



PARLIAMENT OF BHUTAN
PUBLIC ACCOUNTS COMMITTEE

Report of the Public Accounts Committee
Presented to the Third Session of the Third Parliament of
Bhutan
(March 02 – 03, 2020)

“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 111th National Day,
Samtse, December 17, 2018

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Terms of Reference

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:

1. 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;
2. Transparency and accountability in the resource allocation and its utilization;
3. Various reports of the Auditor General the Committee chooses to review;
4. The reports of the independent auditor on operations of the Royal Audit Authority;
5. The accounts, financial statements and performances of public corporations, public companies and agencies in which public funds have been invested; and
6. 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 Third Session of the Third Parliament for deliberation. The report mainly consists of the following:

- 1) Review Report of Annual Audit Report (AAR) 2018;
- 2) Follow-up Report on Review Reports of AAR 2010-2017; and
- 3) Public Accounts Committee's Findings and Recommendations.

Chapter I

Synthesis of Annual Audit Report 2018

The AAR 2018 of Royal Audit Authority (RAA) was tabled in the Parliament during its Second Session in June 2019. Subsequently, the Committee received the Review Report of AAR 2018 in December 2019. The AAR 2018 was compiled from 503 audit reports covering 138 agencies - nine ministries, 19 *dzongkhag* administrations, 69 *gewog* administrations, 12 autonomous agencies, 17 corporations, three financial institutions, six NGOs and three hydropower 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 audits report of hydropower projects and RAA's general recommendations. The Committee's findings and recommendations are based on the Review Report of AAR 2018, which provides initial action taken by relevant agencies to the RAA's observations.

1. Certification of annual financial statements

- 1.1 Against the actual outlay of Nu. 52,658.670 million for the fiscal year 2017-18, the realized resources was Nu. 52,113.160 million resulting into *fiscal deficit of Nu.545.510 million*, which is far below the fiscal deficit of Nu.

5,344.860 million reported during the fiscal year 2016-17. The resource gap stood at Nu. 647.520 million (0.40% of GDP) and closing Government fund position at negative Nu. 39.770 million.

1.2 Against the revised capital budget of Nu. 34,092.354 million for the fiscal year 2017-18, the actual expenditure was Nu. 28,836.64 million with resultant *underutilized capital of Nu. 5,255.700 million, or 15.42% of the revised capital budget*, which shows improvement over underutilized capital budget of 20.89% for the fiscal year 2016-17.

1.3 According to the Ministry of Finance (MoF), such underutilization of capital budget pertains to lengthy procurement process, lack of implementation capacity, delay in getting various clearances among others. However, MoF in collaboration with the Governance Performance Management Division has instituted awarding 5% of the total performance evaluation score for full utilization of capital budget.

1.4 The overall *Government debt stood at Nu. 185,312.070 million as on 30th June 2018*, of which Nu. 8,159.680 million (4.40%) accounted for domestic debt and Nu. 177,152.396 million for external debt. Overall, the national debt increased by 8.8% compared to the previous year.

2. Resolved and unresolved irregularities

Table 1: Resolved and unresolved irregularities of AAR 2018 (Nu. in million)

Sl. No.	Agencies	Irregularities reported to the Parliament in June 2019	Amount resolved	Balance as on 30/11/2019	% resolved
1	Ministries	198.325	135.791	62.53	68
2	Dzongkhags	132.698	24.902	107.79	19
3	Gewogs	30.360	11.503	18.857	38
4	Autonomous Agencies	24.956	3.160	21.796	13
	Total budgetary agencies (A)	386.339	175.356	210.96	45

5	Corporations	195.348	126.090	69.258	65
6	NGO's	22.643	10.461	12.182	46
	Total non-budgetary agencies (B)	217.991	136.551	81.440	63
7	Hydropower Projects (C)	1,771.927	1,016.573	755.354	57
	Total (A+B+C)	2,376.257	1,328.480	1,047.78	55.9

2.1 Out of the total unresolved irregularities of Nu. 2,376.257 million in June 2019, *Nu. 1,328.480 million (56%)* was settled as of November 2019 leaving a balance of Nu. 1,047.78 million. At the fiscal level, *it represents about 2% of the total outlay* indicating opportunity cost to the economy.

2.2 Out of the total unresolved balance, Nu. 755.350 million (72.70%) pertained to the hydropower projects, Nu. 210.96 (19.30%) to the budgetary bodies and Nu. 81.400 million (7.80%) to the non-budgetary bodies.

