



**REPORT OF THE
PUBLIC ACCOUNTS COMMITTEE
TO THE THIRD SESSION OF THE
SECOND PARLIAMENT**

(16th June, 2014)

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PUBLIC ACCOUNTS COMMITTEE REPORT TO THE THIRD SESSION OF THE SECOND PARLIAMENT

Article 25.6 of the Constitution of the Kingdom of Bhutan mandates the Public Accounts Committee (PAC) to review and report to the Parliament for its consideration on the Annual Audit Report (AAR) and any other reports received from the Auditor General.

In preparing this Report, the PAC has decided to present only a synopsis of the overall AAR 2013 as the same has been distributed to all members of Parliament in advance. The PAC has not been able to conduct hearings on any of the detailed audit findings reported in the AAR and as such, the observations and recommendations it has made in the Report are solely based on the textual review of AAR 2013.

CHAPTER - I: SYNOPSIS, OBSERVATIONS AND RECOMMENDATIONS ON THE ANNUAL AUDIT REPORT 2013

The Royal Audit Authority (RAA) had completed 534 audits during the year including 101 certification audits and two performance audits within 31st December 2013.

The AAR 2013 has been compiled from 853 audit reports issued during the year. The report consists of 739 normal audit reports, 112 certification audit reports and 2 performance reports. The Report also includes independent external audit of the audit of accounts and operations of the RAA for the Fiscal Year ended 30th June, 2013. The appointment of auditors was done based on the selection of auditors made by the PAC on behalf of the Parliament under the Audit Act of Bhutan 2006.

The total unresolved significant issues reflected in the AAR 2013 amounted to Nu. 261.464 million. The report contains unresolved significant issues pertaining to all Ministries, 8 Dzongkhags, 26 Gewogs of 15 Dzongkhags, 5 Autonomous Bodies, 13 Corporations, one Financial Institution and three Non-Governmental Organizations (NGOs). As compared to the irregularities of Nu. 391.007 million reported in AAR 2012, the irregularities have decreased by 33.13%.

The RAA had recovered a record high of Nu. 151.214 millions in 2013. The recoveries during 2013 had slightly increased by 2.4% from 2012. It was reported that the huge recoveries made during the year was mainly due to the rigorous follow-up done by the RAA.

During the year, the RAA endorsed 6 audit reports with 9 cases indicating existence of fraud and corruption to the Anti-Corruption Commission (ACC).

Since 2011, there had been decline in the amount of irregularities reported in the AARs. Under the budgetary agencies, the highest amount of irregularities is reported under Ministry of Works and Human Settlement (MoWHS) with Nu. 49.544 million followed by Ministry of Economic Affairs (MoEA) with Nu. 31.095 million and Ministry of Education (MoE) with Nu. 22.151 million.

Under the non budgetary agencies, State Trading Corporation of Bhutan Limited (STCBL) has the single largest amount of reported irregularities of Nu. 72.100 million representing 72.34% of the total irregularities followed by Dungsam Cement Corporation Limited (DCCL) with irregularities of Nu. 14.805 million.

1. Audit findings in AAR 2013

Audit findings have been grouped into four broad categories namely.

- a) Fraud, Corruption and Embezzlement
- b) Mismanagement
- c) Violation of Laws and Rules
- d) Shortfalls, Lapses and Deficiencies

The amount of Nu. 168.504 million was reported as the highest irregularities under **“Shortfalls, Lapses and Deficiencies”** followed by Nu. 53.765 million under **“Mismanagement”**. The amount of Nu. 36.141 million was reported under **“Violation of Laws and Rules”** and Nu. 3.054 million under **“Fraud, Corruption & Embezzlement”**.

a) Fraud, Corruption and Embezzlement

The total amount reported under this category amounted to Nu. 3.054 million with Nu. 1.534 million under Dzongkhags representing highest proportion of 50.23 % of the total amount closely followed by Gewogs with Nu. 1.455 million representing 47.64% of the total irregularities.

