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དམངས་ཁྱིམ་ཚོགས་ཚུངས།



PARLIAMENT OF BHUTAN
PUBLIC ACCOUNTS COMMITTEE

Report of the Public Accounts Committee

Presented to the First Session of the Third

Parliament of Bhutan

(January 21-22, 2019)

“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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MEMBERSHIP

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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:

- 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

Article 25 (6) of the Constitution of the Kingdom of Bhutan mandates the Public Accounts Committee (PAC) to “review and report on the Annual Audit Report to Parliament for its consideration or any other reports presented by the Auditor General”. Accordingly, the PAC functions as per the Rules of Procedures of Public Accounts Committee 2017.

PAC presents the Financial Audit Report to the First Session of the Third Parliament for deliberation. The report mainly consists of the following:

- 1) Review Report of Annual Audit Report (AAR) 2017;
- 2) Follow-up Report on review reports of AAR 2010-2016; and
- 3) Public Accounts Committee’s observations and recommendations.

Chapter I: Synthesis of Annual Audit Report 2017

This chapter provides synthesis of AAR 2017 submitted to the 11th Session of the Second Parliament in June 2018 and Review Report of AAR 2017 as of September 2018. The PAC organized presentation from Royal Audit Authority (RAA) on both the reports to the hon. members of the Parliament on December 7, 2018.

This chapter examines certification of annual financial statements, unresolved irregularities by categories and agencies, joint audits of hydropower projects, and general recommendations.

1. Certification of Annual Financial Statements

RAA reported actual outlay of Nu. 48,017.98 million for the fiscal year 2016-17 against the realized resources of Nu. 42,673.12 million with fiscal deficit of Nu. 5,344.86 million. Against the revised capital budget of Nu. 32,659.99 million, the actual expenditure was Nu. 25,837.024 million and underutilized capital budget was Nu. 6,822.968 million, or 20.89% of the capital budget.

The overall Government debt stood at Nu. 170,256.76 million as on 30th June 2017 - domestic debt of Nu. 10,057.34 (5.9%) and external debt of Nu. 160,199.41 million (94%).

2. Resolved and Unresolved Irregularities

The unresolved irregularities reported in review report of AAR 2017 pertains to 10 Ministries, 12 Dzongkhag Administrations, 40 Gewog Administrations, 9 Autonomous

Agencies, 10 Corporations, three Non-Governmental Organizations and three Hydropower Projects.

Out of the total unresolved irregularities of Nu. 4,381.76 million reported to the 11th Session of the Parliament, RAA resolved Nu. 66.24 million (1.5%) as on 30th September 2018 leaving a huge balance of Nu. 4,315.52 million. Out of this unresolved balance, Nu. 3,951.51 million (91.5%) pertains to the Hydropower projects.

Table 1: Resolved & Unresolved Irregularities of AAR 2017 (Nu. in million)

Sl #	Agencies	Irregularities reported to the Parliament in June 2018	Amount resolved	Balance as on 30/09/2018	Amount resolved %
1	Ministries	115.212	14.312	100.06	12.42
2	Dzongkhag	38.137	2.606	35.531	6.83
3	Gewogs	12.382	1.483	10.899	11.98
4	Autonomous Agencies	72.753	8.423	64.33	11.57
Total Budgetary Agencies (A)		238.484	26.824	210.82	11.24
5	Corporations	148.096	13.633	134.463	9.21
6	Non-Governmental Organizations	20.532	0.413	20.119	2.01
Total Non- Budgetary Agencies (B)		168.628	14.046	154.582	8.33
7	Hydropower Projects	3902.652	23.141	3879.511	0.59
Total Hydro power projects (C)		3902.652	23.141	3879.511	0.59
Grand Total (A+B+C)		4309.764	64.011	4244.913	1.48

2.1. Unresolved Irregularities by Agencies

From the total unresolved irregularities of Nu. 365.402 million (excluding the hydropower projects), 10 Ministries account for Nu. 100.06 million, 12 Dzongkhags for Nu. 35.53 million, 40 Gewogs for Nu. 10.899 million, 9 Autonomous agencies for Nu. 64.33 million, 10 Corporations for Nu. 134.46 million and three Non-Governmental Organizations for Nu. 20.11 million. The detail are shown in table 2, 3, 4, 5, 6 and 7.

Table 2: Unresolved Irregularities by Ministries (Nu. in million)

SI #	Ministries	Irregularities in June 2018	Amount resolved	Balance as on 30/9/2018
1	Ministry of Works and Human Settlement (MoWHS)	46.61	5.41	41.201
2	Ministry of Health (MoH)	31.335	4.827	26.508
3	Ministry of Finance (MoF)	27.45	0.739	26.711
4	Ministry of Agriculture & Forest (MoAF)	5.067	1.473	3.594
5	Ministry of Education (MoE)	1.736	1.736	0
6	Ministry of Labour & Human Resources (MoLHR)	1.502	0	1.502
7	Ministry of Economic Affairs (MoEA)	0.963	0.866	0.097
8	Ministry of Home and Cultural Affairs (MoHCA)	0.448	0	0.448
9	Ministry of Information & Communications (MoIC)	0.1	0.1	0
10	Ministry of Foreign Affairs (MoFA)	0		0
Total		115.211	15.151	100.06

Ministries unresolved irregularities of Nu. 100.06 million accounts for 33.3 percent of the total irregularities of budgetary and non-budgetary agencies. Amongst the ministries, MoWHS has the highest irregularities of Nu. 41.2 million followed by MoF with 26.7 million and MoH with 26.5 million. While MoLHR and MoHCA could not resolve any of their irregularities, MoFA is yet to resolve two irregularities of non-financial nature.

