

# Audited Project Financial Statements

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Project Number: 44239  
Grant Number: 0295  
Period covered: 1 July 2014 to 30 June 2015

## Bhutan: Air Transport Capacity Enhancement Project

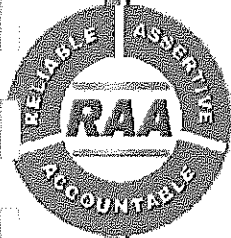
Prepared by Department of Air Transport

For the Asian Development Bank  
Date received by ADB: 15 March 2016

The audited project financial statements are documents owned by the borrower. The views expressed herein do not necessarily represent those of ADB's Board of Directors, Management, or staff. These documents are made publicly available in accordance with ADB's Public Communications Policy 2011 and as agreed between ADB and the Department of Air Transport.

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Reporting on Economy, Efficiency & Effectiveness in the use of Public Resources



AIN:13616

**AUDIT REPORT ON THE ACCOUNTS AND  
OPERATIONS OF THE "AIR TRANSPORT  
CONNECTIVITY ENHANCEMENT PROJECT  
(ATCEP)", FUNDED BY ADB, GRANT NO.0295-BHU  
IMPLEMENTED BY THE DEPARTMENT OF AIR  
TRANSPORT (DoAT), PARO**

**PERIOD: 01/07/2014 TO 30/06/2015**

**March 2016**

**ASIAN DEVELOPMENT BANK**



ASIAN DEVELOPMENT BANK  
BHRM  
FINANCE / ADMIN

**15 MAR 2016  
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*"Every individual must strive to be principled. And individuals in positions of responsibility must even strive harder".*

*- His Majesty the King Jigme Khesar Namgyel Wangchuck*

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## Title Sheet

1. Title : Audit Report on the Accounts and Operation of the "Air Transport Connectivity Enhancement Project", funded by Asian Development Bank (ADB), Grant No.0295-BHU
2. Implementing Agency : Department of Air Transport, Paro
3. Head of the Agency : Dasho Kinley Dorji, Secretary (EID No. 7807011)
4. Head of the Department : Karma Wangchuk, Director (EID No. 9004059)
5. Project Coordinator : Jamyang T Dorji, Engineer (EID No. 201101166)
6. Drawing & Disbursing Officer : Karma Wangchuk, Director (EID No. 9004059)
7. Finance Personnel : Bhagi Maya Dulal, Dy. Chief Accounts Officer (EID No. 2001019)
8. Period audited : 01/07/2014 to 30/06/2015
9. Schedule of Audit : Planned: 16/10/2015 to 17/11/2015  
Actual: 16/10/2015 to 17/11/2015
10. Engagement Letter No. & Date : RAA /SCID/ADB-DCA/MoIC-PLC-Paro/2015/2920  
Date: 15/10/2015
11. Composition of Audit Team : (i) Dorji Tenzin, (EID. No. 201001066)  
Audit Officer, Team Leader  
  
(ii) Pema Lhadon, (EID No.20140103312)  
Asst. Audit Officer, Team Member  
  
(iii) Wangchuk 'C' (EID. No.9509025)  
Sr. Auditor, Team Member
12. Supervising Officer : Tempa Gyeltshen, (EID No.7701018)  
Assistant Auditor General, SCID
13. Focal Person : Pema Lhadon, Asst. Audit Officer
14. Date of Audit Exit Conference : 10<sup>th</sup> December 2015



### **Disclaimer Note**

The coverage of this report is based on the facts, figures and information made available and accessible to the audit team by the **Project Management of Air Transport Connectivity Enhancement Project, funded by Asian Development Bank (ADB), Grant No.0295-BHU**. The opinion of the auditors shall confine to the period covered and information made available till the time of issue of this report.

This is also to certify that the auditors during the audit had neither yielded to pressure, nor dispensed any favour or resorted to any unethical means that would be considered as violation of the Royal Audit Authority's Oath of Good Conduct, Ethics and Secrecy of Auditors.

## Acronyms

AAG	: Assistant Auditor General
ADB	: Asian Development Bank
ATCEP	: Air Transport Connectivity Enhancement Project
DoAT	: Department of Air Transport
EID No.	: Employee Identity Number
MoIC	: Ministry of Information & Communications
PLC	: Project Letter of Credit
PP&AARD	: Policy, Planning & Annual Audit Report Division
RAA	: Royal Audit Authority
SCID	: Social Communication & Information Division
TL	: Team Leader
TM	: Team Member
TA	: Technical Assistance

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- (ii) Statement of Budget and Actual Expenditure for the fiscal year ended 30<sup>th</sup> June 2015
- (iii) Statement of Expenditures (SoE) for the fiscal year ended 30<sup>th</sup> June 2015 (Notes to Account I)
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- (i) Statement of Deposit and Withdrawal of funds from FC Account No.20762 for the fiscal year 2014-15 .....Exhibit-I
- (ii) Statement of Fund balances with the DPA for the fiscal year 2014-2015 .....Exhibit-II
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AUDIT FINDINGS ON THE ACCOUNTS AND OPERATIONS OF THE "AIR TRANSPORT CONNECTIVITY ENHANCEMENT PROJECT", FUNDED BY ADB, GRANT NO.0295-BHU, IMPLEMENTED BY THE DEPARTMENT OF AIR TRANSPORT, PARO FOR THE PERIOD 1<sup>ST</sup> JULY 2014 TO 30<sup>TH</sup> JUNE 2015

#### PART I: SIGNIFICANT ACHIEVEMENTS

#### PART II: DEFICIENCIES AND LAPSES

1. Flaws in Tender Evaluation and award of construction contract to a technically non-responsive bidder (4.4.6)
2. Acceptance of Defective works in construction of new Terminal building at Gelephu Domestic Airport (4.4.30)
3. Wrong application of  $\pi r^2$  for half circle and overpayment for the construction of Car parking at Bumthang Domestic Airport -Nu.119,998.45(5.1.15)
4. Outstanding advances -Nu.1,243,982.00 (4.4.30)

### ANNEXURES:

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- Excess release by DPA to Project for the FY 2013-14.....Annexure;-B
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# AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

**AUDITORS' REPORT ON THE FINANCIAL STATEMENTS OF THE "AIR TRANSPORT CONNECTIVITY ENHANCEMENT PROJECT", FUNDED BY ADB, GRANT NO.0295-BHU, IMPLEMENTED BY THE DEPARTMENT OF AIR TRANSPORT, PARO FOR THE FISCAL YEAR ENDED 30<sup>TH</sup> JUNE 2015**

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The Royal Audit Authority (RAA) has audited the accompanying financial statements of the "Air Transport Connectivity Enhancement Project", financed under Asian Development Bank Grant No.0295-BHU & implemented by the Department of Air Transport, Paro which comprise the Receipts and Payments Statement and schedules forming part of the financial statements for the financial year ended 30<sup>th</sup> June, 2015 as required under the Audit Act of Bhutan 2006 and Project Agreement.

**Management's responsibility for the financial statements**

Management is responsible for preparation and fair presentation of these financial statements in accordance with the Financial Rules and Regulations 2001 and Project Agreement. This responsibility includes, designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**RAA's responsibility**

The RAA's responsibility is to express an opinion on these financial statements based on its audit. The RAA conducted the audit in accordance with RAA's Auditing Standards and Generally Accepted Auditing Standards. Those standards require that the RAA complies with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

**Scope of Audit**

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on auditor's judgment, including the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall financial statement presentation. The RAA believes that the audit evidence obtained by it is sufficient and appropriate to provide a basis for its audit opinion.

**Opinion**

In RAA's opinion, *except for the effect on the financial statements of the matter referred to in the following paragraph*, the financial statements present fairly, in all material respects the financial operations of the "Air Transport Connectivity Enhancement Project", financed under Asian Development Bank, Grant No.0295-BHU for the year ended 30<sup>th</sup> June 2015 and of its fund balance as on that date in accordance with the Financial Rules and Regulations 2001 and Project Agreement.



- Excess, inadmissible and over payments amounting to Nu.119,998.45 were made to contractors with resultant increase in the reported expenditure and decrease in the year-end fund balance to that extent.

### **Emphasis of Matter Paragraph**

**The RAA without qualifying its opinion draws attention to the following matters:**

- The expenditure incurred by the project and the excess funds released by the DPA during the previous financial year 2013-2014 of Nu. 8,089.00 and 2014-2015 of Nu.997,937.00 remaining to be recouped as at 30<sup>th</sup> June 2015 have been translated into functional currency using the average exchange rate obtained at by dividing the total fund transferred in terms of Ngultrum by the total funds transferred in terms of US\$ from the Imprest Account maintained by the Royal Monetary Authority of Bhutan (US\$ 1 equivalent Nu. 62.48-Refer Annexure A & US\$ 1 equivalent Nu. 59.97-Refer Annexure B).
- **Notes to Account III-Statement of Imprest Account** for the financial year 2013-2014 prepared by the project management has not reflected the third parties outstanding advances of Nu.3,392,278 which have resulted in reporting of functional currency exchange loss of Nu.1,142,004.89 and US Dollar 19,031.79 for the year the ended 30<sup>th</sup> June 2014. The incorporation of the third parties advances lying unadjusted as at 30<sup>th</sup> June 2014 as fund balance with the Project in the **Reconciliation statement of Imprest Account**, reflected exchange gain of functional currency of Nu.2,242,184.11 and US\$ 37,399.57 for the year ended 30<sup>th</sup> June 2014 (Refer the revised Statement of Imprest Account for the financial year ended 30<sup>th</sup> June 2014 attached for kind reference and record).