The irregularities under the Dzongkhags are solely represented by the Dzongkhag Administration, Punakha. Under the Gewogs, the following were reported;

- Gakidling under Haa Dzongkhag had irregularities of Nu. 0.796 million
- Zobel under Pemagatshel Dzongkhag with Nu. 0.458 million

- Talo under Punakha Dzongkhag with Nu. 0.108 milion.
- Shompangkha under Sarpang Dzongkhag with 0.045 million,
- Barp under Punakha Dzongkhag with Nu. 0.035 million,
- Ngangla under Zhemgang Dzongkhag with Nu. 0.013 million and
- Sampheling under Chukha Dzongkhag (administrative action awaited)

The amount under Ministries is represented by MoWHS with Nu. 0.019 million.

Under Corporations, the amount of Nu. 0.046 million pertained to STCBL. There are no reported irregularities of Fraud, Corruption and Embezzlement under the Autonomous Bodies and NGOs.

The irregularities related to Fraud, Corruption and Embezzlement are forwarded to Anti-Corruption Commission (ACC) by the RAA.

b) Mismanagement

The total irregularities under this category amounted to Nu. 53.765 million of which 97.75% is represented by the Ministries with irregularities of Nu. 52.556 million. Under the Ministries, the MoEA had the highest irregularities with Nu. 31.095 million followed by MoWHS with the regularities of Nu. 18.067 million.

c) Violation of Laws and Rules

The total irregularities reported under this category amounted to Nu. 36.141 million. The irregularities reported under Ministries was Nu. 15.042 million representing 41.62% of the irregularities reported. The Ministry of Labour and Human Resources (MoLHR) had the highest irregularities of Nu. 4.899 million followed by the MoE had with irregularities of Nu. 4.623 million for violation of accounting norms.

The irregularities of Nu. 8.191 million was represented by Corporations and Nu. 7.847 million by Gewogs.

d) Shortfalls, Lapses and Deficiencies

Under this category there was irregularity of Nu. 168.504 million. The STCBL under the Corporations had the highest irregularity of Nu. 72.054 followed by the DCCL with Nu. 10.930 million.

The total irregularities reported under Ministries was Nu. 70.139 million of which Nu. 29.758 million pertained to MoWHS, Nu. 15.152 to MoE and Nu. 14.808 million to MoFA.

e) PAC Observations & Recommendations

PAC Observation 1

Land related lapses highlighted in the AAR 2013 such as underdevelopment of private land, lease of Government land and land tax not commensurate with the total area of land available are mainly due to anomalies that exists between the Land Act 2007, the Thimphu Structural Plans (TSP) and the Local Area Plans (LAPs).

Recommendation 1

- a) The anomalies highlighted in the AAR 2013 should be discussed thoroughly between the concerned agencies namely, the National Land Commission (NLC), the MoWHS and the Thimphu Thromde as soon as possible so as to address these issues. The action taken on this particular recommendation should be reported to the PAC by December 2014. The Action Taken Report (ATR) could include, among others, the need to amend existing laws if any.
- b) The National Land Policy which is to be published by the Government should ensure that the above anomalies are duly addressed in the same.

PAC Observation 2

1. There was a revenue loss of Nu.25.230 million as a result of short levy of penalty by the Department of Geology and Mines (DGM) on unauthorized Talc mining at Sukreti, Samtse.
2. Similar issues have been pointed out in performance audit report on Leasing of Government Land, GRF Land and Mines (August 2013). As approved by the House in the First Session of the Second Parliament to delegate the review of performance audit reports to relevant committees of both the houses, the PAC notes that the Special Committee on Mining and Quarrying Activities in the country of the National Council is currently working on this issue.

Recommendation 2

The MoEA should hold DGM accountable for the above loss of revenues.

PAC Observations 3

The Royal Bhutanese Embassy (RBE), New Delhi, RBE, Dhaka, the Permanent Mission of Bhutan, Geneva, and the Royal Bhutanese Consulate Office, Kolkatta have paid Nu.1.933 million as Children's Education Allowance although the children were studying in Bhutan. This is in contravention to Foreign Service Rules and Regulations which stipulates that such allowances are payable only if the children are not in receipt of free education either in Bhutan or abroad.

Recommendation 3

The MoFA should make the concerned embassies to repay the allowance immediately and take necessary administrative actions against the concerned officials.

PAC Observations 4

The vehicles purchased by the tour operators under the fiscal incentive schemes were not registered under the company's name as required in the scheme. Further, the tour operators have not paid Sales Tax and Customs Duty for failing to bring in 50 tourists in a year. However, this scheme has since been halted for about two months beginning March 2014 in view of the tax revision measures.