Table 3: Unresolved Irregularities by Dzongkhags (Nu. in million)

SI #	Dzongkhags	Irregularities in June 2018	Amount resolved	Balance as on 30/9/2018
1	Dzongkhag Administration, Trashiyangtse	16.326	0	16.326
2	Dzongkhag Administration, Gasa	5.684	1.066	4.618
3	Dzongkhag Administration, Monggar	3.713	0.045	3.668
4	Dzongkhag Administration, Trongsa	3.288	0.460	2.828
5	Dzongkhag Administration, Paro	2.410	0	2.410
6	Dzongkhag Administration, Punakha	2.121	0	2.121
7	Dzongkhag Administration, Dagana	1.792	0.150	1.642
8	Dzongkhag Administration, Pemagatshel	1.425	0	1.425
9	Dzongkhag Administration, Wangdue Phodrang	0.469	0.469	0
10	Dzongkhag Administration, Haa	0.458		0.458
11	Dzongkhag Administration, Thimphu	0.416	0.416	0
12	Dzongkhag Administration, Samdrup Jongkhar	0.035		0.035
Total				35.531

Out of the dzongkhags' outstanding irregularities of Nu. 35.531 million, Trashiyangtse dzongkhag has the highest unresolved irregularities of Nu. 16.326 million followed by Gasa and Monggar dzongkhags with Nu. 4.618 million and Nu. 3.668 million respectively.

Table 4: Unresolved Irregularities by Gewogs (Nu. in million)

	Gewogs	Irregularities as of June 2018	Amount resolved	Balance as on 30/9/2018
a)	Gewogs under Paro Dzongkhag			2.959
1	Naja Gewog	1.206	0.186	1.020
2	Wangchang Gewog	0.980	-	0.980
3	Dopshari Gewog	0.651	0.077	0.574
4	Lungnyi Gewog	0.300	-	0.300
5	Hungrel Gewog	0.085	-	0.085
b)	Gewogs under Gasa Dzongkhag			3.057
6	Laya Gewog	2.740	-	2.740
7	Lunana Gewog	0.154	-	0.154
8	Khamed Gewog	0.100	-	0.100
9	Khatoed Gewog	0.063	-	0.063
c)	Gewogs under Pemagatshel Dzongkhag			1.924
10	Chhimong Gewog	0.900	-	0.900
11	Dungmin Gewog	0.64	-	0.640
12	Khar Gewog	0.384	-	0.384
13	Choekhorling Gewog			-
d)	Gewogs under Monggar Dzongkhag			0.989
14	Saling Gewog	0.561	0.113	0.448
15	Monggar Gewog	0.411	-	0.411
16	Tsamang Gewog	0.221	0.181	0.040
17	Silambi Gewog	0.055	0.055	0
18	Narang Gewog	0.046	-	0.046
19	Gongdu Gewog	0.044	-	0.044
e)	Gewogs under Sarpang Dzongkhag			1.338
20	Gakiling Gewog	0.742	-	0.742
21	Gelephu Gewog	0.349	-	0.349
22	Umling Gewog	0.178	-	0.178
23	Samtenling Gewog	0.069	-	0.069
f)	Gewogs under Tsirang Dzongkhag			0.171
24	Gosarling Gewog	0.039	-	0.039
25	Pungtenchhu Gewog	0.132	-	0.132
g)	Gewogs under Punakha Dzongkhag			0.326
26	Barp Gewog	0.785	0.785	0
27	Goenshari Gewog	0.162	0.045	0.117
28	Talo Gewog	0.116	-	0.116
29	Kabjisa Gewog	0.093	-	0.093

h)	Gewogs under Wangduephodrang Dzongkhag			0.096
30	Gasetshowom Gewog	0.096	-	0.096
31	Nyisho Gewog	-	-	-
32	Athang Gewog	-	-	-
33	Kazhi Gewog	-	-	-
i)	Gewogs under Samtse Dzongkhag			0.000
34	Tendruk Gewog	0.041	0.041	0
j)	Gewogs under Trongsa Dzongkhag			0.039
35	Korphug Gewog	0.039	-	0.039
k)	Gewogs under Dagana Dzongkhag			-
36	Lhamoidzingkha Gewog	-	-	-
37	Drujeygang Gewog	-	-	-
l)	Gewogs under Samdrup Jongkhar Dzongkhag			-
38	Dewathang Gewog	-	-	-
39	Serthi Gewog	-	-	-
m)	Gewogs under Trashigang Dzongkhag			-
40	Radhi Gewog	-	-	-
	Total	12.382	1.483	10.899

Out of the total reported irregularities of Nu. 12.382 million to the Parliament in June 2018, gewog administrations resolved only Nu. 1.483 million (11.97%) leaving unresolved irregularities of Nu. 10.899 million. Laya gewog under Gasa dzongkhag has the highest irregularities of Nu. 2.740 million followed by Naja gewog, Paro dzongkhag.

Table 5: Unresolved Irregularities by Autonomous Agencies (Nu. in million)

Sl #	Autonomous Agency	Irregularities as of June 2018	Resolved amount	Balance as on 30/9/2018
1	Thromde Administration, Thimphu	23.083	0.045	23.038
2	Dratshang Lhentshog	18.785	0.096	18.689
3	Thromde Administration, Gelephu	14.062	6.245	7.817
4	Thromde Administration, Phuentsholing	9.527	0.881	8.646
5	National Land Commission Secretariat	2.84	0.135	2.705
6	Tourism Council of Bhutan	2.695	0.257	2.438
7	Royal University of Bhutan	0.887	0.204	0.683
8.	Thromde Administration, Samdrup Jongkhar	0.241		0.241
9.	Royal Education Council	0.073		0.073
	Total	72.439	8.423	64.33

Out of the total irregularities of Nu. 72.439 million in June 2018, the autonomous agencies resolved only Nu. 8.432 million. Thimphu Thromde has the highest irregularities of Nu. 23.038 million followed by Dratshang Lhentshog with Nu. 18.689 million and Phuentsholing Thromde with Nu. 8.646 million.