**The RAA also reports that:**

- ❖ The flow of funds from the Imprest Account and balance thereon could be fairly relied upon. The control mechanism put in place for the operation of the Account could also be fairly relied upon.
- ❖ All expenditures reported and claimed are eligible for financing under the ADB Grant.
- ❖ The Statement of Expenditure, Statement of Grants and Advances and Reconciliation Statement submitted could be fairly relied upon.

**The RAA further reports that:**

- ✚ The overall reconciled fund balance of the Imprest account of the ADB funded project "Air Transport Connectivity Enhancement Project" implemented by the Department of Air Transport, Paro as on 30<sup>th</sup> June 2015 stood at **US\$106,752.10 equivalent to Nu.6,803,311.33** converted at the exchange rate prevalent as on that date (Refer *Statement of Imprest Account for the year ended 30<sup>th</sup> June 2015*).
- ✚ The direct payments to the consultancy firm amounting to Nu.15,283,086.92 equivalent to US\$.248,023.50 (*converted at the exchange rate prevalent on the date of the payment released by the ADB*) were not incorporated in the PEMS system though it is reported in the financial statements (Refer Sources and Uses of Funds, Notes to Account I & Notes to Account IIB)

- 4 The forex conversion rate for fund transfer from the Imprest Account to Department of Public Accounts from the Foreign Currency Account maintained with Royal Monetary Authority is recognized on the actual exchange rate applicable on the date of transfer of funds.
- 4 The closing Imprest balance of US\$ 430,476.11 equivalent to Nu.25,815,652.32 as at 30<sup>th</sup> June 2014 has been taken as opening Imprest balance as of 1<sup>st</sup> July 2014. The exchange rate prevailing as of 1<sup>st</sup> July 2014 was not considered for translation of US\$ to Ngultrum.
- 4 The closing fund balance of US\$106,752.10, fund balance with DPA of Nu.616,253.57 and advances with third parties amounting to Nu.20,853,940.00 have been translated at the exchange rate prevailing as of 30<sup>th</sup> June 2015.
- 4 The replenishment of funds against withdrawal applications aggregating to US\$ 917,204.32 equivalent functional currency of Nu.56,512,990.00 have been incorporated in the financial statements on the basis of releases as reflected in the Grant Financial Information Services.
- 4 The translation of expenditures incurred in local currency including excess fund releases to the project by the DPA, opening imprest balance and closing balance including direct payment and replenishment of funds as well as outstanding advances as of 30<sup>th</sup> June 2015 were carried out at various exchange rates and as a result there were exchange difference of US\$ 31,481.76 and in terms of functional currency of Nu.4,396,306.58.
- 4 The project management has utilized all proceeds provided under ADB Grant No.0295 BHU "Air Transport Connectivity Enhancement Project", for the purposes for which they were provided and in accordance with the grant agreement.
- 4 The project management was in compliance as at the date of the financial year end with all financial covenant of the grant agreement.
- 4 The procedures and control mechanism put in place for the operation of the Imprest Account as well as flow of funds to and from the Imprest Account, and balance thereon could be fairly relied upon.
- 4 The financial operations were carried out as per the project agreement and adequate controls were instituted to ensure that the funds are used for project related activities and adequate project management structure exists to oversee the implementation of the project activities.

Concurred & Noted:

  
(Audit Officer)

  
(Assistant Auditor General, SCID)

Date:

09/03/2016


**FINANCIAL STATEMENTS, NOTES TO  
ACCOUNT**

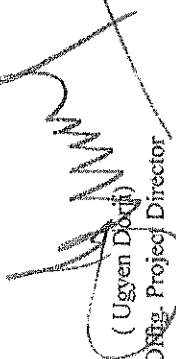
Royal Government of Bhutan  
Ministry of Information and Communications  
Department of Air Transport  
*Air Transport Connectivity Enhancement Project*  
Funded by Asian Development Bank : Grant No: G0295-BHU  
For the period 1st July 2014- 30th June 2015

Sources and Uses of Funds

		Amount in BTN	
Sources	Note	During the current year	Cumulative beginning of the Project to end of current year
A:ADB Grant			
Direct Payment	I	15,283,086.92	56,530,143.60
Replenishment		56,512,990.00	99,208,875.00
ADB			
Initial Imprest	III	25,815,652.32	33,059,893.20
Exchange Gain	III	4,396,306.58	8,307,541.70
Subtotal			
Grand Total		102,008,035.82	197,106,453.50

Notes I to IV of the financial statements form an integral part of these financial statements

  
(Bhagi Maya Dular)  
Dy. Chief Accounts Officer  
Department of Air Transport  
Paro : Bhutan

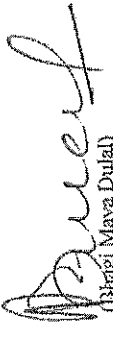
  
(Ugyen Dopa)  
Offg. Project Director  
Director  
Department of Air Transport  
Paro : Bhutan

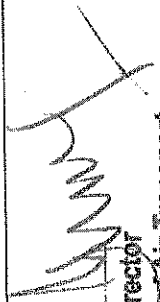
Royal Government of Bhutan  
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Department of Air Transport  
*Air Transport Connectivity Enhancement Project*  
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For the period 1st July 2014- 30th June 2015

Statement of Budget Vs Actual (or Consolidated Annual Financial Statement)

Item No.	Budget Item	Total budget for the whole project (Amount in USD)	Actual Expenditure (Amount in BTN)	Budgeted amounts for the year based on projections (Amount in BTN)	Reason for variance
<b>Budget Head - Recurrent Expenditure</b>					
	Project Management	20,000.00			
i	Office Supplies		-	130,000.00	Difference in the estimated cost and the actual quotation by the selected supplier
ii	Postage Charges		-	60,000.00	Most of the correspondence done via emails, initially the consultant's direct payment was forward by the department (DoAT) but later the postage was done by the consultant themselves.
iii	Telephone		-		Official call
iv	OLS drawing at Gelephu Domestic Airport		-		Surveying & Mapping done by Ministry of Housing & Human Settlement
	<b>Sub Total</b>	<b>20,000.00</b>	<b>-</b>	<b>190,000.00</b>	
<b>Budget Head - Capital Expenditure</b>					
i	Civil Works	2,960,000.00	59,457,470.00	8,591,000.00	Difference in the estimated cost and the actual quotation by the selected contractor
ii	Consultancy Service	770,000.00	15,283,086.92	15,283,086.92	
iii	Vehicle	2,170,000.00	-	5,013,000.00	Two vehicles were procured in 2012-2013 & Two vehicle procured in 2013-2014 (four approved by the project).
iv	Computer and peripheral		-	60,000.00	Difference in the estimated cost and the actual quotation by the selected contractor
	<b>Sub Total</b>	<b>5,900,000.00</b>	<b>74,740,556.92</b>	<b>28,947,086.92</b>	
<b>Budget Head- Unallocated</b>					
i	Unallocated	1,000,000.00			The amount has not yet been allocated
	<b>Grand Total</b>	<b>6,920,000.00</b>	<b>74,740,556.92</b>	<b>29,137,086.92</b>	

Notes I to IV of the financial statements form an integral part of these financial statements

  
D. Chhewang  
(Bhagi Maya Dulal)  
Chief Resource Officer  
Department of Air Transport  
Paro, Bhutan

  
Director  
(Ugyen Dorji)  
Department of Air Transport  
Paro : Bhutan

Notes: The amount is just a provision of the estimated expenditure and may not be equal to the actual expenditure. Budget has been included under Project Management but since, the expenditure is of capital nature the expenditure has been reflected here

Royal Government of Bhutan  
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*Air Transport Connectivity Enhancement Project*  
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For the period 1st July 2014- 30th June 2015

Notes to Account - I Category- wise Expenditures

Category	Line Item	Particular	During the current year (BTN)		Cumulative upto end of current year
			From Imprest Account	Direct Payment	
3201		Civil Works			
	i	Apron Taxiway at Bumthang Domestic Airport	13,223,702.00		13,223,702.00
	ii	Car park at Bumthang Domestic Airport	8,375,684.00		8,375,684.00
	iii	Access Road to Bumthang Domestic Airport	14,351,897.00		14,351,897.00
	iv	Perimeter fencing at Bumthang Domestic Airport	11,491,964.00		11,491,964.00
	v	Terminal building at Gelephu Domestic Airport	9,881,018.00		9,881,018.00
	vi	Hill removal at Yonphola Domestic Airport	2,094,705.00		2,094,705.00
	vii	Reshaping of runway at Yonphola Domestic Airport	38,500.00		38,500.00
		Subtotal	59,457,470.00		59,457,470.00
3101		Consulting Service			
	i	Foreign Currency Component		6,335,176.92	6,335,176.92
	ii	Local Currency Component		8,947,910.00	8,947,910.00
		Subtotal		15,283,086.92	15,283,086.92
3601		Vehicles			
	i	Procurement of two Hi-ace bus	-		-
		Subtotal	-		-
4801		Project Management			
3601	i	One Laptop and Printer	-		-
4801	ii	Office supplies/stationaries/Telephone/Postage	-		-
4801	iii	OLS drawing at Gelephu Domestic Airport	-		-
		Subtotal	-		-
		Grand Total	59,457,470.00	15,283,086.92	74,740,556.92

Notes I to IV of the financial statements form an integral part of these financial statements.