2.3 As evident from table 1, ministries resolved 68% of their total irregularities followed by corporations (65%) and hydropower projects (57%) while the autonomous agencies resolved the lowest (13%). Besides, 81 irregularities without financial implication were also resolved.

3. Resolved and unresolved irregularities by agencies

3.1 Of the total unresolved irregularities of budgetary and non-budgetary bodies, ministries accounted for 21.3% (Nu. 62.53 million). Ministry of Works and Human Settlement (MoWHS) reported the highest unresolved irregularities of Nu. 38.190 million followed by Ministry of Foreign Affairs with Nu. 9.360 million while Ministry of Economic Affairs and Ministry of Health settled all their irregularities.

3.2 Likewise, *dzongkhag* administrations accounted for 36.8% (Nu.107.79 million) of the total unresolved irregularities of budgetary and non-budgetary bodies. *Dzongkhag* administrations of Trashigang followed by Pemagatshel and Samtse reported the highest unresolved irregularities of

Nu.25.590 million, Nu. 22.340 million and Nu. 19.420 million respectively. *Dzongkhag* administrations of Wangduephodrang and Lhuentse resolved all their irregularities.

3.3 *Gewogs* administration accounted for only 6.4% (Nu.18.857 million) of the total unresolved irregularities of budgetary and non-budgetary bodies. Amongst *gewogs*, Korphu and Nubi *gewogs* under Trongsa *dzongkhag* reported the highest unresolved irregularities of Nu. 3.700 million and Nu. 3.030 million respectively. *Gewog* administrations of Bonggo, Darla and Geling under Chhukha *dzongkhag*, Drametse, Drepong, Jurmed, Kengkhar, Monggar Shermuhoong, Silambi and Thangrong under Monggar *dzongkhag*, Nanong and Shumar under Pema Gatsel *dzongkhag*, Toebisa and Kabjisa under Punakha *dzongkhag*, Phuntshothang, Samrang and Lauri under Samdrupjongkhar *dzongkhag*, Dophuchen and Phuntsho Pelri under Samtse *dzongkhag*, Gelephu under Sarpang *dzongkhag*, Phongmey, Kanglung, Merak and Thrimshing under Trashigang *dzongkhag*, Boomdeling under TashiYangtse *dzongkhag*, Tangsibji under Trongsa *dzongkhag*, Sergithang and Gosarling under Tsirang *dzongkhag*, and Pangkhar Ngangla and Shingkhar under Zhemgang *dzongkhag* resolved all their irregularities.

3.4 Autonomous agencies accounted for 7.4% (Nu.21.796 million) of the total unresolved irregularities of budgetary and non-budgetary bodies. Thimphu and Phuntsholing *thromdes* reported the highest unresolved irregularities of Nu. 10.300 million and Nu. 6.800 million respectively. Judiciary, National Environment Commission and Samdrupjongkhar *thromde* resolved all their irregularities.

3.5 Corporations accounted for 23.6% (Nu. 69.258 million) of the total unresolved irregularities. State Trading Corporation Ltd reported the highest with Nu. 49.100 million followed by Dungsam Cement Corporation Ltd with Nu. 8.700 million and Food Corporation of Bhutan Ltd with Nu. 4.070 million. Basochu hydropower plant, Kurichu hydropower plant, Tangsibji hydro energy Ltd, Bhutan Board Products Ltd, Bhutan Duty Free Ltd, Bhutan Lottery Ltd, Bhutan Power Corporation Ltd, Construction

Development Corporation Ltd, Druk Air Corporation and Farm Machinery Corporation Ltd resolved all their irregularities.

3.6 Amongst the NGOs, Druk Odiyana Foundation recorded the highest unresolved irregularities of Nu. 9.800 million followed by Bhutan Chamber of Commerce and Industries with Nu. 2.300 million. Bhutan Trust Fund for Environmental Conservation, Handicraft Association of Bhutan, Hindu Dharma Samudaya of Bhutan and Phuntsholing Sports Association settled all their irregularities.

4. Irregularities by categories

RAA categorizes irregularities into four broad categories as:

1. Fraud, corruption and embezzlement;
2. Mismanagement;
3. Violation of laws and rules (non-compliance); and
4. Shortfalls, lapses and deficiencies.