Recommendation 4

Should such similar fiscal incentive schemes be introduced by the Government, the concerned agency should implement and monitor the scheme properly so that similar lapses do not occur.

PAC Observation 5

PAC observed that the Penden Cement Authority Limited (PCAL) had made payments on behalf of various agents on account of Bhutan Sales Tax (BST) amounting to Nu.2.208 million and such practices are not in line with the standard financial norms.

Further, during the First Session of Second Parliament PAC had recommended that PCAL be investigated by ACC for significant irregularities based on both AAR 2011 and AAR 2012.

Recommendation 5

The PCAL Board should make the concerned officials recover the BST from the concerned agents immediately and take necessary administrative actions against the management.

2. Certification of Annual Financial Statements

The report includes the certification of the Annual Financial Statements (AFS) of the Royal Government for the Fiscal Year ended June 30, 2013. The approved budget for the Fiscal Year 2012-13 of the Royal Government was Nu.33,486.239 million against estimated resources of Nu.31,891.042 million with a fiscal deficit of Nu. 1,595.197 million. During the year, the outlay was revised to Nu.38,604.393 million and the resources to Nu. 37,648.230 million. At the end of the Fiscal Year, the actual outlay reported was Nu. 34,902.407 million against the realized resources of Nu. 30,656.117 million resulting into a fiscal deficit of Nu. 3,753.982 million.

The AAR 2013 notes that as compared with the previous year, there was some improvement in the utilization of capital budget. For the Fiscal Year ended 2012, the capital budget of Nu.

4,095.754 million was not utilized against the revised capital budget of 22,232.868 million while the actual expenditure reported was 18,137.114 million. In 2013, the actual expenditure reported was Nu. 18,431.264 million against the revised capital budget of Nu.20,717,288 million resulting in the underutilization of Nu.2,286.02 million.

The RAA has issued qualified audit opinion based on the pending detailed review and reconciliation of the discrepancies noted on account of Non-revenue Account and Refundable Deposit Account, employees and employers' matching contribution and the mismatch between amounts shown as payment to Department of Public Accounts (DPA) and the amount actually surrendered to the DPA in both Letter of Credit (LC) and Project Letter of Credit (PLC) accounts across all budgetary agencies.

PAC Observation 6

- a) The reconciliation of the discrepancies:- refund made without obtaining releases, refund not made upon receipt equivalent releases and excess, non deposit of revenue receipts and refundable deposit involving huge amounts across all budgetary agencies could not be ascertained.

The Department of Public Accounts (DPA), Ministry of Finance (MoF) has acknowledged that such problems arose as the Public Expenditure Management System (PEMS) did not have any controls built in to monitor such lapses. They have addressed this by tagging budget and release to specific activities. They have also stated that such an observation should not come about in the 2014-2015 AFS report.

The RAA will be verifying the corrective measures adopted and its effectiveness as assured by the DPA.

- b) Un-reconciled differences between employees' and employers' as well as excess contributions remitted to National Pension & Provident Fund (NPPF) could have inflated the expenditure on pay and allowances.

The DPA stated that such discrepancies could have arisen due to (i) Fund transfer for employees who are transferred to other agencies after the final quarter fund had been released from DPA. (ii) When agencies have continued paying salary to the employees who had already resigned. (iii) Salary disbursement made through imprest money. (iv) Charging of employer's contribution to pay and allowances when there is no sufficient budget under OBC 24.03 at the end of the financial year. The RAA is in the process of further reviewing the above issues in greater detail.

- c) There was a mismatch between amount shown as payment to DPA and the amount actually deposited in DPA – Nu.69,298,591.14.

The DPA, MoF has attributed this mismatch to (i) Agencies passed journal voucher to correct the broad head and OBC for what they have debited and credited (ii) treatment of payment to DPA as expenditure and under the head “Others”. (iii) Refunds are made through cash warrant or demand drafts which are subject to bank charges.

Recommendation 6

In order to address the observations (b) & (c) above, the MoF should issue clear directives to all the budgetary agencies to enhance intra agency co-ordination (especially between the HR & Finance Sections) and ensure strict adherence to the financial rules and regulations.