(Bhagi Maya Dulal) **Dy. Chief Accounts Officer**  
Dy. Chief Accounts Officer  
Department of Air Transport  
Paro : Bhutan

(Ugyen Dorji)  
Offg Project Director

**Director**  
Department of Air Transport  
Paro : Bhutan

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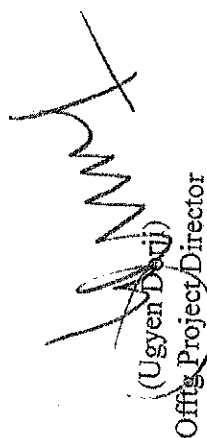
Notes to Account - II a- Details of Payment by ADB by Currency and Method of Funding

	Category	During the current year		Cumulative from inception of Project till end of current year	
		Equivalent BTN	USD	BTN	USD
Direct Payment					
Consultancy Service	3101	15,283,086.92	248,023.50	56,530,143.60	1,029,931.87
Subtotal		15,283,086.92	248,023.50	56,530,143.60	1,029,931.87
Replenishment		56,512,990.00	917,204.32	99,208,875.00	1,630,166.33
Subtotal		56,512,990.00	917,204.32	99,208,875.00	1,630,166.33
Total		71,796,076.92	1,165,227.82	155,739,018.60	2,660,098.20
Imprest Account Initial Deposit		25,815,652.32	430,476.11	55,049,387.41	963,480.05
Diff between Disb and Liquidation		2,944,480.00	34,419.72	19,677,766.00	313,125.97
Sub Total of Imprest A/c		6,803,311.33	106,752.10	54,608,457.86	902,988.26
Grand Total		78,599,388.25	1,271,979.92	210,347,476.46	3,563,086.46

Notes I to IV of the financial statements form an integral part of these financial statements



(Bhagi Maya Dulal)  
Dy. Chief Accounts Officer  
Dy. Chief Accounts Officer  
Department of Air Transport  
Paro : Bhutan

  
(Ugyen Dorji)  
Offg. Project Director

Director  
Department of Air Transport  
Paro : Bhutan


For the period 1st July 2014- 30th June 2015

Notes to Account - II-b-Direct Payment to Consultant for ADB Grant No.0295-BHU

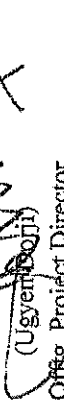
SL.No	Foreign Currency : USD			Local Currency : BTN			Exchange Rate applied	Total BTN
	Withdrawal Application No & Date	For the Month	USD	Equivalent BTN	Withdrawal Application No & Date	BTN		
1	00032 dt 09/07/2014	May-14	2,050.00	123,604.76	00033 dt 09/07/2014	1,744,900.00	60.30	1868504.76
2		Jun-14	0.00	0.00	00034 dt 12/08/2014	1165000.00	60.42	1165000.00
3	00035 dt 10/09/2014	Jul-14	28,834.89	1,771,182.67	00036 dt 10/09/2014	883,400.00	61.42	2654582.67
4	00037 dt 06/10/2014	Aug-14	25,650.00	1,575,552.09	00038 dt 06/10/2014	528,200.00	61.43	2103752.09
5	00039 dt 29/10/2014	Sep-14	27,530.00	1,692,600.00	00040 dt 29/10/2014	821,500.00	61.48	2514100.00
6	00041 dt 15/12/2014	Oct & Nov 2014	4,830.00	299,271.57	00042 dt 15/12/2014	1,575,000.00	61.96	1874271.57
7	00044 & 46 dt 09/03/2015	Dec & Jan 2015	3,570.00	223,066.09	00045 & 47 dt 09/03/2015	1,282,800.00	62.48	1505866.09
8	00050 dt 07/05/2015	Feb-March 2015	10,192.38	649,899.72	00049 dt 07/05/2015	947,110.00	63.76	1597009.72
TOTAL			102,657.27	6,355,176.92		8,947,910.00		15,283,086.92

Note 1. The withdrawal application for Direct Payment by ADB processed by the DoAT was crossed check with the payment details provided in the Loan and Grant Financial Information Services system

2. The payment reflected above is as of this AFS statement period and payments made after 30th June 2015 has not been included in this statement

  
(Bhagi Maya Duttal)  
Dy. Chief Accounts Officer

Dy. Chief Accounts Officer  
Department of Air Transport  
Paro : Bhutan

  
(Ugyen Dorji)  
Offg. Project Director  
Director  
Department of Air Transport  
Paro : Bhutan



Royal Government of Bhutan  
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*Air Transport Connectivity Enhancement Project*  
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Notes to Account III - Statement of Imprest Account

S.N	Particulars	Equivalent BTN ('000)	US\$
A	Opening Balance of Imprest Account (Exchange Rate as on 30/06/2014 1 USD= BTN 59.97)	25,815,652.32	430,476.11
	<b>Total</b>	<b>25,815,652.32</b>	<b>430,476.11</b>
B	Less: Disbursements		
	Expenditure (62.48)	(59,457,470.00)	(951,624.04)
	Balance with DPA as on 30/06/2015 (63.73)	(616,253.57)	(9,669.76)
	Project advances with third parties	(20,853,940.00)	(327,223.29)
	<b>Total</b>	<b>(80,927,663.57)</b>	<b>(1,288,517.08)</b>
C	Add: (a) Replenishment	24,999,713.00	411,800.89
	(b) Replenishment	31,513,277.00	505,403.43
	<b>Total</b>	<b>56,512,990.00</b>	<b>917,204.32</b>
A-B+C-D	Closing Balance of Imprest Account	1,400,978.75	59,163.35
	Add: Excess Release by DPA to Project (Refer Annexure A)	997,937.00	15,972.10
	Add: Excess Release by DPA to Project for the FY 2013-14 @59.97 (Refer Annexure B)	8,089.00	134.88
D	<b>Total Closing Balance of Imprest Account (without Exchange Diff)</b>	<b>2,407,004.75</b>	<b>75,270.34</b>
E= F - D	Add/Less: Exchange Difference (balancing figure)	4,396,306.58	31,481.76
F	<b>Closing Balance of Imprest Account (as per actual bank account) @ 63.73</b>	<b>6,803,311.33</b>	<b>106,752.10</b>

Notes I to IV of the financial statements form an integral part of these financial statements

*[Signature]*  
(Bhagi Maya Dulai)  
Dy. Chief Accounts Officer  
Department of Air Transport  
Paro : Bhutan

*[Signature]*  
(Ugyen Dorji)  
Omgyi P. J. Director  
Department of Air Transport  
Paro : Bhutan

Notes to Account III a - Reimbursable from ADB

S.N.	Particulars	Equivalent BTN	US\$
A	Outstanding Replenishments as of [previous year]	6,303,792.00	122,029.02
	Total A	6,303,792.00	122,029.02
B	Add:		
	Disbursements during the year	59,457,470.00	951,624.04
C	Less:		
	Replenishment during the year	56,512,990.00	917,204.32
	Total C	56,512,990.00	917,204.32
	Total B	59,457,470.00	951,624.04
D	Liquidation/ Recovery of Initial Balance	0.00	0
	Total D	0.00	0
E	Outstanding Replenishment as of [30/06/2015]	9,248,272.00	156,448.74

Notes I to IV of the financial statements form an integral part of these financial statements



(Bhagi Maya Dulal)

Dy. Chief Accounts Officer

**Dy. Chief Accounts Officer**

**Department of Air Transport**

**Paro : Bhutan**



(Ugyen Dorji)

Offg. Project Director

**Director**

**Department of Air Transport**

**Paro : Bhutan**

Royal Government of Bhutan  
Ministry of Information and Communications  
Department of Air Transport  
*Air Transport Connectivity Enhancement Project*  
Funded by Asian Development Bank : Grant No: G0295-BHU  
For the period 1st July 2014- 30th June 2015

**NOTES IV TO THE FINANCIAL STATEMENTS - Accounting policies and explanatory notes**

**1. Project Nature and Activities**

1.1 The objective of the project is the improved safety, security and capacity at three domestic airports in Bumthang, Gelephu and Yonphula. The project comprises :

- (a) perimeter fencing, all weather access road, apron taxiway, car park and general service vehicle in Bumthang.
- (b) perimeter fencing, runway drainage, flood protection structures and a general service vehicle in Gelephu.
- (c) removal of small hills beside runways, a general service vehicle, runway stripe drainage and runway slope correction in Yonphula.
- (d) consulting service to undertake the listed activities

The project commencement date is 4th November 2012 and expected completion date is 30th June 2016. The Department of Civil Aviation under the Ministry of Information and Communications, Royal Government of Bhutan, Bhutan is the Executing Agency and the Ministry of Finance, Royal Government of Bhutan, Thimphu, Bhutan is the representative as set out in the Grant Agreement dated 6th August 2012.