Table 6: Unresolved Irregularities by Corporations (Nu. in million)

Sl #	Corporations	Unresolved irregularities in June 2018	Resolved amount	Balance irregularities as on 30/9/2018
1	Druk Green Power Corporation (DGPC)	107.303	-	107.303
2	Penden Cement Authority Ltd (PCAL)	12.96	5.88	7.08
3	Bhutan Power Corporation Ltd (BPCL)	7.872	3.747	4.125
4	Army Welfare Project (AWP)	7.75	-	7.750
5	Construction Development Corporation Ltd (CDCL)	7.459	-	7.459
6	Dungsam Cement Corporation Ltd (DCCL)	3.428	2.922	0.506
7	Kuensel Corporation	1.214	1.084	0.130
8	Natural Resources Development Corporation Ltd (NRDCL)	0.06	-	0.06
9	Druk Holding & Investment (DHI)	0.05	-	0.050
10	Dungsam Polymers Ltd.	-	-	-
	Total	148.096	13.633	134.463

Against the corporations' unresolved irregularities of Nu. 148.096 million in June 2018, only Nu. 13.63 million (9.2 %) were resolved. DGPC has the highest unresolved irregularities of Nu. 107.303 million followed by AWP and CDCL with Nu. 7.75 million and Nu. 7.459 million respectively.

Table 7: Unresolved Irregularities by Non-Government Organizations (Nu. in million)

Sl #	Non-Government Organization	Unresolved irregularities in June 2018	Resolved amount	Balance irregularities
1	Bhutan Film Association	18.035	-	18.034
2	Bhutan Trust Fund for Environmental Conservation (BT FEC)	2.085	-	2.085
3	Construction Association of Bhutan (CAB)	0.413	0.413-	0
	Total	20.533	0.413	20.119

Out of the Non-Governmental Organizations' total unresolved irregularities of Nu. 20.533 million in June 2018, only CAB resolved full amount of Nu. 0.413 million. The Bhutan Film Association has the highest unresolved irregularities of Nu. 18.034 million and BT FEC with Nu. 2.085 million.

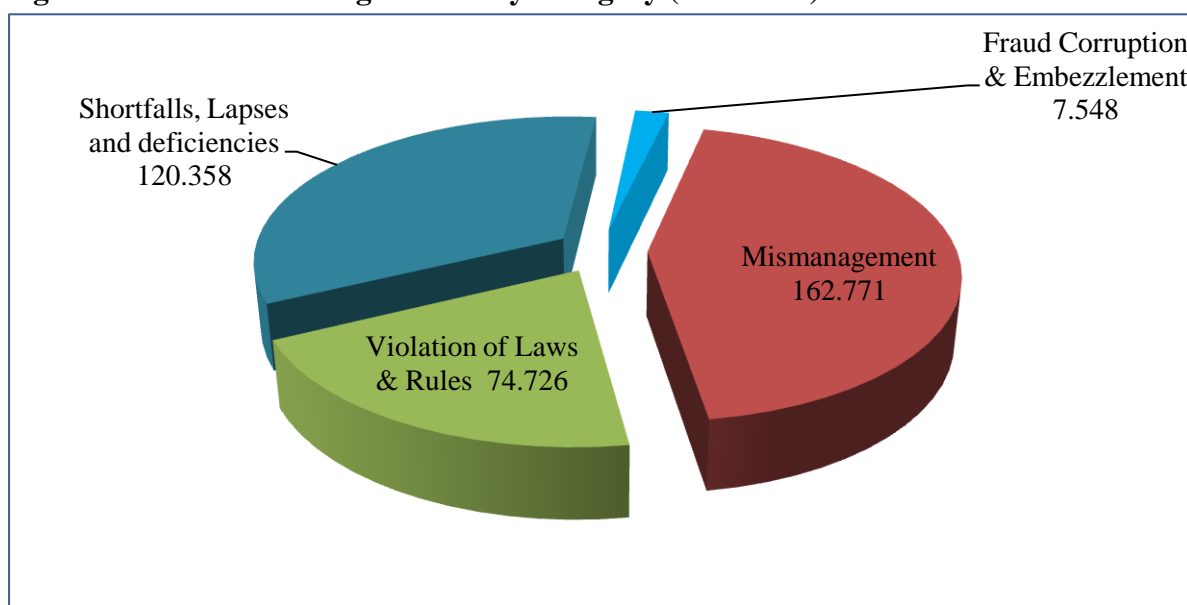
2.2. Irregularities by Categories

The irregularities are broadly categorized as:

1. Fraud, Corruption and Embezzlement;
2. Mismanagement;
3. Violation of Laws and Rules; and
4. Shortfalls, Lapses and Deficiencies.

As reported in the review report of AAR 2017 as of 30 September 2018, the highest unresolved irregularities fall under the Mismanagement category with Nu. 162.771 million (44.5 %) followed by Shortfalls, Lapses and Deficiencies with Nu. 125.358 million (32.9%), Violation of Laws & Rules with Nu. 74.726 million (20.45%) and Fraud, Corruption & Embezzlement with Nu. 7.548 million (2/07%) as shown in Figure 1.

Figure 1: Unresolved Irregularities by Category (in million)



2.2.1. Fraud, Corruption and Embezzlement

Out of the total unresolved irregularities of Nu. 7.548 million under this category, corporations reported the highest with Nu. 6.623 million followed by Gewogs with Nu. 0.925 million.