3. Government debt position

The AFS for the Fiscal Year 2012-2013 reflects the Government debt as Nu.101,310.220 million as of 30th June 2013 of which the outstanding domestic debt was Nu. 6,342.721 million (7.1% of GDP) and the total external debt outstanding was Nu.94,967.473 million (90.1% of GDP). External debt in convertible currency is about USD 574,520 million equivalent to Nu.34,140.823 million while the outstanding Rupee loan stood at Nu. 60,826.650 million (63.7% of total external debt).

PAC Observation 7

In its Audit Report on Public Debt Management, the RAA has succinctly captured every major aspect pertaining to public debt and has made a series of recommendations to the Government. The PAC notes that the RAA has asked for ATR within six months from the date of issuance of the report (8th May 2013).

Recommendation 7

In view of the above observation, other than strongly urging the Government to implement the recommendations at the earliest and as much as possible, the PAC has decided to reserve its comments till then.

4. Persistent irregularities in construction works

Despite RAA’s unrelenting insistence for improved compliance and adherence to the regulatory requirements governing constructions through its AARs and individual audit reports to agencies concerned, issues related to constructions such as overpayments, double payments, acceptance of defective works, payments for works not executed, substandard works etc. still constitute a substantial portion of the irregularities reported.

The RAA indicates its possible causes to be, among others:

- Inadequate internal safeguards and controls in the administration of contracts;
- Inadequate exercise of due diligence by those charged with the responsibilities;
- Inadequate internal arrangement for enforcing accountability;
- Incapacity of agencies to undertake constructions ;
- Failure to conduct feasibility studies; and
- Lack of coordination.

The RAA has also expressed the need for remedial measures to be taken through appropriate Government interventions to address these recurrent issues that are becoming endemic in the system.

PAC Observation 8

Infrastructure plays a crucial role in spurring the economic and social progress of a country and as a developing country; huge investment in infrastructure development is inevitable. These include the provision of: basic rural infrastructure such as irrigations canals and farm roads; general transport infrastructure such as roads and bridges; basic health and social infrastructure such as hospital and school buildings.

Expenditure is inevitable - wastages, losses and sub-standard quality should not be. The two major challenges we have are: (i) our rugged topography, geographic and climatic features; and (ii) the shortage of technical human resources. We cannot change the first and the second challenge will take a long time to address as it is dependent on the outcome of the education policies we pursue. The important thing is to address the problems that are within our control despite these challenges. In doing so, wastages, losses and additional expenses due to sub-standard quality can be reduced which in turn complements the on-going austerity measures of the Government.

The issues highlighted by RAA are well within our control. The policies and the regulatory framework are in place; it is in its implementation that we fall short.

Recommendation 8

PAC requests the House to direct the Government to:

- a) Address these issues on a priority basis given that construction activities constitute a significant part of the capital budget.
- b) Submit an Action Taken Report on each of the above enumerated points raised by RAA indicating details of action taken to the PAC within six months from the date of publication of the Resolutions of Parliament.

CHAPTER – II: SYNOPSIS, OBSERVATIONS AND RECOMMENDATIONS ON THE REVIEW REPORTS OF THE ANNUAL AUDIT REPORTS 2009-2010

The RAA had submitted the Review Report of AAR 2009 and 2010 to the 1st Session of the Second Parliament in August, 2013.

Out of the total unresolved irregularities amounting Nu. 106.978 million reported to the Parliament in August, 2013, the irregularities aggregating Nu. 15.203 million (14.21%) were resolved leaving a balance of Nu. 91.775 million (85.79%) as on 31st March, 2014.

Sl. No.	AAR Year	Unresolved Irregularities reported in August 2013	Irregularities resolved as on 31.03.2014	Balance Irregularities as on 31.03.2014	Amount Resolved in a year %
1	AAR 2009	13.110	8.954	4.156	68.30
2	AAR 2010	93.868	6.249	87.619	6.66
	Total	106.978	15.203	91.775	14.21

a) Review Report 2009

The report contains unresolved irregularities of Nu.13.110 million. The RAA had conducted numerous follow-ups at various levels and resolved the irregularities amounting Nu. 8.954 million (68.30%) leaving a balance of Nu. 4.156 million (31.70%). Out of the unresolved irregularities, Nu.3.414 million pertains to the Ministries, Nu. 0.700 million pertains to Dzongkhags and Nu. 0.042 million with the Gewogs as on 31st March,2014.