**1.2 Give legislative framework**

The execution of the project shall be in line with the contents under the schedule 4 of the Grant Agreement. The execution of the project shall comply with all the rules and regulations relating to environment, health, safety, labor standards, governance and ADB anticorruption policies

The project shall not have any Indigenous Peoples Safeguards and Involuntary Resettlement Safeguards impacts and no proceeds of the Grants shall be used to finance any activity in the list of prohibited investment activities.

## 2. STATEMENT OF COMPLIANCE

Project Financial Statements have been prepared in accordance with FINANCIAL RULES AND REGULATIONS 2001, of the Royal Government of Bhutan and the Statement of audit as required by the Asian Development Bank under the Grant No. 0295-BHU dated 6th August 2012

## 3. SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Basis of measurement

The project has maintained accounts according to the Financial Rules and Regulations 2001, of the Royal Government of Bhutan on a cash basis of accounting and double entry accounting systems.

### 3.2 Fund Flow mechanism

A First Generation Imprest Account has been established with the Central Bank, Royal Monetary Authority and a Second Generation Imprest Account for DoAT has been established at the Bank of Bhutan.

All replenishment/ direct payment requests to the ADB shall be processed through the Department of Public Accounts, Ministry of Finance, Royal Government of Bhutan who is the representative of the DoAT. The DoAT shall make all disbursement from the Second Generation Imprest Account( Project Letter of Credit Account) maintained with the Bank of Bhutan. Release of fund to make disbursement shall be processed through the Department of Public Accounts ( Authorised signatory for the grant proceeds)

### 3.3 Advances and other receivables

Advances are not treated as expenditure. Partial advances have been liquidated as of 30th June 2015 & there is still balance to be recovered amounting to **Nu. 20,853,940.00**

### 3.4 Cash and cash equivalents

Only imprest account is maintained in US\$

### 3.5 Accrued and other liabilities

There are no liabilities as of 30th June 2015

### 3.6 Income

i) All types of income (if any) is deposited into the Royal Government Revenue Account and thus the executing agency has no

rights to withhold any type of income

- iii) Free of cost office space, and certain other services provided by Royal Government of Bhutan are not valued and accordingly, are not recognized in these financial statements as income of the Project.

### 3.7 Foreign currency transactions and translation

#### (a) Functional and presentation currency

Items included in the financial statements of the Project are measured using the currency of the primary economic environment in which the entity operates (the functional currency), which is the Bhutanese Ngultrum (BTN).

#### (b) Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rate prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income and expenditure account. Conversion Rate: USD \$ 1 = BTN Nu. 63.73 as of 30 June 2015.

### 3.8 Allocation of Common Costs

Describe how common costs are allocated to different output/ activities

Common cost if any, shall be equally divided among the activities and reflect as expenditure under the individual activities.

#### 4. Funds Received from the Government

100% fund for the project has been provided by the ADB as grant to DoAT. The DoAT proposes budget every financial year in line with the provision of the ADB Grant and the projection is for one financial year. The financial year starts from 1st July and ends on the 30th June every year. The replenishment and reimbursement is processed by DoAT everytime when the expenditure exceeds or equals USD \$ 100,000 (combining of more than one expenditure heads). The DoAT forwards the SOEs along with supporting documents (if any/as required) to the Department of Public Accounts, who in turn forwards the request to the ADB

#### 5. Funds from ADB

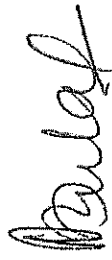
Funds from the ADB has been approved or agreed as per Grant Agreement No 0295-BHU(SF) Dated 6th August 2012 under the endorsement of the Minister, Ministry of Finance, Royal Government of Bhutan and Director General, South Asia Department, Asian Development Bank

5.1 Grant

Amount of USD \$ 6,920,000 has been sanctioned by the ADB as Grant for the Air Transport Connectivity Enhancement Project

6. DATE OF AUTHORIZATION

These financial statements have been authorized for issue by the \_\_\_\_\_  
of \_\_\_\_\_ on .....



Dy. Chief Accounts Officer  
Department of Air Transport  
Paro : Bhutan





Director  
Department of Air Transport  
Paro : Bhutan

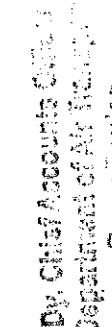
Royal Government of Bhutan  
Ministry of Information and Communications  
Department of Air Transport  
*Air Transport Connectivity Enhancement Project*  
Funded by Asian Development Bank : Grant No: G0295-BHU  
For the period 1st July 2014- 30th June 2015

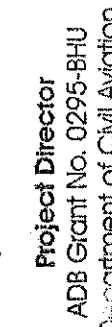
Notes to Account V - Statement of fund balance reconciliation with DPA

S.N.	Particulars	Equivalent BTN ('000)
A	Total Fund Received from Department of Public Accounts	77,535,385.57
B	Total Expenditure as of 30 June 2015	59,457,470.00
	Prior year advance adjusted for 2013-14	(-13392278.00)
C	Total outstanding/advance not adjusted(2014-15)	20,853,940.00
D	Balance with DPA as of 30 June 2015	616,253.57
E	E= B+C+D	77,535,385.57

  
(Bhagi Maya Dulal)  
Dy. Chief Accounts Officer

  
(Karma Wangchuk)  
Project Director

  
Dy. Chief Accounts Officer  
Department of Air Transport  
Paro, Bhutan

  
Project Director  
ADB Grant No. 0295-BHU  
Department of Civil Aviation  
Paro, Bhutan

# EXHIBITS



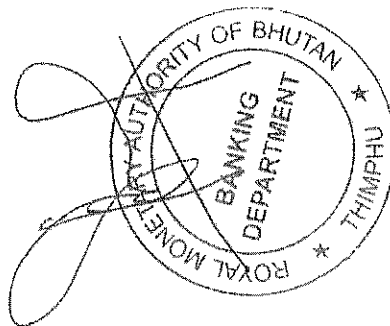


**Royal Monetary Authority**  
**BANKING DEPARTMENT**

CURRENT: A/C OF CASH, DEBITED FOR THE BALANCE OF THE CASH ACCOUNT

(Page 1 of 1)  
Amount in USD

Voucher Date	Value Date	Voucher Number	Ref. No.	Particulars	Debit	Credit	Balance
Balance Brought Forward:							37,562.84 CR
20/03/2015	20/03/2015	CAM/GV/1415/13416		fund recd for FC 20762 of ADB grant no 0295 BHD MA 00043	0.00	411,800.99	449,363.83 CR
27/03/2015	27/03/2015	CAM/BK06/1415/10758		fund tfr to DPA from FC 20762 FT 105 W 62.55	449,363.83	0.00	0.00 DR
11/05/2015	11/05/2015	CAM/GV/1415/12709		fund recd for FC 20762 of ADB grant no 0295-BHD 00048	0.00	505,403.43	505,403.43 CR
22/05/2015	22/05/2015	CAM/BK06/1415/13172		fund tfr to DPA from FC 20762 FT 120 863.53	505,403.43	0.00	449,791.91 CR
29/05/2015	29/05/2015	CAM/BK06/1415/13454		vide DPA letter no 3694 dated 20/05/2015 fund tfr to DPA from FC 20762 FT 121 863.12	329,681.99	0.00	220,110.82 CR
10/06/2015	10/06/2015	CAM/BK06/1415/13963		vide DPA letter no 3746 dated 28/05/2015 fund tfr from FC 20762 FT 127 863.76 vide	313.68	0.00	119,796.94 CR
18/06/2015	18/06/2015	CAM/BK06/1415/14353		DPA letter no 3845 dated 10/06/2015 fund tfr to DPA from FC 20762 FT 128 864.01	13,044.84	0.00	106,752.10 CR



*Thimphu*  
**Director**  
**Department of Air Transport**  
**Paro : Bhutan**

*Paro*  
**Dy. Chief Accounts Officer**  
**Department of Air Transport**  
**Paro : Bhutan**

## FINANCIAL INFORMATION ON PROJECTS

FOR THE FISCAL YEAR 2010-2011 TO 2015-2016

FICODE - 2816 / DONOR - ALL

(Amount in Nu.)