Table 8: Unresolved Irregularities – Fraud, corruption and embezzlement by agencies

Sl #	Agencies	Amount (Nu. in Million)
1	Gewogs	0.925
2	Corporations	6.623
3	NGOs	-
	Total	7.548

Some of the significant cases under this category are highlighted below.

- Dopshari gewog, Paro made fictitious payment of Nu. 0.300 million for the maintenance of Jeshigang farm road.
- Lungnyi gewog, Paro neither disclosed the receipt of Nu. 0.3 million nor used it for the farm road construction.
- Hungrel gewog, Paro had shortage of RWSS materials worth Nu. 0.085 million.
- Tsamang gewog, Monggar did not account for Nu. 0.040 million collected for machine hiring charges though the actual expenditure was booked from GDG budget.
- Gongdu gewog, Monggar did not deposit Nu. 0.044 million collected as Rural Taxes for the year 2015.
- Gosarling gewog, Tsirang paid Nu. 0.347 million for goods not received and did not levy liquidated damages for delay in supply of goods.
- Goenshari gewog, Punakha irregularly accepted adjustment amount of Nu. 0.117 million for repair and maintenance of Koma Tshachu.
- PCAL incurred exorbitantly higher rates in procuring raw materials and office supplies of Nu. 6.623 million due to laxity of the purchase committee and purchase department.
- Amongst the NGOs, CAB has fully recovered Nu. 0.196 million. However the administrative action against the accountable official is pending.

Note: Ministries do not have any irregularity under this category.

2.2.2. Mismanagement

From the total unresolved irregularities of Nu. 162.771 million reported under this category, corporations has the highest irregularities of Nu. 107.76 million (66.3%) followed by ministries (16%) and NGOs (11%).

Table 9: Unresolved Irregularities – Mismanagement by agencies

Sl. No.	Agencies	Amount (Nu. in Million)
1	Ministries (MoF)	26.185
2	Dzongkhags	5.952
3	Gewogs	0.900
4	Autonomous Agencies	4.062
5	Corporations	107.76
6	NGOs	17.912
7	Total	162.771

The prominent issues under this category are as below.

- Tangsibji Hydro Energy Ltd delayed award of Civil and Hydro-Mechanical work (294 days), which may delay the project completion and result into possible LD liability of Nu. Nu.97.020 million. It also incurred avoidable additional works of Nu. 10.283 million to concrete the road.
- PCAL incurred abnormal variation in price of spare parts and other items resulting in excess payment of Nu.0.457 million.
- Bhutan Film Association did not realize hire charges of film screening equipment handed over to Bhutan Film Distributor amounting to Nu. 4.752 million. It also had large quantities of fixed assets worth Nu.13.160 million lying idle.
- Regional Revenue and Customs Office, Thimphu has cases of inadmissible waiver of fines and penalties by the Regional Tax Appeal Committee amounting to Nu.16.1 million. Moreover, RRCO Thimphu and Paro have overdue taxes (BIT, PIT, CIT, BST) amounting to Nu. 10.084 million.
- Department of Medical Supplies and Health Infrastructure, MoH incurred wasteful expenditure of Nu. 2.170 million in the construction of approach road to old Dewathang hospital.
- Gasa dzongkhag incurred wasteful expenditure of Nu.4.618 million in the construction of gewog connectivity road from Gasa to Laya.
- Thimphu Thromde is yet to recover revenue loss of Nu.1.056 million from the reduction of parking slots.
- Phuentsholing Thromde is yet to settle Nu. 2.23 million on account of outstanding urban land taxes from extended areas under Phuentsholing and Sampheling gewog.

2.2.3. Violation of Laws and Rules

Out of the total unresolved irregularities of Nu. 74.726 million under this category, autonomous agencies reported the highest irregularities of Nu. 23.194 million followed by ministries with Nu. 22.757 million and dzongkhags with Nu. 18.988 million.

Table 10: Unresolved irregularities - Violation of laws and rules by agencies

Sl. No.	Agencies	Amount (Nu. in Million)
1	Ministries	22.757
2	Dzongkhags	18.988
3	Gewogs	2.573
4	Autonomous Agencies	23.194
5	Corporations	7.214
	Total	74.726

The prominent issues under this category are as below.

- Thimphu Thromde has unresolved irregularities of which Nu. 5.760 million of which Nu.5.492 million pertains to the siphoning of money.
- Dratshang Lhentshog incurred avoidable expenditure of Nu. 2.340 million paid as consultancy service fee even after the contract period.
- Gelephu Thromde accepted defective civil works in the construction of road network amounting to Nu. 5.960 million.
- Regional Office, DoR, Sarpang did not settle closed work account with a credit balance of Nu.1.236 million even after four years.
- MoH has unresolved irregularities of Nu. 17.381 million for paying liquidated damage to contractor from other GoI funded project, making inappropriate booking, and not levying liquidated damages.
- Jigme Dorji National Park, Damji has unresolved irregularities of Nu. 2.280 million for making excess deposit, excess payment and some expenditures not supported by relevant documents.
- Department of Employment, MoLHR did not recover Nu. 1.364 million from M/s. iSoft, Thimphu for breach of contract.
- Trashiyangtse dzongkhag booked Nu. 16.326 million for the incomplete works in the construction of water supply at Duksum.

- Trongsa dzongkhag has cases involving Nu. 0.842 million against under-booking of expenditure, non levy of liquidated damages and acceptance of sub-standard works.
- Paro dzongkhag did not levy liquidated damages of Nu. 0.931 million for delays and non-completion of reconstruction of Jela Dzong. The case is in the dzongkhag court.
- Dagana dzongkhag has unresolved irregularities amounting to Nu. 0.889 million relating to deficiencies in payment and adjustment of advances, and non-declaration and late submission of asset declaration.
- Chimong gewog, Pema Gatshel accepted defective *debri* work amounting to Nu. 0.900 million for Chimong Lhakhang.
- AWPL has cases of direct award of work amounting to Nu. 7.079 million and non-levy of liquidated damages amounting to Nu. 0.135 million.