Table 2: Unresolved irregularities by categories (Nu. in million)

Sl. No.	Observation Category	Balance as on 30/11/2019	% share
1	Fraud, corruption and embezzlement	28.615	9.8
2	Mismanagement	27.148	9.3
3	Non-compliance to laws and rules	67.390	23
4	Shortfalls, lapses and deficiencies	169.260	57.9
Total		292.413	

4.1 As reported in the Review Report of AAR 2018 as of November 2019, the highest unresolved irregularities fall under the shortfalls, lapses and deficiencies with Nu. 169.26 million (58%) followed by non-compliance to laws and rules with Nu. 67.39 million (23%), fraud, corruption and embezzlement with Nu. 28.615 million (9.8%) and mismanagement with Nu. 27.148 million (9.3%). *The fraud, corruption and embezzlement shows significant increase both in*

absolute amount and proportion compared to AAR 2017 (Nu. 7.500 million or 2%).

4.2 Overall, *almost 67% of the total fraud and corruption related activities pertained to ministries followed by gewogs with almost 13%. MoWHS (Nu.11.700 million) and MoIC (Nu. 7.500 million) reported the highest cases and amongst gewogs, Chaskhar and Ngatshang gewogs in Mongar dzongkhag reported the highest with Nu. 1.500 million each.*

5. Audit report on joint hydropower projects

RAA conducted three joint audits of hydropower projects of Punatsangchhu-I Hydroelectric Project Authority (PHPA-I), Punatsangchhu-II Hydroelectric Project Authority (PHPA-II) and Mangdechhu Hydroelectric Project Authority (MHPA) during 2018 as per the prevailing standard and agreement.

Table 3: Unresolved irregularities under Hydropower projects (Nu. in million)

Sl. No.	Hydropower projects	Irregularities reported to the Parliament in June 2019	Amount resolved	Balance as on 31/11/2019
1	PHPA I	1006.910	576.150	430.77
2	PHPA II	657.020	346.190	310.83
3	MHPA	108.000	94.240	13.76
Total		1,771.930	1,016.570	755.35

5.1 Overall, against the total irregularities of Nu. 1,771.930 million reported in June 2019, the hydropower projects resolved Nu. 1,016.570 million (57.3%) as of November 2019 leaving a balance of Nu. 755.350 million (table 3). This shows significant improvement over the past years in resolving their irregularities. MHPA in particular resolved 87.20% of their irregularities while the remaining two projects resolved over half of their irregularities.

5.2 By categories, shortfalls, lapses and deficiencies accounted for nearly 59% (Nu. 444.500 million) of the total balance irregularities and the remaining 41% (Nu.310.800 million) reported under non-compliance to laws and rules.

6. Committee's findings

In examining the detailed audit findings, the Committee noted some common irregularities across different audited agencies, namely.

6.1 *Excess payment:* This is the most common and recurring lapses in most of the public agencies mainly due to laxity and non-diligence on the part of dealing officials. It ranges from improper verification of bills to wrong measurement in quantity of work, payment for items of work not executed, less deduction, and so forth. Such lapses initially amounted to Nu. 102.000 million with respect to the budgetary and non-budgetary bodies.

6.2 *Outstanding public work advances and personal advances:* Despite clear provisions in the Procurement Rules and Regulations 2009 and Finance and Accounting Manual 2016 regarding sanctioning of advances and liquidation of advances over Nu. 74.000 million initially remained unsettled with respect to the budgetary and non-budgetary bodies.

6.3 *Underutilization of structures:* Infrastructures such as irrigation, water treatment pump, market shed, river protection wall, etc were found either dysfunctional or underutilized due to poor planning, design flaws, inadequate feasibility study of sites and lack of monitoring and supervision. Such activities defeat the very purpose without delivering any value for money.

6.4 *Sub-standard and defective works:* There were several instances of lapses in public works ranging from blacktopping of roads to construction of water tank, foot path, offices, residences, irrigation,

water supply, etc. These lapses occurred largely from deviating from the specifications and the responsible officials failing to monitor and ensure quality of work at site. Besides, there were instances where sub-standard works were accepted without rectifying the defects.

6.5 *Payment made/booking of expenditure without completion of work:*

Such booking of expenditures were very visible particularly towards the end of financial year even when the works were not complete or goods not delivered to avoid budget lapse.

6.6 *Non levy of liquidated damages:* There were several instances where the implementing agencies failed to levy liquidated damages for delay in the completion of work or supply of goods despite such provisions clearly stated in the terms of contract or supply order.

Besides, the Committee noted some significant observations specific to some agencies as follows.

6.7 *Shortages in revenue deposit:* As reported in the AAR 2018, it is primarily evident in some of the revenue generating agencies like *Thromdes*, Regional Transport Offices, Road Safety and Transport Authority (RSTA) and FMCL. Lack of robust internal control system to ensure proper check and balance in the revenue management resulted in non-reconciliation of revenue collection and deposit. Moreover, there was a huge gap in the potential revenue collection against the actual revenue collection from the motor vehicles. Such laxity in the revenue management initially resulted in revenue shortage of about Nu. 68.000 million and further exposing risks for fraudulent, mismanagement and corrupt practices.