EXHIBIT-II

AU	FIC	ADMINISTRATIVE UNIT/PROJECT NAME	CASH RECEIPTS	TOTAL RELEASED	BOOKED EXPENDITURE		TOTAL REFUNDS	SURR FUND	CASH WITH GOVT.
					IN-CASH	IN-KIND			
FY - 2012-2013 207.01	2816	MINISTRY OF INFORMATION & COMMUNICATIONS Air Transport Connectivity Enhancement Project	12,739,450.00	12,739,450.00	11,518,539.00			0.00	1,220,911.00
		TOTAL 207.01	12,739,450.00	12,739,450.00	11,518,539.00			0.00	1,220,911.00
FY - 2013-2014 207.01	2816	MINISTRY OF INFORMATION & COMMUNICATIONS Air Transport Connectivity Enhancement Project	39,891,000.00	41,120,000.00	37,481,138.00			0.00	2,409,862.00
		TOTAL 207.01	39,891,000.00	41,120,000.00	37,481,138.00			0.00	2,409,862.00
FY - 2014-2015 207.01	2816	MINISTRY OF INFORMATION & COMMUNICATIONS Air Transport Connectivity Enhancement Project	76,290,864.57	77,535,385.57	59,457,479.00			0.00	16,633,394.57
		TOTAL 207.01	76,290,864.57	77,535,385.57	59,457,479.00			0.00	16,633,394.57
FY - 2015-2016 207.01	2816	MINISTRY OF INFORMATION & COMMUNICATIONS Air Transport Connectivity Enhancement Project	31,874,000.00	28,412,000.00	26,412,000.00			0.00	3,482,000.00
		TOTAL 207.01	31,874,000.00	28,412,000.00	26,412,000.00			0.00	3,482,000.00

CASH WITH GOVT. CASH RECEIPTS (REFUND AMOUNT + IN-CASH EXPENDITURE)

NOTE

Page 1 of 2

Project Director  
ADB Grant No. 0295-BHU  
Department of Civil Aviation  
Paro, Bhutan

AU	FIC	ADMINISTRATIVE UNIT/PROJECT NAME	CASH RECEIPTS	TOTAL RELEASED	BOOKED EXPENDITURE		TOTAL REFUNDS	SURR FUND	CASH WITH GOVT.
					IN-CASH	IN-KIND			
		TOTAL 2015-2016	31,874,000.00	28,412,000.00	28,412,000.00			0.00	3,462,000.00
		GRAND TOTAL	160,795,314.57	159,806,835.57	136,869,147.00			0.00	23,926,167.57

*Parul*  
 Dy. Chief Accounts Officer  
 Department of Civil Aviation  
 Thimphu, Bhutan

*[Signature]*  
 Project Director  
 ADB Grant No. 0295-BHU  
 Department of Civil Aviation  
 Thimphu, Bhutan

NOTE

CASH WITH GOVT = CASH RECEIPT - ( REFUND AMOUNT + IN-CASH EXPENDITURE )

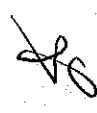
Royal Government of Bhutan  
Ministry of Information and Communications  
Department of Air Transport  
*Air Transport Connectivity Enhancement Project*  
Funded by Asian Development Bank : Grant No: G0295-BHU  
For the period 01/07/2013 to 30/06/2014

Notes to Account III - Revised Statement of Imprest Account

S.N.	Particulars	Equivalent BTN ('000)	US\$
A	Opening Balance of Imprest Account (Exchange Rate as on 30/06/2013 1 USD= BTN 59.97)	21,989,494.21	365,760.05
	<b>Total</b>	<b>21,989,494.21</b>	<b>365,760.05</b>
B	Less: Disbursements		
	Expenditure (59.96)	(37,481,138.00)	(625,102.57)
	Balance with DPA as on 30/06/2014 (59.97)	(246,584.00)	(4,111.79)
	Project advances with third parties	(3,392,278.00)	(56,566.25)
	<b>Total</b>	<b>(41,120,000.00)</b>	<b>(685,780.41)</b>
C	Add: (a) Replenishment	11,518,539.00	209,888.66
	(b) Replenishment	6,654,045.00	107,172.04
	(C) Replenishment	24,523,301.00	395,901.31
	<b>Total</b>	<b>42,695,885.00</b>	<b>712,962.01</b>
A-B+C=D	Closing Balance of Imprest Account (without Exchange Diff)	23,565,379.21	392,941.65
	Add: Excess Release by DPA to Project (59.97)	8,089.00	134.88
D	<b>Total Closing Balance of Imprest Account</b>	<b>23,573,468.21</b>	<b>393,076.54</b>
E= F - D	Add/Less: Exchange Difference (balancing figure)	2,242,184.11	37,399.57
F	Closing Balance of Imprest Account (as per actual bank account) @ 59.97	25,815,652.32	430,476.11

Notes I to IV of the financial statements form an integral part of these financial statements

  
(Bhagi Maya Dulal)  
Dy. Chief Accounts Officer

  
Dy. Chief Accounts Officer  
Department of Air Transport  
Paro : Bhutan

**AUDIT FINDINGS ON THE ACCOUNTS & OPERATIONS  
OF THE “AIR TRANSPORT CONNECTIVITY  
ENHANCEMENT PROJECT”, FUNDED BY ADB, GRANT  
NO.0295-BHU**

## PART II: DEFICIENCIES AND LAPSES

The Royal Audit Authority while reviewing the accounting records, internal control and operations of the "Air Transport Connectivity Enhancement Project", funded by the Asian Development Bank Grant No.0295-BHU, implemented by Department of Air Transport, Paro had noted that internal controls including supervisory controls and monitoring were generally adequate except for the deficiencies and lapses as discussed below:

### 1. Flaws in Tender Evaluation and award of construction contract to a technically non-responsive bidder (4.4.6)

The NIQ for the construction of new Terminal Building at Gelephu Domestic Airport estimated for Nu.8,536,011.13 was floated on 10<sup>th</sup> July 2014 vide NIQ NoDCA/ASP/Maint/254 date 9<sup>th</sup> July 2014. In response, ten bidders had purchased the bidding documents and had submitted their bids as follows:

Sl. No	Name of bidder	Quoted Amount (Nu.)
1	Sonam Construction	Nu. 10,326,366.00
2	Dee Gee construction	Nu. 9,881,930.00
3	KD & Phurba JV	Nu. 7,614,666.00
4	D10Zi builders	Nu. 10,219,630.00
5	GEM construction	Nu. 8,517,546.00
6	Druk KD construction	Nu. 8,100,651.00
7	Yeshey T Denkar construction	Nu. 9,968,035.00
8	Dorji Construction	Nu. 8,312,135.27
9	Alpha Beta construction	Nu. 13,046,599.50
10	Karma builders	Nu. 7,988,774.31

In line with the decision of the Tender Committee, the contract was found awarded to M/s Dee Gee Construction, Paro on the basis of the lowest evaluated bid at a contract amount of Nu.9,881,930.00 which was 13.62 % above the departmental estimated cost of Nu.8,536,011.13.

A detailed review of the tender documents of the winning bidder M/s Dee Gee Construction, Paro indicated, that the bidder did not satisfy "Evaluation and Qualification Criteria" of Standard Bidding Documents of the ADB project and the bid Evaluation Committee even failed to recognize such criteria resulting in flawed bid evaluation and decision making:

#### i) Non-compliance to the requirement of Historical Financial Performance

The bidding document section 3, clause 2.3.1 states that, "*submission of audited financial statements or, if not required by the law of the Bidder's country, other financial statements acceptable to the Employer, for the last three (3), (2010-2011, 2011-2012, 2012-2013) years to demonstrate the current soundness of the Bidder's financial position.*"

Notwithstanding the above clause, the evaluation committee had overlooked this requirement and accepted the financial statements for 2 consecutive years and considered the bid as responsive .

The Department should furnish justification for not rejecting the bid of the winning bidder despite the fact that the winning bidder had failed to comply with the requirement and submitted audited financial statements only for two financial years were submitted against three audited financial statements.

## **ii) Non-compliance to the Personnel Requirements**

The company profile of M/s Dee Gee Construction stated that the Project manager had one year of experience in the works of similar nature and was considered by the evaluation committee and work awarded accordingly.

However, the experience in supervising similar works submitted in hard copy was not found genuine on cross verification with the CDB record through e-tool system. Similarly, the experience of the site Supervisor contained in the company's profile was also found manipulated on cross verification with the CDB records.

Such lapses showed deficiencies of not adopting the e-tool to at least confirm the availability of HR & Equipment with the contractor.

The Department should furnish justification for due diligence lapses on the part of the evaluation committee as such negligence had deprived other competitive bidders in winning the bid. The Ministry should thoroughly review the evaluation process for ascertaining the adoption of fair evaluation processes of the bids by the Evaluation Committee as otherwise appropriate action should be taken against the evaluation committee for awarding the contract to a non-responsive bidder and depriving other responsive bidders. Besides, the Ministry should also revisit the tender documents to rule out existence of any manipulation of documents by the contractor to be dealt with Laws of the Land and for taking appropriate action against the evaluation committee for the failure to take note of the manipulated documents during the evaluation process.