The unresolved irregularities amounting to Nu. 2.353 million under the category “**Violation of Laws and Rules**” pertains to the MoLHR.

The unresolved irregularities amounting to Nu. 1.761 million under the category “**Shortfalls, Lapses and Deficiencies**” Nu. 0.896 million pertains to the MoLHR, MoFA with Nu. 0.165 million and Dzongkhag Administration, Punakha with Nu. 0.700 million.

The unresolved irregularities amounting to Nu. 0.042 million under the category “**Mismanagement**” pertains to the Gewog Adminsitration, Gakiling under Haa Dzongkhag.

b) Review Report 2010

The report contains unresolved irregularities of Nu.93.868 million. The RAA had conducted numerous follow-ups at various levels and resolved the irregularities amounting Nu. 6.249 million (6.66%) leaving a balance of Nu. 87.619 million (93.34%). Out of the unresolved

irregularities, Nu.87.075 million pertains to the Ministries, Nu.0.397 million pertains to Dzongkhags and Nu.0.147 million with the Corporations as on 31st March, 2014.

The unresolved irregularities amounting Nu.10.691 million under the category **“Fraud Corruption and Embezzlement”** pertains to the Ministry of Health (MoH) amounting Nu. 8.300 million and Nu. 2.391 million with MoFA which are under the purview of the ACC.

Out of the total unresolved irregularities amounting Nu.8.582 million under the category **“Mismanagement”**, Nu. 7.873 million pertains to the MoH and Nu. 0.709 million to the MoF.

The unresolved irregularities amounting Nu.0.003 million under the category **“Violation of Laws and Rules”** pertains to the MoH.

Out of the total unresolved irregularities amounting to Nu. 68.343 million under the category **“Shortfalls, Lapses and Deficiencies”**, Nu. 67.799 million pertains to the MoH while Samtse and Zhemgang Dzongkhag Administrations, have irregularities amounting to Nu. 0.108 million and Nu. 0.289 million respectively. The unresolved irregularities of Bhutan Board Product Limited (BBPL) and Food Corporation of Bhutan Limited (FCBL) amounts to Nu. 0.076 million and Nu. 0.071 million respectively.

c) PAC Observations and Recommendations

PAC Observation 9

Pursuant to the Resolution of the 3rd Session of the First Parliament, the Ministry of Finance issued circular No. MoF/R-Circular/2010/9842 dated 7th January 2010 directing Government agencies to impose penal interest of 24% per annum. It further directed that if the recoverable amount along with penal interest was not deposited within 12 months from the date of issue of the audit report, the concerned agency should take legal action.

This was reiterated by the House in the First Session of the Second Parliament which directed that all pending issues of AAR 2008-2010 must be resolved by the agencies concerned within April 30, 2014. However, the PAC regrets to report that action as per these resolutions have not been taken.

Recommendation 9

PAC seeks the directives of the House on fixing accountability on the concerned agency for not taking action as per the resolutions of the Parliament.

CHAPTER –III: SYNOPSIS, OBSERVATIONS AND RECOMMENDATIONS ON THE IMPLEMENTATION STATUS OF THE PAST RESOLUTIONS

a) Review of Action Taken by the Government on PAC Recommendations duly endorsed by the Parliament in the First Session.

The Recommendations of the PAC as endorsed at the Joint Sitting of the First Session of the Second Parliament (*Annexure I*) was sent to the Government for necessary action on 17th October 2013. The PAC wrote to the Government on 14th May 2014 to ask for an update on action taken on the recommendations and requested that the same be sent latest by 22nd May 2014.