6.8 *Allotment of government land on lease:* In contravention to the directives of MoWHS issued in 2012, Thimphu *Thromde* allotted 49,276 sq ft. of government land within the *Thromde* area to a few private individuals and NGOs with lease ranging from nine to 30 years

indicating undue favours. Likewise, there were few cases where the *Thromde* changed the precinct from traditional village to urban-medium density in the new *lagthram* without adhering to the prevailing norms, indicating undue favours to the land owners.

7. Committee's recommendations

While examining the Review Reports of AAR 2018 and past audit reports, the Committee noted that a number of observations raised above were recurrent lapses found across different public agencies, year after year. *The lapses occurred not because of a lack of rules, procedures or systems, but failure on the part of implementing agencies to comply with.*

The Committee also observed that *insufficient staff and capabilities, work overload, time pressure, change in persons and improper handing-taking* over also contributed to occurrences of most of the lapses.

The Committee further observed that in many instances, agencies have *not taken seriously to learn from the past audit findings and put in place effective measures to prevent such recurring lapses.*

The Committee therefore, recommends the following interventions

1. Most of the observed lapses in the audit findings could have been prevented and in some cases, even strong corrective measures put in place had the Internal Audit Units established in various agencies been strong and effective. To prevent recurrence of similar lapses and enhance internal control framework:
 - a) The Central Coordinating Agency (CCA) for Internal Audit Service, Ministry of Finance being the coordinating agency for all Internal Audit Units to review the institutional capacity of Internal Audit Units and the Royal Government to support capacity building based on the review findings to strengthen overall efficiency, effectiveness and professional management of internal auditors; and

- b) CCA and RAA to collaborate in sharing resources to compliment and supplement each other's works and reduce redundancy. For instance, CCA and RAA can mutually work together to add value to each other's annual audit reports and ensure better compliance to the established rules and processes by the agencies. Likewise, CCA and RAA can support each other in strengthening institutional capacity.
2. In the current context, it is generally the mid-level officials who are fixed with direct and supervisory accountabilities on the audit findings and very rarely the head of agency. This was due to lack of a clear framework to fix accountability. In view of this, RAA has very recently developed Rules and Regulation for Fixing Accountability on Audit Findings, 2019. To promote understanding and uniform application of the rules, RAA must carry out awareness on its new rules from 2020.

Chapter II

Follow up on Review Reports of AAR 2010 – 2017

Resolutions: *The 11th Session of the Second Parliament passed the resolution whereby the PAC should conduct as many Public Hearings as possible to resolve the pending audit irregularities for the AAR 2010 - 2016. In addition, the 1st Session of the Third Parliament passed the resolution whereby the respective agencies (both Hydropower projects and non-Hydropower projects) were asked to follow up on the unresolved irregularities of AAR 2017 and report the status to PAC by September 2019.*

Status: In keeping with the resolutions of 11th Session of the Second Parliament and First Session of the Third Parliament, PAC conducted Hearings in collaboration with RAA with five ministries, 15 dzongkhags, 40 gewogs and 15 autonomous agencies and corporations within two months after the Summer Session in 2019.

1. Overview of unresolved and resolved irregularities (AAR 2010-2017) as of 30/09/18 and 30/11/19 respectively

As of 30th September 2018, total unresolved irregularities of Nu. 5,761.746 millions were reported for the period 2010-2017. Table 4 provides details by agencies and year.

Table 4: Unresolved irregularities by agencies as of 30/09/2018 (Nu. in million)

Sl. No	Agencies	AAR 2010	AAR 2011	AAR 2012	AAR 2013	AAR 2014	AAR 2015	AAR 2016	AAR 2017
1	Ministries	3.053	189.607	13.602	34.504	31.771	28.621	64.061	100.900
2	Dzongkhags	0.304	0.143	0.334	3.422	17.925	0.482	37.298	35.531
3	Gewogs	-	0.021	0.220	1.159	0.277	0.083	7.501	10.899
4	Autonomous Agencies	-	-	0.459	-	118.002	32.059	52.009	62.097

5	NGOs	-	-	-	3.387	-	-	12.864	20.120
6	Corporations & Financial Institutions	-	6.358	0.251	-	4.156	68.594	75.494	134.463
7	Hydropower Projects	-	-	-	-	-	227.364	410.840	3,951.5 11
	Total Year Wise	3.357	196.129	14.866	42.472	172.131	357.203	660.067	4,315.5 21
	Grand Total								5,761.7 5