### **Auditee's Response:**

#### ***First response: Non-compliance to the requirement of Historical Financial Performance***

*The evaluation committee accepts that the historical financial performance of past two years had been evaluated whereas the requirement was for the past three years. The evaluation committee comprising of two Engineers from the department and one Engineer from the consultancy carried out the evaluation as per the guideline for procurement published by Asian Development Bank. None of the members are experienced with the ADB procurement system and moreover, there was enormous pressure from the government to immediately take up the construction of the Terminal building in order to start domestic air service to Gelephu. (Scanned letter attached as Attachment 1). The project wasn't in the initial list of approved projects of the Air Transport Connectivity Enhancement Project.*

*Since all the members of the evaluation committee were with Engineering background, it was felt that the verification of the accounts details was beyond the capacity of the evaluation committee. As the committee was already appointed for this particular bid evaluation and moreover the project being an urgent one, inclusion of a member from Accounts section could not be done in the midway. Hence for the ADB funded project at Yonphula (which was tendered out after the Gelephu Terminal bid) accounts personnel were included as member of the evaluation committee.*

*Also, due to enormous pressure to start construction the evaluation period was reduced from the normal time to 2 weeks. On the other hand, ADB usually doesn't encourage retendering without very strong grounds to do so and also there was very limited time to go for the whole process of re-tendering. The bidders whose bid prices were lower than the winning bidder also did not qualify for the award and though it is an error of overlooking during evaluation there is no financial implication. The bid evaluation report was forwarded to ADB and only after obtaining the approval their procurement specialist, the report was submitted to the award committee.*

*Despite carrying out the evaluation carefully, cautiously and fairly, the historical financial performance for the winning bidder had been overlooked by the evaluation committee. The*



evaluation committee would pledge that such mistake/error will not be repeated in the entire career of all the members and hence request RAA to drop the observation.

***Second response: Non-compliance to the requirement of Historical Financial Performance***

*When ADB fund was committed for the development of the domestic airports, the department was reluctant to hire consultancy firm as hiring consultancy firm leads to expenditure of a large portion of the grant money on the consultancy firms. But the department was informed by ADB that hiring of consultancy firm is the norm of ADB and if we do not hire a consultancy firm, we shall not be able to avail the grant money.*

*Hence without an option the department had to hire the consultancy firm as per the requirement of ADB. An international consultant and a local consultant were hired as a joint venture as that was the requirement of ADB. In order to procure the works to be executed with ADB grant money, the department was advised to use the procurement guidelines of ADB. The department was not comfortable with the guidelines of ADB and was more confident with the etool system so the department insisted on using the etool system. However the department was informed that in order to use ADB fund, we must follow ADB's procurement guidelines. Since the department had no experience in procurement using ADB guidelines, the department anticipated the consultants to carry out the evaluation as they have a procurement specialist in their key personnel list but the consultants insisted on active participation from the client and despite of our inexperience we found ourselves deeply involved in the evaluation process.*

*As the department Engineers are not at all acquainted with the procurement method of ADB, the department Engineers requested ADB for training on their procurement methods. (Email attached) Although ADB committed to look into the matter, they had not helped us or provided such training yet. Therefore, without any training and completely new to the procurement methods of ADB, the department Engineers had to carry out evaluation using ADB procurement method. Furthermore, the project construction of Terminal building in Gelephu Domestic Airport was an adhoc project and that too with immense pressure from higher authority to complete the project in a very short notice. The department received a letter from the Ministry of Information and Communications on 25<sup>th</sup> June 2014 stating that the Gelephu Terminal has to be ready by January 2015. This left the department with only one week for completing the evaluation.*

*The evaluation committee comprised of two civil Engineers from our department and an Engineer from the consultant. The entire evaluation committee had no experience in evaluating the financial background of the bidders and moreover with no experience in the evaluation using ADB procurement method, it has led to an oversight of the historical financial requirement. Moreover all procurements made under ADB grant has to be forwarded to ADB. ADB officials go through the evaluation report and the department can award the work to the selected bidder after receiving the approval from ADB. Furthermore there are instructions from ADB that they do not support re-tender of works as long as there is even a single responsive bidder with marginal increase from estimated cost.*

*The department would like to stress that this is the first time such oversight has happened during evaluation process and moreover the department being very new with the procurement process of ADB had led to such lapses. The department deeply regrets such lapse and shall ensure it is not repeated in the future ever again. The evaluation committee for ADB project in Yonphula consists of an official with finance background as well. Hence such lapse will not be repeated. The department would like to urge the RAA to kindly drop the memo.*

***First response: Non-compliance to the Personnel Requirements***

*Although the personnel requirement is not the evaluation and qualification criteria, the evaluation committee verified the documents submitted by the bidders. The project manager's experience was based on his company's experience (as the bidder had submitted document showing his execution of the work).*

*When the ADB mission visited Bhutan, the e-tool evaluation system was discussed and was requested for adopting for bid evaluations but ADB recommended to base the evaluation on the ADB bid evaluation system only.*

*As the evaluation had been done based on the guideline of the ADB, the information was verified based on the document proof submitted along with the bid. The findings were reflected on the bid evaluation report.*

*With the above justification, the evaluation team request RAA to drop the observation.*

***Second response: Non-compliance to the Personnel Requirements***

*The department would like to emphasize on the urgency of the procurement of works for construction of terminal in Gelephu Domestic Airport. There were strict instructions from the higher authority to complete the project within a very short period which left us with very minimal time for evaluation. Due to extreme shortage of time, the department had announced in the media that during the course of evaluation we shall not be seeking any clarifications as the time frame was very limited and we did not have the luxury to confirm each detail submitted by the contractor. Moreover as per bidding document, personnel requirement is not the evaluation criteria so checking the details of manpower was not our mandate as well.*

*Also after carrying out the evaluation the department has to send the details of evaluation to ADB. ADB's officials review the details and they give recommendations and advice. Following which they give the final approval once the report is up to the satisfaction of ADB.*

*As the evaluation was carried out strictly as per ADB evaluation guidelines, the evaluation committee had verified the personnel requirement solely based on the documents submitted by the bidders. Hence as personnel requirement does not form a part of the qualification criteria also owing to the extreme shortage of time available for the evaluation process, the evaluation committee could not verify the personnel details in e-tool system.*

*The department deeply regrets the lapse that has occurred. As explained above this is the first time such lapse has occurred and we shall ensure it is not repeated. Hence the department would like to request RAA to kindly drop the memo.*

***RAA's Further Comments:***

*While taking note of the response, the fact remains that the Evaluation Committee had failed to evaluate the tender fairly as the winning bidder despite its failure to comply with the defined evaluation criteria. It may be reiterated that the very essence of incorporating the qualifying criteria in terms of technical and financial capacity of the contractor is to ensure that contract works are awarded based on responsive bids and at competitive rates without compromising the requisite qualifying criteria stipulated in the tender terms and conditions. The assertion of the evaluation committee of its incompetency, urgency of works and use of ADB procurement guidelines indicated adoption of flawed evaluation process. The acceptance of two years financial statements against stipulated three years financial statement (As per the ADB procurement guidelines under the Evaluation and Qualification Criteria, clause 2.3.1 states that, the bidders are required to submit the financial statements of three consecutive years) and non-meeting of minimum requirement of experiences in the works of similar nature in respect of the Project manager and the Site Supervisor (the experiences in supervising the similar nature of works submitted in hard copy in the company's profile was found not genuine on cross verification with the CDB record through e-tool system) indicated absence of due*

diligence on the part of the Evaluation Committee in the tender evaluation which had resulted in the award of contract to a non-responsive bidder depriving other responsive bidders as well as execution of substandard works as highlighted under audit Para no.2.

The deficiencies in the evaluation process had occurred mainly due to the failure on part of the evaluation committee to exercise their due care and diligence and also failed to authenticate the information of the Human Resources provided in the Company's profile to that with the e-tool system.

Therefore, the Ministry taking into cognizance of inappropriate tender evaluation should carry out an independent review of the evaluation process for taking appropriate actions against those responsible including the committee members for their failure to exercise due diligence over the tender evaluation and apparently awarding of the contract to a non-responsive bidder and depriving other responsive bidders.

Further, the Ministry should institute appropriate supervision and monitoring mechanism to oversee all the tender processes conducted by the Department to prevent such unwarranted lapses in future.