2.2.4. Shortfalls, Lapses and Deficiencies

Out of the total unresolved irregularities of Nu. 125.358 million reported under this category, ministries has the highest unresolved irregularities of Nu. 51.1 million followed by autonomous agencies with Nu. 37 million and corporations with 12.86 million.

Table 11: Unresolved irregularities - Shortfalls, lapses and deficiencies by agencies

Sl. No.	Agencies	Amount (Nu. in Million)
1	Ministries	51.119
2	Dzongkhags	10.591
3	Gewogs	6.501
4	Autonomous Agencies	37.074
5	Corporations	12.866
6	Non-Government Organizations (NGOs)	2.207
	Total	120.358

Some of the prominent issues under this category are as below.

- MoWHS has shortfalls, lapses and deficiencies of Nu. 39.965 million pertaining mainly to the overdue public works advances.
- Department of Medical Services and Health Infrastructure, MoH has outstanding public works advances amounting to Nu. 9.127 million.
- MoAF has unresolved irregularities of Nu. 1.347 million with regard to delay in implementation of project activity, pending cases of unrealized fines and compensations, excess and double payments, outstanding advances, etc.

- Paro dzongkhag made excess payments of Nu.1.479 million in the reconstruction of Jela Dzong to the contractor. The case is in the dzongkhag court.
- Punakha dzongkhag has Nu. 2.121 million on account of lapses in the laying of sewer networks in Khuruthang town.
- Nganglam dungkhag has not recovered overdue advance amounting to Nu. 1.425 million from the contractor even after completion of works. The case is in the court.
- Naja gewog, Paro has Nu. 0.806 million irregularities on account of inadmissible payment and excess payment for works not executed.
- Lhamoi Dzingkha gewog, Dagana has irregularities in the construction of Nu.4.772 million farm road from Sibsooni to Nautalay (3.2 Kms).
- Thimphu Thromde has irregularities amounting to Nu. 16.22 million of which Nu. 15.64 million accounts for inadmissible advance payments to Greener Way for procurement of waste collecting vehicles.
- Dratshang Lhentshog has lapses amounting to Nu. 16.349 million pertaining mainly to overdue public works advances.
- Gelephu Thromde has irregularities of Nu. 1.79 million on account of illegitimate payment and overpayment for various works in LAP I & II.
- Tourism Council of Bhutan has unresolved irregularities of Nu. 2.438 million on account of revenue forgone from discounts offer beyond the prevailing provisions.
- The BPCL Regional Corporate Office, Gelephu has not levied liquidated damages of Nu. 2.279 million from the contractors for non-fulfillment of contractual obligations and outstanding advance balance of Nu. 1. 846 million.
- CDCL received excess payment aggregating to Nu. 7.459 million from Thimphu Thromde for works relating to construction of bridges in Hejo and Dechencholing.
- Bhutan Trust Fund for Environmental Conservation has unresolved irregularities amounting to Nu. 2.085 million pertaining mainly to non-realization of unspent grant balance.

3. Audit Report on Joint Hydropower Projects

RAA and the Comptroller and Auditor General, India conducted the 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 2017 as per the Projects Agreement. The review report of

AAR 2017 includes only the significant unresolved audit observations of PHPA-I, PHPA-II and MHPA.

Table 12: Irregularities under Hydropower Projects

Sl. No.	Hydroelectric projects	Amount (Nu. in million)
1	PHPA – II	3001.601
2	PHPA-I	819.240
3	MHPA	58.670
	Total	3,879.511

PHPA-II

- PHPA-II did not resolve any irregularities amounting to Nu. 3,001.60 million as on 30/09/2018 as mentioned below.
 - Mismanagement -Nu. 6.058 million from appointment of separate Directors- technical in PHPA I and PHPA II.
 - Violation of laws and rules - Nu. 2963.825 million mainly from extra expenditure due to unrealistic fixing of BoQ (Nu.1,493.50 million) and overpayment on account of extra 5% contractor's overhead and profit (Nu.983.275 million).
 - Shortfalls, lapses and deficiencies - Nu. 31. 718 million mainly on account of unfruitful expenditure for the road construction connecting Taksha-III to Taksha-Silli farm (29.5 million)

PHPA-I

- PHPA-I also did not resolve any irregularities of Nu. 819.24 as of 30/09/2018 as below.
 - Violations of laws and rules - Nu. 801.71 million mainly from overpayment of Nu. 590.69 million on account of extra 5% contractor's overhead and profit, and excess payment on escalation due to non-incorporation of secured advance in the value of work amounting to Nu. 179.121 million
 - Shortfalls, lapses and deficiencies - Nu. 17.52 million on account of excess manpower deployment, inadmissible financial benefits, etc.

MHPA

- MHPA has unresolved irregularities of Nu. 58.67 million on account of payment of consultancy service tax to NHPC Ltd.

General Recommendations of RAA

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

Committee's Recommendations

Concerned of:

- the huge losses that RGoB incurs from over payments, double payments, outstanding advances, inadmissible claims and claims for works not executed, sub-standard works and supplies, etc, and
- the weak enforcement of rules and regulations and lack of strong supervision and monitoring mechanisms in agencies leading to numerous lapses, wastage and avoidable costs.

1. 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.
2. 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.

Chapter II: Follow up on Review Reports of AAR 2010 - 2016

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, as per the Resolutions of 6th and 8th Sessions of the Second Parliament, the agencies should resolve the pending audit irregularities within 30th June 2019.

