technology.
- b) The RO, Lingmethang failed to incorporate the cost and risk factor for the demonstration of technology in the contract agreement as required in the letter by the Secretary of MoWHS to the Minister.
- c) The RO, Lingmethang under instructions from the ministry had revised the contract amount with undue benefit to the contractor amounting to Nu. 6.684 million.

#### **REGIONAL OFFICE, DOR, TRONGSA**

In the audit of RO, Trongsa, the RAA issued audit findings on five categories - inadmissible expenditure and hindrances, non-compliance to technical specifications, unjustified curtailment of scope, unjustified award of additional works and sub-letting of road formation cutting and other works.

Out of four observations issued under non-compliance to technical specifications, only two were not settled. However, observations on rest of the categories were all settled.

**RECOMMENDATIONS:**

- i) Ministry and DoR to constitute a technical team to review estimates and BoQs prepared by the ROs mainly: to ascertain flaws, ambiguities and other related problems and to rule out the existence of collusive practices.
- ii) The Ministry/DoR should closely monitor the activities with the respective ROs.
- iii) Reiterating the Committee's Recommendations under Section 7.1 (a) of the Third Session of the Third Parliament, the PAC further recommends the Ministries/Agencies to institute a Follow up Unit for Audit Issues.

**2. SURFACE COLLECTION AND DREDGING OF RIVERBED MATERIALS (RBM)**

This review report of RAA pertains to surface collection and dredging of RBM in Phuentsholing, Gomtu and Samtse from January 2015 to October 2018.

**Differences in legal, social and operational mandates**

- a) Different acts such as Mines and Mineral Management 1995, Forest and Nature Conservation Act 1995 and Water Act 2011 provide competing and overriding authority over surface collection of RBM.
- b) Despite its social mandate to sustainably collect RBM to ensure availability and affordability, Natural Resources Development Corporation Ltd. (NRDCL) contracting out such activities to the private parties, which is commercial in nature contradicts its social mandate.
- c) The inclusion of dredging of sand and boulder by using excavator in the surface collection of RBM in Forest and Nature Conservation Rules and Regulations 2017 (FNCRR) without proper consultation with the relevant agencies comes at the cost of State resources. Further, not setting any limit to the depth in excavating dredging works led to ecological impacts like diversion of river, damages to river ecology and aquatic life, etc.

**Lack of due diligence and monitoring**

- a) Divisional Forest Office (DFO) of Gedu and Samtse levied royalty on truck load basis and not per metric tons. This led to revenue forgone of Nu. 230.92 million.
- b) Samtse DFO charged export permit fee of Nu. 20 per permit page for export of RBM while Gedu DFO charged only Nu. 10 thereby, resulting in short collection of Nu. 1.75 million from the fee difference.
- c) 25 parties (13 under Samtse DFO and 12 under Gedu DFO) were found operating dredging works without forestry clearance. Likewise, 32 operators did not obtain necessary clearances from local government, community and other relevant stakeholders wherever, applicable, before issuance of forestry clearance.
- d) 21 parties engaged in the dredging activities had not obtained environmental clearances from any authorities.

- e) Moreover, mitigation and prevention works as indicated in the DPR were not carried out.
- f) 309,468 MT of RBM exported without approval.
- g) There were instances of Certificate of Origin issued in bulk and in advance to private parties by RTIO. Likewise, royalties and permit fees for surface collection and dredging of RBM were paid in advance. This led to short collection of Nu.25.76 million as quantity collected (stock balance at site and exported) exceeded the quantities for which royalties and permit fees were realized.
- h) The direct award of surface collection and dredging of RBM to 33 individuals and private parties without auctioning or awarding to NRDCL, had forgone revenue of Nu. 299.86 million.
- i) The inclusion of dredging of RBM in the surface collection instead of mining had resulted in revenue loss of Nu.23.49 million through difference of levy rates.