#### **Who is Accountable?**

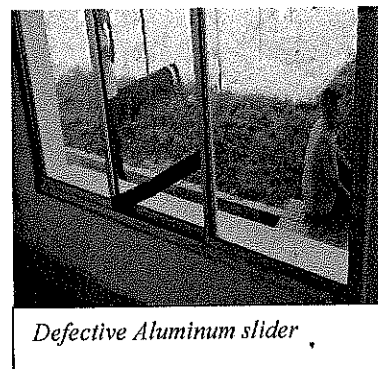
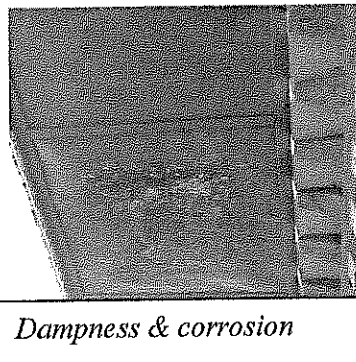
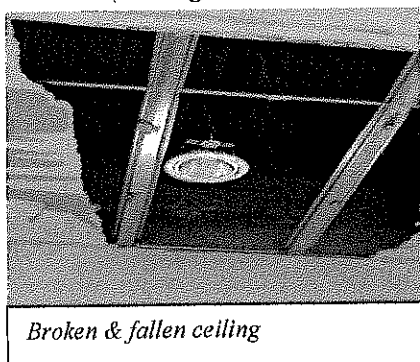
**Direct accountability:** 1. Jamyang T Dorji, Engineer, EID No.201101166  
2. Dorji Rabten, Engineer, EID No.201201088  
3. Sonam Tshering, Gyeltshen Consultancy, CID No.11410003876

**Supervisory Accountability:** 1. Ugyen Dorji, Principal Engineer, EID No.8908106  
2. Karma Wangchuk, Director, EID No.9004059

#### **2. Acceptance of Defective works in construction of new Terminal building at Gelephu Domestic Airport (4.4.30)**

The joint verification of new Terminal building at Gelephu Domestic Airport noted acceptance of few defective works as explained hereunder and shown in the photographs below:

- a) The Gypsum ceiling board were found broken and fallen off at level 2;
- b) The ply lining in eaves ceiling showed dampness & corrosion thereof dedicating leakage of roofing;
- c) The aluminum components for windows VIP room were not functioning properly. (Sliding shutter was not moving on channels).



The Department besides commenting on the acceptance of defective works should take immediate measures to rectify the defects at the cost of the contractor or officials responsible for allowing the execution of such defective works and taking over of such the defective works.

**Auditee's Response:**

*The works were completed and taken over by the team comprising of Director and Engineer in charge from the department and team leader & procurement specialist from the consultant side in presence of the airport management and the Supervising Engineer.*

*The rectification work arose mainly because of roof leakage (encountered after the NAV/COMM section of the department installed their antenna on the roof). The contractor had been intimidated and given a final reminder with deadline of 10<sup>th</sup> December 2015 (letter attached as attachment no.3) to complete the rectification works. The contractor has planned to start the work from 3<sup>rd</sup> December, 2015.*

*After the completion of the rectification works to its specified requirement RAA will be informed accordingly.*

**RAA's Further Comments:**

*While taking note of response, the fact remains that the project management had failed to take appropriate action against the contractor for the failure to rectify the defective works which was supposed to have been completed within the deadline of 10<sup>th</sup> December 2015. Further, there is no synchronization of works, where some of the works (installation of Antenna) were executed after completion of the handing taking which resulted into the defective works. The inaction on the part of the Project management and the Department till date is an indication of existence of weak contract management and laxity towards works and procedures.*

*It is to reiterate that any defects noted after Defect Liability Period will have to be rectified at the cost of the Government and it was apparent that no rectifications were carried out as the Project failed to furnish rectification certificate during the exit meeting held on 10<sup>th</sup> December 2015.*

*However, as assured in the audit exit meeting, the Department should immediately direct the contractor for carrying out rectification works and furnish rectification report duly attested by the competent authority for further verification and records. Besides, in the event of failure to rectify the works by the contractor, the Department should initiate rectification of the defective works from the retention money as further delays may cause damages to other structures. Besides, the Ministry should fix the accountability on the officials responsible for allowing the execution of substandard works and taking over of such defective works as well as officials responsible for inaction to direct the contractor to rectify defects as of date.*

*Further, the Ministry should direct the Department for instituting appropriate internal control mechanism to ensure existence of effective contract management system and also to curb such lapses in future.*

**Who is Accountable?**

**Direct Accountability:** 1. Palden Dorji Lepcha, Gyeltshen Consultancy, CID No. 21213000353  
2. Jamyang T Dorji, Engineer, EID No. 201101166

**Supervisory Accountability:** 1. Ugyen Dorji, Principal Engineer, EID.No.8908106  
2. Karma Wangchuk, Director, EID.No.9004059

### **3. Wrong application of $\pi r^2$ for half circle and overpayment for the construction of Car parking at Bumthang Domestic Airport -Nu.119,998.45 (5.1.15)**

The construction of perimeter Fencing, Access Road, Apron Taxiway and Car parking at Bumthang Bapalathang Domestic Airport was awarded to M/s Penjor Construction vide work order No.DCA/ASP/MAINT/116 dated 18/02/2014 at the contract price of Nu.51,922,777.00.

The joint physical verification of the construction site was carried out by the team comprising of the auditors, site engineer and the officials of the Bumthang domestic airport. In an attempt to cross check the actual execution of works at site with reference to measurements of work done and claimed in the RA Bills, it was noted that formula for computation of volume work done for semi-circle works was wrongly applied as  $\pi r^2$ .

On review it was noted that the half circle with the radius of 7.45 (*curvature at the end of the parking*) was not divided by two to deduce the actual area of the pavement. Further, the number of 2.5m long HDPE pipe counted to 83 as against 93 in breast wall for the car parking. This had resulted in overpayment of Nu.119,998.45 as detailed in *Annexure C "BDAI"*.

The Department besides recovering the amount and depositing into Audit Recoveries Account should furnish justification for such lapses.

#### **Auditee's Response:**

*While applying the formula for semi-circle  $\pi r^2/2$ , division by 2 was omitted unknowingly. Therefore, kindly consider it as computational error further, the contractor was informed about the recovery and in due course of time the contractor had re-measured and found that the car park area surveyed is more than the actual claim that he made. The survey report and related documents are attached as carpark survey details (folder). Therefore, kindly drop the observation.*

#### **RAA's Further Comments:**

*It is apparent from the response that the Department had accepted the re-measured works done by the contractor without validating the correctness of the measurements indicating laxity on the part of the Department. However, it is to reiterate that the RAA had raised the issue on the wrong application of formula of  $\pi r^2$  for computation of volume work done for semi-circle works. Thus the amount computed in audit due to wrong application of the formula should be recovered and deposited into ARA within ATR date to avoid levy of penal interest.*

*Further, as decided in the exit meeting, the Department should constitute a technical team and confirm the accuracy of the re-measurements and the same will be verified during the next audit.*

*Further, the Department should institute appropriate internal control mechanism to curb such lapses in future.*

**Direct Accountability:** Mr. Bhawani Nirola, Gyeltshen Consultancy, CID.No.21108000029

**Supervisory Accountability:** 1. Ugyen Dorji, Principal Engineer, EID.No.8908106  
2. Jamyang T Dorji, Engineer, EID.No.201101166

#### 4. Outstanding advances- Nu. 1,243,982.00 (4.4.30)

The Finance and Accounting Manual (FAM), Chapter 4, Section 4.1.3.2(d) of the FRR 2001 stipulates: "A permanent Account Holder (PAH) shall refund any unspent amount of the of the advance at the close of a fiscal year" and Section 4.1.4.2(d) also states: "Once every three months and on the close of a financial year, a complete liquidation of all temporary advances in the hands of the individual Temporary Account Holders (TAHs) shall be made."

A scrutiny of the Memorandum record of outstanding advances maintained by the ADB Project, revealed outstanding advances of Nu.1,243,982.00 against BPC and Bhutan Telecom for providing Gelephu terminal building's power supply and telecommunication facilities.

The advances were granted vide note sheet No. DCA/ASP/ES/2014-15/321 dated 16/02/2015 through following vouchers as tabulated below:

Sl. No	Voucher No. and Date	Amount (Nu.)	Remarks
1	DV 2.4 of 17/02/2015	742,032.00	Bhutan Power Corporation
2	DV 2.5 of 25/02/2015	501,950.00	Bhutan Telecom
	Total	1,243,982.00	

The management besides commenting on the circumstances leading to non-settlement of advances should liquidate the advances at the earliest and furnish the details of adjustment to RAA for further verification.

#### Auditee's Response:

Department of Air Transport deposited Nu. 501,950.00 to Bhutan Telecom, Gelephu Branch on 26/02/2015 towards extension of local area network at new terminal building in Gelephu domestic airport. The telecommunication was of utmost important facility for operation of airport. Bhutan Telecom has finally completed the entire local area network worth for above deposited amount. The site handing taking and expenditure were also submitted (attached the details). Adjustment in the books of accounts is under process, adjustment voucher will be submitted to RAA as early as possible.

#### RAA's Further Comments:

While RAA has taken note on the completion of extension of local area network at new terminal building for Nu.501,950.00, the fact remains that, the project management has not submitted the details of adjustment effected in the books of accounts for verification and record. It may also be reiterated that delays in the liquidation of outstanding advances were mainly due to lack of proper follow-up and absence of adequate monitoring mechanism put in place. It may also be noted that the project has not commented on the outstanding advances lying with the Bhutan Power Corporation.