Status: In keeping with the resolution of 11th Session of the Second Parliament, PAC conducted public hearings with 15 agencies namely MoAF, MoEA, MoF, MoH, MoWHS, MoFA, Bhutan Cricket Federation, Bhutan Development Bhutan Ltd, Bhutan Football Federation (BFF), Election Commission of Bhutan (ECB), Gross National Happiness Commission (GNHC), RUB and Royal Society for Protection of Nature (RSPN) on 11th July, 2018. The 15 agencies then had total unresolved irregularities of Nu. 182.187 million for the period 2010-2016 as on 31st March, 2018. However, after the public hearing by PAC, the agencies had resolved irregularities amounting to Nu. 5.388 million.

The Committee could not conduct public hearings with the dzongkhags, gewogs and other agencies due to Parliament's tenure coming to an end.

Unresolved irregularities AAR 2010-2016

As of 30th September, 2018, the total unresolved irregularities reported for the period (2010-2016) stands at Nu. 1446.4 million. Ministries have the highest amount of accumulated irregularities amounting to Nu. 365.394 million followed by autonomous agencies with Nu. 202.529 million. Cases showing high amount of irregularities but could not be resolved are discussed in the followings.

Table 13: Unresolved irregularities by agencies as of 30/09/2018 (Nu. in Millions)

Sl #	Agencies	AAR 2010	AAR 2011	AAR 2012	AAR 2013	AAR 2014	AAR 2015	AAR 2016
1	Ministries	3.053	189.781	13.603	34.504	31.771	28.621	64.061
2	Dzongkhags	0.304	0.143	0.334	3.422	17.925	0.482	37.298
3	Gewogs	-	0.021	0.220	1.159	0.277	0.083	7.501
4	Autonomous Agencies	-	-	0.459	-	118.002	32.059	52.009
5	NGOs	-	-	-	3.387	-	-	12.864

6	Corporations & Financial Institutions	-	6.358	0.251	-	4.156	68.594	75.494
7	Hydropower Projects	-	-	-	-	-	227.364	410.840
	Total Year wise:	3.357	196.303	14.867	42.472	172.131	357.203	660.067

1) Review Report of AAR 2010

- The total unresolved irregularity for the AAR 2010 stands at Nu. 3.357 million as on 30/09/2018 and these irregularities are from ministries and dzongkhags.
- Amongst the ministries, MoH and MoFA account for Nu. 3.053 million and amongst the dzongkhags, Samtse and Zhemgang account for Nu. 0.304 million.
- DVED, MoH has outstanding advances of Nu. 0.662 million. The accountable person is serving the sentence and therefore, the ministry had written letter to OAG for the recovery of Nu. 0.662 million from the auction of properties of the accountable person. However, OAG could not auction as per the Supreme Court's order which was deferred till the end of December, 2018.
- The MoFA's irregularity amounting to Nu. 2.391 million is still with ACC.
- Amongst the dzongkhags, Samtse and Zhemgang account for Nu. 0.105 million and Nu. 0.199 million respectively on account of outstanding advances. Despite several follow-up by RAA, cases remain unresolved so far.

2) Review Report of AAR 2011

- The total unresolved irregularities for AAR 2011 stand at Nu. 196.303 million as on 30/09/2018.
- Out of this, ministries account for Nu.189.607 million, dzongkhags account for Nu. 0.143 million, gewog account for Nu. 0.021million and corporation (PCAL) accounts for Nu. 6.358 million.
- Amongst the ministries, MoFA's irregularity amounting to Nu. 189.378 million still remains unresolved as the case is reported to be in the Court.

- MoAF has irregularity amounting to Nu. 0.229 million resulting from excess payment made by the National Livestock Breeding Programme, Yusipang in the construction of 2 bedroom staff quarter at Yusipang. The case has been filed with the Thimphu dzongkhag court.
- Zhemgang dzongkhag has irregularity from outstanding advances amounting to Nu. 0.143 million and it still remains unresolved.
- The irregularity of PCAL amounting to Nu.6.358 million resulted from outstanding credit sales against M/s National Hydro Power Corporation Ltd, Delhi on account of sale of cement.

3) Review Report of AAR 2012

- The total unresolved balance for the AAR 2012 stands at Nu. 14.866 million as on 30/09/2018. Out of this, Nu. 13.602 million pertains to ministries, dzongkhag accounts for Nu. 0.334 million, gewogs account for Nu. 0.220 million, autonomous agencies (Bhutan Football Federation) accounts for Nu. 0.459 million, corporations and financial institutions (FCBL) account for Nu. 0.251 million.
- Amongst the ministries, MoE accounts for Nu. 10.618 million from outstanding advances against various officials, contractors and suppliers.
- MoF (The Regional Revenue and Customs Office, Thimphu) accounts for Nu. 0.989 million from outstanding BIT, CIT and PIT against various business units and employees. The Supreme Court had given verdict dated 25th July, 2016 to deposit in the government account within 25/01/2018 but the amount has not been deposited yet.
- MoH (General Hospital, Phuentsholing) accounts for Nu. 1.078 million which resulted from shortage of revenue for the financial years 2010-11 and 2011-12. The issue was deliberated in the 22nd Finance and Audit Committee meeting held on 21st June 2017. The ministry was instructed to conduct fact findings on the case for further decision.
- MoFA has irregularity amounting to Nu. 0.676 million from outstanding advances and goods not received by the State Guest House. Both the cases are with Thimphu dzongkhag court.
- Likewise MoAF has irregularity amounting to Nu. 0.241 million from misuse of cash by the Wangchuk Centenary Park, Bumthang. The case was forwarded to the ACC.