The PAC received a set of responses from the Cabinet Secretariat which is annexed in *Annexure II*. The responses forwarded to the PAC by the Cabinet Secretariat were from agencies that had been identified by the Cabinet Secretariat to provide the response and not the collective response of the Government as such.

b) PAC Observations and Recommendations

PAC Observation 10

- The PAC acknowledges that agencies are taking some action individually on the recommendations but is unable to discern the action taken by Government in totality. Three cases in point, among others:
- Different responses were received from the NLC and the MoAF on the “Need to develop a Land Lease Policy Framework” recommendation. The NLC says that it has developed a Draft National Land Policy of Bhutan that will govern land governance including land lease and the same will be submitted to the Government for approval soon. The MoAF on the other hand says that the National Land Policy 2012 has already been formulated and endorsed by the Cabinet and awaits publication. The PAC is not able to discern whether it is the same National Land Policy or different Land Policies that is being referred to by the two agencies.
- On the recommendation “Need to test the performance and operational effectiveness of new systems developed prior to changeover”, the GNHC has responded that while on its part it always emphasizes on ensuring operational effectiveness of new systems developed by first piloting it, building capacity of the user, preparing guidelines/manuals, etc., such as it did for the Planning and Monitoring System (PLaMS), for systems developed by other ministries/agencies, it can only emphasize on the need to ensure sustainable development of new systems but it was beyond their technical capacity to test the performance and ensure

operational effectiveness of new system. They remarked that the DITT/MoIC would be the right agency to ensure this through some kind of certification to ensure operational effectiveness. The response, had it been given, from the Government as a whole, would perhaps have given a clearer picture of the situation and the action being taken in this regard.

- The RCSC is the umbrella organization in charge of managing the civil service and regulating their recruitment, appointment, staffing, training, transfers and promotions. At the operational level, engineers are under the MoWHS while finance personnel are under the MoF. As acknowledged by the Ministry of Home and Cultural Affairs (MoHCA), local Governments face a shortage of manpower, particularly engineers and finance personnel and while the Ministry, within its purview, strives to fill up the gaps of human resources in the Dzongkhags, it can only raise the issue with concerned ministries and agencies as it does not have the authority to recruit the additional staff on its own. As this issue was not “marked” to the MoWHS and the MoF, there is no response on this from them. Therefore, the PAC cannot determine the extent of the action taken by the Government.
- The Cabinet Secretariat had marked the recommendation on “Need to undertake assessment of environmental and social impact for mining operations” to the National Environment Commission (NEC) to respond to. Their response did not form part of the collection of responses forwarded by the Cabinet Secretariat to the PAC, hence we have assumed that there was no response from them. Consequently, the PAC is not in a position to state whether any action was taken on this particular recommendation by the Government.
- The kind of “report” received could be perceived as symptomatic of agencies operating in individual silos and highlights the need for greater coordination.
- With regard to the two studies that are currently being conducted by the MoHCA and the MoAF on Gungtongs and rural-urban migration respectively, the PAC is hopeful that synergies between the two during the implementation of the resultant recommendations will be explored.

Recommendation 10

- i) The Governments’ ATR on the recommendations of the PAC (duly endorsed by the Parliament) should be one comprehensive report from the Government and not a collection of responses. This will enable the PAC and consequently the House to get a holistic view of the situation.
- ii) The efficacy of the various actions reported as being undertaken in addressing the persistent observations made by the RAA in the past AARs should be reported on by the RAA in their subsequent Audit Reports.

- iii) The under-utilization of capital budget continues to be a perennial problem suggesting that there is room to consider whether a more aggressive budget review processes would be beneficial for service delivery, to realize efficiencies by re-allocating likely under spending to other areas of emerging needs. The Government must come up with a concrete action plan on how the Government is going to address this problem beyond the response received from the MoF.

c) Review of Action Taken by the Government on PAC recommendation duly endorsed by the Parliament in the second session.

d) PAC Observations and Recommendations

PAC Observation & Recommendation 11

The tabling of the Bill for the Amendment of the Election Act in the forth coming session of National Assembly will address the following Second Session Resolutions on political parties;

- a. To study the need to amend or improve the provisions related to election laws and adopt measures to prevent similar situations from happening with any political parties in future.
- b. All Political Parties henceforth should exercise greater prudence with their finances and adhere strictly to the Electoral Laws.
- c. Such oversight and inconsistencies should not be repeated in the future. Future Parties should be adequately advised by Election Commission of Bhutan (ECB) so that they avoid the same mistakes.