#### **PAC's RECOMMENDATIONS**

- i) The Committee is mindful of the Mines and Minerals Bill 2020 currently under discussion and it is optimistic that the Parliament will have given due consideration to RAA's recommendations for this particular compliance audit in the bill.
- ii) Officials responsible for the above lapses and irregularities should be held accountable and the Action Taken Report (ATR) to be submitted before the Fifth Session of the Third Parliament.

### **3. GOVERNMENT PROPERTY MANAGEMENT SYSTEM**

The RAA had carried out the compliance review of Government Property Management System covering areas of acquisition and record keeping, utilization and management and disposal of government properties for the select government agencies including the Department of National Properties (DNP). The RAA noted several lapses mainly with the recording and inventory of properties apparently due to inadequate monitoring and reporting process.

The RAA also observed various inconsistent practices of managing government properties across agencies disregarding the prescribed procedures on the disposal of properties, RAA observed various agencies not surrendering old vehicles and even not providing adequate information to DNP for surrender of obsolete properties. Despite being the central agency for government properties, DNP also did not have inventory for land and building for government agencies.

#### **PAC's RECOMMENDATION**

As a Central Agency, the DNP must spearhead the development of appropriate information system to facilitate centralized inventories of properties maintained at all government agencies and also ensure compliance to property management manual through continuous monitoring system.



## **CHAPTER 4 OTHER REPORT**

1. During the year, the RAA issued an Auditor General's Advisory Series on '*Bhutan Schedules of Rates (BSR) and its applications by the Government Agencies*' to the Government. The overall objective of the review was to ascertain whether the existing BSR is being uniformly and consistently applied across all government agencies, and achieving value for money in implementation of Government and Donor Funded infrastructure Projects.

The review noted several significant findings, and accordingly, following recommendations were provided to address existing deficiencies.

- a) The Ministry of Works and Human Settlement should ensure mandatory and appropriate use of the published BSR in the estimation of project cost;
- b) BSR should either incorporate all Dzongkhags as Base Town or provide appropriate cost indices to avoid inconsistencies in the application of cost indices;
- c) Develop Standard Format and procedures for computing weightage percentage of particular material in terms of total cost of the project;
- d) Develop Standard guidelines in deriving labour and materials cost at project locations as to ensure realistic calculation of cost indices;
- e) BSR should incorporate machinery and equipment hiring rates prevailing in the market instead of CDCL hiring charges;
- f) Develop Standard Format and procedures for carrying out rate analysis of item;
- g) Labour and Material coefficients should recognize and reflect the rapid mechanization of construction industry;
- h) The Ministry should institute adequate and effective monitoring mechanism to render effective and cost-effective cost indices and rate analysis for project cost estimations; and
- i) Database for prevailing prices of various brands of materials available in the market including labour at Dzongkhag levels should be maintained.

### **2. PAC's RECOMMENDATION**

PAC reiterates the AG's Advisory Series and advise the concern Agency to comply with.



## CONCLUSION

PAC is able to present this synthesized report to the Parliament with the continued support of RAA in particular and other agencies in general. PAC remains highly grateful for their assistance.

The Committee could not conduct consultative meetings/hearing or a field visit with regard to this report due to the COVID-19 Pandemic. However, PAC remains hopeful that the concerned agencies along with the competent authorities will take the opportunity of hearings in near future to provide additional evidences and take immediate action to respond and resolve the issues at the earliest possible. This effort, even if small, will go a long way in minimizing our resource waste and achieve greater value for money.

The Committee wishes all Honourable Members a fruitful deliberation on the Report and is hopeful that the Covid-19 situation will soon subside and normalize the activities for everyone and improve the economy of the country.

With the blessing of our guardian deities, the enlightened and farsighted leadership of our King and the support from the people, I pray that Bhutan will continue to enjoy peace, prosperity and happiness at all times. We wish everyone a Happy New Year 2021.

**\*\*\* Tashi Delek \*\*\***

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