- Tsirang dzongkhag accounts for Nu.0.334 million which resulted from the construction of Lhakhang in Dunglagang gewog. The case is in the court.
- Amongst the gewogs, Logchina accounts for Nu. 0.122 million from inadmissible or excess payment to the contractor. Likewise, Deorali gewog, Dagana has irregularity of Nu. 0.063 million from misuse of revenue and Khebisa gewog, Dagana has irregularity of Nu. 0.035 million from shortage of fund. No action has been taken by the concerned gewogs.
- Amongst the autonomous bodies, BFF accounts for Nu. 0.459 million from shortfall, lapses and deficiencies.
- FCBL accounts for Nu. 0.251 million from grant of credit facility without liquidating earlier dues in contravention to the Guidelines of Credit Policy on the sale of Food Grain and Agency items. The case is in Phuentsholing dzongkhag court.

4) Review Report of AAR 2013

- The unresolved balance for the AAR 2013 stands at Nu. 42.472 million as on 30/09/2018. Out of this, ministries account for Nu. 34.504 million followed by dzongkhags with Nu. 3.422 million, NGOs with Nu. 3.387 million and gewogs with Nu. 1.159 million.
- Amongst the ministries, MoEA accounts for Nu. 25.230 million from not recovering fines on account of unauthorized mining and selling of talc. The case was dropped by ACC and DGM was directed to recover Nu. 25.230 million with applicable penalties/interests. It is still unresolved.
- MoE accounts for Nu. 8.841 million from non-deduction of liquidated damages for delay in the completion of construction works and recovery on the account of excess materials supplied. The case is in the court.
- Pemagatshel dzongkhag accounts for Nu. 2.970 million due to non-recovery of advances and penalties from the contractor. The Supreme Court had directed the contractor to deposit the amount. However, the contractor is reported to be missing.
- Naja gewog has irregularity of Nu. 0.644 million from non-levy of liquidated damages and irregularities in construction of approach roads to individual fields/houses. Both the cases were forwarded to Department of Local Governance to take appropriate action. However, case still remains unresolved.

- Gosarling gewog made overpayment of Nu. 0.353 million in the construction of 4.5 Km farm road from Lower Lapsibotey to Lower Suntalay. The case still remains unresolved.

5) Review Report of AAR 2014

- The total unresolved balance for AAR 2014 stands at 172. 131 million as on 30/09/2018. Out of this, ministries account for Nu. 31.771 million, dzongkhags for Nu. 17.925 million, gewogs for Nu. 0.277 million, autonomous agencies and corporations and financial institutions for Nu. 4.156 million.
- Amongst the ministries, MoIC (Department of Civil Aviation and RSTA) accounts for Nu. 30.074 million - some cases are under investigation by ACC and some are with the court.
- MoF accounts for irregularity amounting to Nu. 1.608 million from overdue outstanding advances against various staff and officials.
- Amongst the dzongkhags, Sarpang accounts for Nu. 16.429 million - Nu. 15.091million are with ACC and for the cases amounting to Nu. 1.338 million, the contractor is yet to comply with the verdict of the court.
- Naja gewog, Paro's cases of misuse of hired machinery resulting into deceitful claims amounting to Nu. 0.121 million and excess and inadmissible payments of hire charges and spare parts amounting to Nu. 0.111 million are with ACC for investigation.
- Bhutan Education City (BEC) accounts for Nu. 110.184 million that resulted from huge investment in construction of various ancillary infrastructures for the BEC project. It was reported that land will be used for developing good project and alternative use of the project will be explored but has not been utilized yet. Similarly, BEC has refunded Nu. 127 million out of Nu. 258.877 million to Department of Public Accounts but balance amount is yet to be deposited.
- RUB accounts for Nu. 7.818 million due to mismanagement, violation of laws and rules and shortfalls, lapses and deficiencies.
- DCCL accounts for Nu. 0.644 million due to excess and double payment. The case is reported to be in the Nanglam dungkhag court.
- BDBL accounts for Nu. 0.300 million from doubtful exposure of staff vehicle loan. The management failed to adjust the loan from the concerned person's retirement benefits and the case is still with the BDBL without any action being taken.

6) Review Report of AAR 2015

- AAR 2015 total unresolved irregularities stand at Nu. 357.203 million as on 31/09/2018. The ministries account for total irregularities of Nu. 28.621 million and have not resolved any amount as on 30/09/2018.
- MoAF has irregularity amounting to Nu. 14.446 million, which remains unresolved as the case has been forwarded to the court.
- The unresolved case of MoH amounting to Nu. 6.658 million is with ACC and being pursued with RBP to arrest the accused who is reported to be missing.
- MoFA's case of non-reconciliation of accounts amounting to Nu. 4.973 million by Royal Bhutan Embassy, Delhi still remains to be resolved.
- Amongst the dzongkhags, Monggar has unresolved irregularity of Nu. 0.331 million. The dzongkhag court gave the verdict dated 01/07/2016 directing the contractor to deposit Nu. 1.194 million with the dzongkhag.
- Autonomous agencies have unresolved irregularities of Nu. 32.059 million of which RUB has the highest irregularities of Nu. 15.394 million and the matters are being pursued in the court.
- Under the corporations, FCBL's irregularities of Nu. 24.827 million remains unresolved as some of the cases are with the courts and some are with ACC. DCCL's irregularity amounting to Nu. 22.603 million is in the court and RICBL's unresolved irregularity of Nu. 19.263 million is under review by OAG.
- Under the Hydroelectric Project Authority, the unresolved irregularities amounting to Nu. 200.925 million pertains to MHPA. Out of this, Nu. 198.118 million is reported to be in the court and verdict is awaited.
- Irregularities of PHPA I and II amounting to Nu. 26.438 million still remains unresolved without any action being taken.

7) Review Report of AAR 2016

- The unresolved irregularities for AAR 2016 stand at Nu. 660.067 million as on 30/09/2018. Ministries account for Nu. 64.061 million and dzongkhags for Nu. 37.298 million.