Table 5: Unresolved irregularities as of 30/11/2019 (Nu. in million)

SL. No.	AAR	Unresolved Irregularities reported in the 1 st Session of the Third Parliament in October, 2018	Irregularities resolved as on 30/11/2019	Balance Irregularities as on 30/11/2019	Percentage of irregularities resolved as on 30/11/2019
1.	2010	3.357	0.199	3.158	5.93
2.	2011	196.129	6.379	189.750	3.25
3.	2012	14.866	2.601	12.265	17.50
4.	2013	42.472	26.248	16.224	61.80
5.	2014	172.131	3.644	168.487	2.12
6.	2015	357.203	58.593	298.610	16.40
7.	2016	660.067	536.248	123.819	81.24
8.	2017	4315.521	4096.710	218.811	94.93
	Total	5,761.746	4,730.622	1,031.124	82.10

1.1 As evident from table 5, about Nu. 4,730.622 million (82.10%) of the total irregularities from AAR 2010-2017 got resolved leaving balance

irregularities of Nu. 1,031.124million as of November 2019. Out of this, Nu. 198.118 million pertained to the hydropower projects.

- 1.2 Through numerous hearings with the different agencies in different *dzongkhags*, PAC in collaboration with RAA could resolve significant number of issues. For those unresolved issues, the hearings facilitated mutually acceptable way forward to resolve issues within the agreed timeline.

2. Unresolved irregularities pertaining to hydropower projects for AAR 2010-2017

- 2.1 As of 30th November, 2019, the hydropower projects resolved Nu. 4,391.597 million out of total irregularities of Nu. 4,589.715 million. The unresolved balance of Nu. 198.118 million pertained only to MHPA for non-levy of liquidated damages for non-completion of construction works for AAR 2015. The case is under litigation.

- 2.2 PHPA I and PHPA II resolved all their irregularities as of 30th November, 2019.

3. Unresolved irregularities of agencies excluding hydropower projects for AAR 2010-2017

The unresolved irregularities for those non-hydro agencies amounted to Nu. 833.006 million for AAR 2010-2017. As evident from table 6, about Nu. 511.737million of the irregularities are under the litigation process.

Table 6: Status of unresolved irregularities under litigation as of 30/11/2019 (Nu. in million)

SL. No.	AAR	Unresolved Irregularities as of 30/11/19	Agency	Remarks
1.	2010	Nu. 3.053	MoH – Nu. 0.662	<i>The accountable official is serving sentence in prison and recently the High Court has ordered to charge the balance amount as value based sentencing</i>
			MoFA – Nu. 2.391	<i>Case is sub judice</i>
2.	2011	Nu. 189.378	MoFA – Nu. 189.378	<i>All the cases are sub judice</i>
3.	2012	Nu. 11.786	MoE – Nu. 10.618	<i>Case is sub judice</i>
			MoFA – Nu. 0.676	<i>All the cases are sub judice</i>
			MoAF – Nu. 0.241	<i>Case is under review by OAG</i>
			FCBL – Nu. 0.251	<i>Case is sub judice</i>
4.	2013	Nu. 11.811	MoE – Nu. 8.841	<i>Case is sub judice</i>
			Pemagatshel Dzongkhag – Nu. 2.970	<i>Contractor is missing</i>
5.	2014	Nu. 53.905	MoIC – Nu. 30.054	<i>Case is sub judice</i>
			MoF – Nu. 1.608	<i>Given two weeks' time to MoF during the Hearing to review and trace the documents to resolve the issue.</i>
			Sarpang Dzongkhag – Nu. 16.429	<i>Case is sub judice</i>
			RUB – Nu. 5.814	<i>Case is under Arbitration</i>
6.	2015	Nu. 281.144	MoH – Nu. 6.658	<i>Whereabouts of accountable official is not known</i>
			MoF – Nu. 2.544	<i>MoF had agreed to recover the overdue outstanding taxes within December, 2019</i>
			RUB – Nu. 15.394	<i>Case is sub judice</i>
			ECB – Nu. 5.235	<i>Fraudulent practice in payment of Postal Charges. Case is sub judice</i>
			FCBL – Nu. 11.329	<i>Nature of cases involved non deposit of collections, non-levy of penalty on late deposits of rent, irregular waiver of fines and penalties. Some issues are with Court, some are with ACC</i>