PAC Observation & Recommendation 12

RAA confirmation on the annual auditing of the accounts and operations of the Political Parties addresses the following Second Session Resolutions under Political Parties:

- a. ECB and RAA should enhance consultation with each other when it comes to the accounts of political parties. It was also directed that accounts and operations of political parties be audited annually without delay.
- b. The House resolved that all the unresolved accounts should be fully resolved within the financial year 2013-2014.

e) Resolutions on Environmental issues in Forestry - National Forestry Inventory (NFI), Forest Fires and Watershed Management

f) PAC Observation

PAC Observation 13

The MoAF will be completing 36 percent of the field work under the implementation phase of the NFI by the end of June 2014. Further, the Ministry has targeted to complete all fields works by the end of the financial year 2015-2016. As recommended by the PAC, Nu.30.945 million has been allocated in the financial year 2014-2015.

CHAPTER –IV: OTHER RECOMMENDATIONS

a) PAC Overall Observation and Recommendation

PAC Observations and Recommendation 14

It is encouraging to note that audit recoveries have shown an increase due to the rigorous follow up done by RAA and responsive actions taken by audited agencies in resolving pending audit issues and that there has been a decrease in the irregularities reported over the years.

Nonetheless, the fact that the highest irregularities are reported under “Shortfalls, Lapses and Deficiencies”, followed by “Mismanagement”, then “Violation of Laws and Rules”, all of which can be tackled with the effective implementation of rules and regulations and concerted monitoring and supervision efforts (good governance) shows that there is still a lot of room for improvement on this front.

The key is “**Accountability**”. Audit reports designate direct and supervisory accountability on every case reported. One way of enforcing accountability at the moment is the “Audit Clearance Certificate” which is issued only if there is no pending adverse report against the applicant. The other is punitive actions taken that are limited to recovery of the amount and do not entail any administrative action. These address the issue of direct accountability but the enforcement of supervisory accountability is still a grey area.

Appropriate directives of the House are sought on how supervisory accountability should be put into effect without unduly constricting the ability of the supervisor to function effectively.

b) Strengthening of PAC

Article 25.6 of the Constitution stipulates the mandate of the PAC as “.... *to review and report on the Annual Audit Report to Parliament for its consideration or on any other report presented by the Auditor General.*” In other words, the report of the PAC forms the basis by which legislative scrutiny of external audit reports is carried and one of the primary means of ensuring accountability of the Executive to the Legislature for the lawfulness, economy, efficiency and effectiveness of the utilization of the funds approved by Parliament. **In order for the PAC to fulfill this objective, this broad mandate needs to be elaborated upon through a PAC Act.** Such an Act will, among others:

- i) Define the scope and extent of the review;
- ii) Add clarity on the PACs role and responsibilities as well as its powers, the composition of members of PAC from the two Houses and additional criteria required;
- iii) Set out the procedural requirement for hearings;
- iv) Establish a system for issuance of recommended actions by the legislature and its implementation by the executive leading to improved financial management and better stewardship;
- v) Provision of adequate budget for PAC; and
- vi) Role of the PAC Secretariat.

c) Schedule for presentation of PAC’s report

The PAC at the First Session of Second Parliament had obtained the consent of the House to present the AARs in the Summer Sessions and the Performance Audit and other Reports during the Winter Sessions. With the finalization of the calendar of sittings for the two Sessions as May/June and November/December respectively and the practical difficulties faced by the PAC in preparing this current report concurrent with the Session, **the PAC now proposes to present the AARs in the Winter Sessions and Performance Audit and other Reports in the Summer Sessions.**

This will enable the RAA to conclude their scheduled audits and publish its report as stipulated in the Audit Act of Bhutan 2006 i.e. every fourth quarter of the Fiscal Year on the activities carried out during the previous Fiscal Year. In other words, legally they have up until June to publish their report. This proposed change will also afford the PAC more time to conduct requisite hearings (which are an essential part of the review function) and prepare a more comprehensive report.

CHAPTER –V: CONCLUSION

The PAC would like to acknowledge the hard work put in by the RAA led by the Auditor General. The Committee is hopeful that our report will serve as a useful basis for the House to conduct deliberation and give appropriate directives which will compliment the efforts of the RAA towards achieving economy, efficiency and effectiveness in the use of public resources.

Annexures:

Annexure I- List of recommendations of the First Session of the Second Parliament

Annexure II- Responses received from Cabinet Secretariat on the past Resolutions

Annexure III- Detailed Review Report of AAR 2009 and 2010