- Amongst the ministries, MoWHS has the highest irregularities of Nu. 36.353 million followed by MoLHR with Nu. 7.548 million, MoAF with Nu. 6.866 million and MoE with Nu. 6.665 million.
- MoWHS' case relates to infructuous expenditure on termination of Contract Packages B and C for construction, operation and maintenance of Dalabri - Dagapela secondary national highway. As per the Supreme Court's verdict No.Nyenthohung-18-15) dated 25/07/2018, the contractor is eligible for the total payment of Nu.102,398,940.25 and he is liable to refund a sum of Nu.80,908,714.75 to MoWHS in two equal installments within a period of six months from the date of award of the judgement. The first installment was due on 24/10/2018 and second installment on 24/01/2019. Other irregularity amounting to Nu. 36.353 million is overdue outstanding PW advances against the Regional Offices of the Department of Road Lingmethang and Zhemgang.
- MoLHR's irregularity of Nu. 7.548 million pertains to the illegal collection of fees and non-refunds by M/s. Tenzu Overseas Employment Agent. MoLHR filed criminal complaint against the proprietor of the Agent to RBP but was denied as it was of civil nature. Upon filing of complaint to Paro dzongkhag court by complainants, the court issued arrest warrant against the proprietor. However, the accountable person is still at large.
- MoAF accounts for Nu. 6.866 million from outstanding advances, non-reconciliation of funds, excess payment and wrong booking of expenditure. The forgery case of bank guarantee in lieu of performance security has been forwarded to ACC for investigation.
- MoE's irregularity of Nu. 6.665 million due to serious misrepresentation of facts in the construction of retaining wall (130 m long & 6m height) along the football field of Minjey middle secondary school, Lhuentse has been forwarded by ACC to OAG.
- Amongst the dzongkhags, Trashiyangtse has the highest irregularities of Nu. 20.132 million for booking the expenditure as closed work in the construction of pump irrigation scheme without completing the work and depositing money into Refundable Deposit Account for future payments. The case still remains unresolved.
- Pemagatshel dzongkhag has irregularities amounting to Nu. 7.639 million for the development of roads for Denchi township. The case is in the Supreme Court.
- Chukha dzongkhag has irregularities of Nu. 3.860 million for executing substandard work in the re-surfacing of road from Tsimasham to Tsimalakha, construction of footpath at Tsimalakha, construction of farm road from Kothiline to Pana and construction of BHU – II at Dungna.

- Amongst the gewogs, Phuntsholing has the highest irregularity of Nu. 5.263 million pertaining to the non levy of liquidated damages (Nu. 0.295 million) and wasteful expenditure of Nu. 4.893 million in the construction of water supply scheme in Pachu school and village, which is non-functional. The cases are still unresolved.
- Amongst the autonomous agencies, RUB has the highest irregularities with Nu. 46.999 million followed by Tourism Council of Bhutan (TCB) amounting to Nu. 2.205 million and Royal Civil Service Commission with Nu. 1.384 million. Irregular payment of advances amounting to Nu.0.400 million by the TCB to M/s Bhutan Pleasant is sub-judice with Thimphu dzongkhag court. Most of the RUB's irregularities amounting to Nu. 46.999 million are with the Bhutan Alternate Dispute Resolution Centre.
- BPC, Phuntsholing did not levy 10% liquidated damages amounting to Nu. 38.249 million to the contractor for unwarranted grant of time extensions in the construction of 220kv Transmission Line from Malbase to Samtse. The case still remains unresolved.
- DCCL did not levy penalties amounting to Nu. 5.985 million against M/s Dhenjyud Enterprise for excess content of moisture and ash in coal. Appropriate action against the direct accountable official is awaited.
- NRDCL's irregularity amounting to Nu. 5.301 million is still in the Court.
- RICBL Regional Office, Phuentsholing has overdue outstanding claims amounting to Nu. 19.388 million payable to clients on account of Motor, Fire and Miscellaneous insurance policies claims. The case remains unresolved.
- BDBL main branch office, Thimphu did not take legal actions against 490 cases of defaulted loan accounts from 1991 to 2015. A sum of Nu. 623.56 million remains outstanding against a total sanctioned amount of Nu. 671.22 million from clients. The Bank reported of having regularized 283 loan accounts leaving a balance of 207 loan accounts.
- Likewise, BDBL, head office, Thimphu has a serious case of defaulted housing loan amounting to Nu. 24.548 million.

Audit Report on Joint Hydropower Projects

- RAA reported total unresolved irregularities of Nu. 410.840 million for PHPA II as on 30.09.2018. PHPA-II made inadmissible payment of Nu. 334 million to the contractor as construction plan advance for old and used equipment and Nu. 76.840 million as excess expenditure on muck disposal. Both the cases remain unresolved.

- MHPA has resolved all of its irregularities as on 30.09.2018.

Committee's Observations

1. In examining the various AAR reports, as well as, their review reports the committee observed that only a small share (2.55%) of total irregularities have been resolved so far. It only indicates that inadequate actions have been taken by the concerned agencies to resolve their irregularities, thereby, RGoB incurring huge losses every year.
2. Cases with total irregularities of Nu. 633.096 million (AAR 2010-2016) are either with ACC, OAG or in the Court.
3. Seven cases (AAR 2010-2016) amounting to Nu. 12.005 millions have been not able to resolve due to accountable officials either absconded or missing (*Annexure I*)

Conclusion

The PAC is able to present this synthesized report to the Parliament with the support of Royal Audit Authority and other stakeholders. The committee wishes that the House is informed and clarified enough on the audits irregularities. Further, the committee hopes for meaningful deliberation on the report. The committee believes that mismanagement of public funds will be greatly reduced in the future.

***** Tashi Delek *****