				<i>and some are with OAG</i>
			DCCL – Nu. 22.603	<i>Few nature of cases involved embezzlement of funds, fictitious payments, and payments on duplicate copies of bills. Case is sub judice</i>
			RICBL – Nu. 19.263	<i>Non deposit of collections, siphoning of money. Illegal borrowing and investment in Nubri Capital Pvt Limited. Case is with OAG</i>
			MHPA – Nu. 198.118	<i>Non collection of liquidated damages in road and office constructions. Case is sub judice</i>
7.	2016	Nu. 112.480	MoWHS – Nu. 23.953	<i>Infractious expenditure on termination of contract for Dalbari-Dagapela Secondary National Highway, undermining of procurement policy for online tendering. Case is sub judice</i>
			MoAF – Nu. 5.754	<i>Forged bank guarantee in lieu of performance security, wrong booking of expenditure without the prior permission of MoF, and excess payments, outstanding advances. Case is sub judice</i>
			MoF – Nu. 4.115	<i>Short levy of sales and green tax at RRCO, Phuentsholing. Case is sub judice</i>
			MoE – Nu. 6.665	<i>Mis-interpretation of facts, not re-built the washed away retaining wall of Minjey Middle Secondary School. Case is under review by OAG</i>
			Dagana Dzongkhag - Nu. 3.370	<i>Excess payment for rehabilitation of Badarchu-Peteykha Irrigation Canal at Tsangkha Gewog. Case is sub judice</i>
			RUB – Nu. 45.801	<i>Non-adjustment of excessive grant of advances for constructions (academic buildings, MPH, hostel), non-collection of the additional</i>

				<i>differential amounts, non levy of liquidated damage of unwarranted time extension, fund balance deposited into IDF accounts to avoid fund lapse. Cases are with Alternate Dispute Resolution Centre (ADRC)</i>
			DCCL – Nu. 3.434	<i>Tampering of bills, non-levy of penalties for excess ash and moisture content in coal, missing documents for payments made, excess/overpayments, inadmissible payments of VAT. Case is sub judice</i>
			RICBL – Nu. 19.388	<i>Overdue outstanding claims payable to the clients. The agency has not taken any action.</i>
8.	2017	Nu. 52.422	MoLHR – Nu. 0.060	<i>The Thimphu Institute of ZorigChusum had overdue advances of Nu.0.060 million against an official. Outstanding advances of Nu. 0.060 million remained unsettled. Case is subjudice</i>
			MoWHS – Nu. 29.885	<i>Balance amount of Nu. 5.696 million to be recovered.</i>
			MoH – Nu. 9.627	<i>Non-levy of liquidated damages against incomplete medical supplies for Nu. 505,230.750 to be recovered from various suppliers and non-settlement of outstanding advances against BPCL for Nu. 9.127 million.</i>
			MoF – Nu. 8.619	<i>Overdue outstanding taxes and inadmissible waiver of fines & penalties.</i>
			NLC – Nu. 2.583	<i>Wrong selection of procurement process, improper evaluation & procurement without quotation.</i>

			Dagana Dzongkhag Admin – Nu. 0.753	<i>Non-recovery of penalties imposed for balance work not executed and submission of false Bank Guarantee amounting to Nu. 0.455 million and Excess payment to contractor amounting Nu. 0.298 million. Case is sub judice in 2016 and remained unsettled.</i>
			Gelephu Gewog – Nu. 0.153	<i>Dzongkhag administration had pursued the matter in Court and had issued verdict in favour of Dzongkhag but the defendant had approached the ARDC and is under subjudice</i>
			Gakidling gewog, Sarpang Nu. 0.742	<i>The defendant has appealed to High Court after court verdict was issued in favour of Dzongkhag administration.</i>
Total		Nu. 511.737		

4. Committee's observations

4.1 In examining the AAR 2010-2017, the Committee observed that 82.10% of the total irregularities got resolved. The hydropower projects in particular, made significant progress in resolving 95% of their irregularities. This is a significant improvement compared to the past years.

4.2 Table 6 shows that about 61.4% of the unresolved irregularities are either *sub judice* or under investigation by Anti-Corruption Commission (ACC) or under review by Office of the Attorney General (OAG).

4.3 Amongst the unresolved irregularities, the Committee noted that about 20 cases could not be settled because majority of the accountable persons are still 'at large'. Under such circumstances, the court

judgements could not be enforced. Besides, there are few instances where cases could not be registered before the court of law as the accused persons are ‘missing’ and there are no proper addresses to register the case. Cases are shown in *Annexure 1*.

4.4 Noting peculiarities of cases in No. 3, PAC coordinated consultative meeting with the Judiciary, Royal Bhutan Police, OAG, ACC and RAA in December 2019 and discussed way forward to address such issues. The meeting recommended two amendments in the Criminal and Civil Procedure Code of Bhutan to provide provisions for registering the case before the court of law even in the absence of an accused person and permitting judicial sale of judgment debtor’s property in the absence of the person who so evaded the enforcement of judgment. PAC has accordingly proposed the amendments to the National Council as the said Code is under their review.

Chapter III

Follow-up of past resolutions relating to Financial Audits

Resolutions of 1st Session of Third parliament

PAC hereby, endorses all the four recommendations of RAA and urges MoF in particular to implement RAA's recommendations and report to PAC by September 2019.

Status: The RAA had made four specific recommendations which were endorsed by the Committee. The Ministry of Finance has submitted the implementation status report of these recommendations as follows;

- 1. Need for High Standards of Business Ethics*** - MoF in collaboration with Construction Development Board (CDB) and MoEA to develop code of conduct and business ethics for private sector involved in public procurement.

Status: The ethics for contractor is developed by the CDB and it is also in the process of developing code of conduct for contractors. For the civil servants, the code of conduct and ethics are broadly covered under Bhutan Civil Service Regulations. MoWHS had developed and implemented code of conduct for the Engineers. Further, as required by the Procurement Rules and Regulations of 2019, the MoF has developed Terms of Reference for Procurement Officers who acts as Member Secretary in the Tender Committee. MoF is also collaborating with MoEA to develop code of conduct for suppliers (private entities) in line with international best practices. The Debarment Rules, 2019 developed by Anti-Corruption Commission will also help in discouraging unscrupulous practice by suppliers, contractors and private parties related to public procurement. Ethics and good practices will be further strengthened by Integrity Pact (IP) being introduced through e-GP system and other manuals put in place by the Government.

2. *Need for strong accountability culture* - Government to institute appropriate mechanism to promote accountability at all levels.

Status: The Internal Audit System established by the Government aims to improve the accountability culture. Internal Control Framework and other Guidelines and Annual Performance Management System (GPMS) have been developed to promote and improve the accountability culture. Further, MoF is assessing all the existing laws, rules and regulations to see if there is need of National Accountability framework or not. The Government is also initiating the efforts to draft Procurement Bill which will provide institutional and legal framework to improve accountability in the public procurements.

3. *Need to strengthen internal controls on expenditure* - MoF to study the deficiencies in the system and initiate remedial measures to strictly enforce the National Internal Controls framework, including strengthening internal audit functions and accounting controls.

Status: MoF has initiated several activities as follows to strengthen internal control across the Government;

- 1) Developed proposal for promoting financial thrift and instituted Financial Committee at agency level.
- 2) Developed Internal Audit Guidelines such as Internal Audit Manual 2014, Internal Audit Charter 2014, Code of Ethics for Internal Audit, Bhutan Government Internal Audit Standards 2017
- 3) Developed Performance Internal Audit Guidelines
- 4) Developed Quality Assurance and Improvement Program Guidelines
- 5) Procurement of an off the shelf Audit Management Software (AMS)
- 6) Reviewed Internal Audit Function to make it uniform
- 7) Reviewed Internal Audit Charter 2014.

MoF assured to put further efforts to strengthen the internal control system and to ensure judicious public expenditure.

- 4. *Need to exercise due diligence in procurement-*** Government to initiate providing information of commonly used products and prices through a web portal to facilitate comparisons and MoF in particular, to issue directives enforcing the requirements of exercising due diligence in all public procurements.

Status: The MoF also already standardized and centralized four commonly used items like toner, cartridges, photocopy paper A4, office file and stapler pin 24/6 to achieve uniform price and quality. This information will be uploaded for public through e-catalogue which is being developed as a part of on-going e-GP system. This e-Catalogue will contain the prices, description of the commonly used items and price for those items to be referred by the implementing agencies. In the absence of online system, the MoF has issued notification to ten ministries and all autonomous agencies to procure the above items through MoF's common rates since July 2018. Further, the PRR also requires agency to share information on goods imported with regulatory bodies and procuring agencies have informed decisions.

Further PAC recommends MoEA to follow up in collaboration with RAA on the unresolved irregularities of Hydropower Projects for the period AAR 2017 and report to PAC by September 2019.

Status: Through the constant efforts made by MoEA and RAA, the unresolved irregularities pertaining to hydropower projects amounting to Nu. 3,849.611 million reported in October, 2018 has been fully (100%) resolved as of 30th November, 2019.

PAC recommends the respective agencies (excluding Hydropower projects) to follow up on the unresolved irregularities of AAR 2017 and report the status to PAC by September 2019.

Status: The agencies other than hydropower projects reported total irregularities amounting to Nu. 364.010 million in October, 2018. Through constant efforts

made by agencies and RAA, the unresolved irregularities reduced to Nu. 218.811 million as of 30th November, 2019.

Committee Recommendation

3. PAC recommends MHPA and all other agencies having unresolved irregularities from AAR 2010 - 2017 to resolve the pending issues latest by June 2020.

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.

Through numerous hearings conducted in different dzongkhags, PAC, RAA and concerned agencies could resolve significant issues. PAC is very hopeful that the concerned agencies along with the competent authorities will take the opportunity of such 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 Happy New Year.

Annexure I

List of cases where court judgements could not be enforced or register before the court of law due to accountable persons either ‘at large’ or ‘missing’. (Nu. in millions)

Agency/AAR	Issue	Status	Remarks
MoH 2010	Outstanding advances – Nu. 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 th November, 2019, Ministry agreed to appeal to the Court by end of December 2019 to charge the balance amount as value based sentencing
Zhemgang Dzongkhag 2010 Zhemgang Dzongkhag 2011	Outstanding advances- Nu. 0.199 and Nu. 0.143	Observation remained unsettled	The contractor was once convicted and sent to prison because of some other case. Thereafter, his identity and whereabouts were not known to the Dzongkhag
MoAF 2011	Excess payment –Nu. 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 Tsheringof Kabji Construction is missing
MoAF (Wangchuk Centenary Park, Bumthang), 2012	Misuse of FINIDA Project Fund – Nu. 0.241	Case was forwarded to OAG for their review	The case is still under OAG’s review

PCAL 2013	Irregular purchase of land belonging to the spouse of a Board Director	Case is under review by ACC	Case is still pending
Trashigang Dzongkhag 2013	Non-refund of salary disbursed during training – Nu. 0.407	The amount is not yet reflected	Accountable person has not returned from long-term training
Pemagatshel Dzongkhag 2013	Non-recovery of advances and penalties – Nu. 2.970	The Supreme Court directed the contractor to refund the full amount.	Contractor is at large
Sarpang Dzongkhag 2014	Non-recovery of advances – Nu. 1.338	The Contractor is yet to comply with the verdict passed by Sarpang Dzongkhag Court	Contractor is at large
Sarpang Dzongkhag 2014	Non-recovery of liquidated damages & 20% penalty – Nu. 0.130	The Contractor is yet to comply with the verdict passed by Sarpang Dzongkhag Court	Contractor is at large
FCBL 2014	Outstanding rent from various tenants	Outstanding rent not recovered	Court did not accept the case because the proper addresses of parties were not known and further the two defaulters are Indians.
Logchina Gewog 2015	Excess payment – Nu.0.033	Not yet recovered	Contractor could not be traced and Dzongkhag could not pursue the matter in the Court of law.

Monggar Dzongkhag 2015	Irregularities in the up-gradation of Out Reach Clinic to BHU-II	Monggar Dzongkhag Court directed the Contractor to deposit Nu. 1.194	Contractor is missing
NRDCL-SJ 2015	Non-termination of the Contract after stoppage of works	The case is under review by the larger court in Supreme court	Contractor is missing
JDWNRH 2015	Misuse of revenue – Nu. 5.602	Unsettled	OAG returned the case to ACC as where about of accountable person Ms. Kinzang Choden is not known
MoIC 2015	Disbursements not supported by documents – unauthorized and fictitious payments of Nu. 2.171	The criminal suit is not taken	Entire amount 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)
Chhukha Dzongkhag 2016	Excess payment- Nu. 0.658	The amount is not recovered	Accountable person is serving life imprisonment on account of Chortenvandalism
Civil Society Organization Authority, 2016	Non production of books of accounts and documents	The issue has not been settled	CSOA filed the case with RBP against Karwang Yohzen as he has still not returned to Bhutan.
Wangchang Gewog 2017	Irregularities in providing and fixing water pumps and HDPE pipes for Nu. 0.980	Issue remained unsettled	Whereabouts of Contractor is not known, and Gewog could not register the case in the Court

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	Issue remained unsettled	Contractor could not be located. Therefore the Dzongkhag could not register the case in the Court
MoH 2017	<p>i. Non-levy of liquidated damages against incomplete medical supplies – Nu. 0.500 million.</p> <p>ii. Non-settlement of advances against BPCL – Nu. 9.127 million</p>		The Indian supplier Agarwal Healthcare could not be located to register the case in the Court.

*** Tashi Delek ***