However, as agreed in the audit exit meeting held on 10<sup>th</sup> December 2015, the project management should furnish the details of adjustments made against the parties for further verifications and record. In addition, the Department should agree on a timeframe for completion of power supply installation with the Bhutan Power Corporation to facilitate monitoring over the scheduled completion deadline.

Besides, the Department should ensure that any cash refund/recoveries made against the advances should be either surrendered to the DPA or deposited into Audit Recoveries Account. Further, the Department should regulate the payment of advances in terms of the provisions of financial rules

*and regulations and ensure its timely liquidation and avoid accumulation of huge outstanding advances in future.*

***Who is Accountable?***

***Direct Accountability: Mr. Tashi Gyeltshen, Engineer, EID No.201101176***

***Supervisory Accountability: 1.Bhagi Maya Dulal, Dy Chief Accounts Officer, EID No.2001019***  
***2. Karma Wangchuk, Director, EID No.9004059***

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# ANNEXURES



Royal Government of Bhutan  
Ministry of Information and Communications  
Department of Air Transport  
*Air Transport Connectivity Enhancement Project*

Funded by Asian Development Bank : Grant No: G0295-BHU

Particulars	Amount	Local	Foreign	Remarks
<b>Opening Balances:</b>				
1. Bank Lapsed	1,220,911.00			
2. Release by ADB to DPA	39,891,000.00	41,111,911.00		
Total fund available with DPA		41,111,911.00		(A)
Less: Expenditure	37,481,138.00	37,481,138.00		
Total		37,481,138.00		(B)
Net Fund Available		3,630,773.00		(C=A-B)
<b>Actual fund balance with Project:</b>				
Outstanding Advances as on 30/06/2014	3,392,278.00			
Bank Lapsed as on 30/06/2014	246,584.00	3,638,862.00		
Actual Fund Balance		3,638,862.00		D
Difference (Excess release made by DPA to Project)		(8,089.00)		(E=C-D)

*Bhagi Maya Dulal*  
(Bhagi Maya Dulal)  
By: Chief Accounts Officer  
Department of Air Transport  
Paro : Bhutan

*[Signature]*  
(Ugyen Dorjee)  
Offt. Director  
Department of Air Transport  
Paro : Bhutan

Royal Government of Bhutan  
Ministry of Information and Communications  
Department of Air Transport  
*Air Transport Connectivity Enhancement Project*  
Funded by Asian Development Bank : Grant No: G0295-BHU

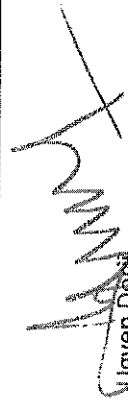
ANNEXURE: A

For the period 1st July 2014- 30th June 2015

Particulars	Amount (Nu.)	Amount (Nu.)	Remarks
<b>Opening Balances:</b>			
1. Bank Lapsed	246,584.00		
2. Advances	3,392,278.00	3,638,862.00	
<b>Total</b>		3,638,862.00	
<b>Add: Releases by ADB to DPA</b>	76,290,864.57	76,290,864.57	
<b>Total fund Available with DPA</b>		79,929,726.57	(A)
<b>Less: Expenditure</b>	59,457,470.00	59,457,470.00	
<b>Total</b>		59,457,470.00	(B)
<b>Net Fund Available with DPA</b>		20,472,256.57	(C= A-B)
<b>Actual Fund balance with Project:</b>			
1. Outstanding advances as on 30/06/2015	20,853,940.00		
2. Bank lapsed as on 30/06/2015	616,253.57	21,470,193.57	
<b>Actual Fund balance</b>		21,470,193.57	(D)
<b>Difference (Excess release made by DPA to Project)</b>		(997,937.00)	(E= C-D)

  
(Bhagi Maya Dulan)

**By: Chief Accounts Officer**  
Department of Air Transport  
Paro : Bhutan

  
Ugyen Dorji

**Offg. Project Director**  
Department of Air Transport  
Paro : Bhutan

*[Signature]*

**Statement showing overpayment due to application of wrong formula in construction of Car parking at Bumthang Bapalathang Domestic Airport**

Item No.		Description of Item		Statement showing over payment due to application of wrong formula in construction of Car parking at building adjoining Deccan Super Port As per Contractor's Bill										Unit		Diff		Rate(No.)		Amount(Yn.)		Remarks	
				Nos	L	B	H	Qty	Nos	L	B	H	Qty										
Car Park																							
B5(A)-5		Providing and laying wet mix macadam graded aggregate base course to required degree of compaction with proper formation of cross fall by using well graded crushed aggregates premixed with OMC using suitable mixer, motor grader as per material gradation and aggregate quality specified.																					
		General Parking																					
		Part 1		1.00	20.90	7.98	0.15	25.02	1.00	20.90	7.98	0.15	25.02										
		Part 2		1.00	18.55	15.20	0.15	42.29	1.00	18.55	15.20	0.15	42.29										
		Part 3		1.00	74.40	21.10	0.15	235.48	1.00	74.40	21.10	0.15	235.48										
		Part 4		3.14	7.45	7.45	0.15	26.14	1.57	7.45	7.45	0.15	13.07										
				328.93										315.86		13.07		m3		2,550.00		33,330.64	
																						The half circle with the radius 7.45 was not divided by two to arrive at the actual area of the pavement.	
B5(A)-6		Scarifying mended (water bound) road surface disposal of rubbish up to 30m and consolidation of the aggregate received from scarifying.																					
		General Parking																					
		Part 1		1.00	20.90			7.98	166.78	1.00	20.90			7.98	166.78								
		Part 2		1.00	18.55			15.20	281.96	1.00	18.55			15.20	281.96								
		Part 3		1.00	74.40			21.10	1,569.84	1.00	74.40			21.10	1,569.84								
		Part 4		3.14	7.45			7.45	174.28	1.57	7.45			7.45	87.14								
				2,192.86										2,105.72		87.14		m2		10.00		871.39	
B5(A)-7		Providing and Laying Dense Bituminous Macadam ( DBM) to required degree of compaction based on mixture design (job mix formula) approved by the supervising engineer including preparation of surface with road broom, application of prime coat @ 0.75 kg/sqm by mechanized method using asphalt plant, paver, steel roller, tyre roller etc. complete - 50mm.																					
		General Parking																					
		Part 1		1.00	20.90			7.98	166.78	1.00	20.90			7.98	166.78								
		Part 2		1.00	18.55			15.20	281.96	1.00	18.55			15.20	281.96								
		Part 3		1.00	74.40			21.10	1,569.84	1.00	74.40			21.10	1,569.84								
		Part 4		3.14	7.45			7.45	174.28	1.57	7.45			7.45	87.14								
				2,192.86										2,105.72		87.14		m2		560.00		48,797.80	
B5(A)-8		Providing and Laying Asphalt/Bituminous Concrete to required degree of compaction based on the job mixture design approved by the supervising engineer using asphalt plant, paver, steel roller, tyre roller etc. as per material gradation and aggregate quality specified : 25mm																					
		General Parking																					
		Part 1		1.00	20.90			7.98	166.78	1.00	20.90			7.98	166.78								
		Part 2		1.00	18.55			15.20	281.96	1.00	18.55			15.20	281.96								
		Part 3		1.00	74.40			21.10	1,569.84	1.00	74.40			21.10	1,569.84								
		Part 4		3.14	7.45			7.45	174.28	1.57	7.45			7.45	87.14								
				2,192.86										2,105.72		87.14		m2		350.00		30,498.62	
B5(B)-7		Breast Wall for Car park Providing and laying 110mm dia HDPE pipe 2.5 PR for weep holes through breast Wall at 100mm above the ground surface.																					
				1.00	93.00			93.00	1.00	83.00			83.00	10.00							The number of 2.5m long HDPE pipe counted to 83 as against 93 m contractor's bill		

**Project Profile**

**"Air Transport Connectivity Enhancement Project", funded by the Asian Development Bank  
Grant No.0295-BHU**

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**Background**

Project Name: Air Transport Connectivity Enhancement Project

Project Number: 44239-013

Country: Bhutan

Project Status: Approved

Project Type / Modality of Assistance: Grant

Start Date: 20 Aug 2012

End Date: 31 Dec 2016

**Description:**

The project is to improve infrastructure for the Bumthang, Gelephu, and Yonphula domestic airports. It aims to expand initial developments undertaken by the Government of Bhutan at these airports. The project is to strengthen safety and security, and enhance capacity, including priority needs for securing the airport perimeter; expanding terminal space, air craft parking apron, and taxiway; improving runways; and installing aeronautical communication and navigation aid equipment. These improvements are targeted to meet the requirements of current and anticipated aviation activities in the country, and help continue the record of safety. Overall, it will support the government's plan to develop a safe, reliable, and efficient air transport system connecting urban and rural centers to help overcome the current limitations of road transport and improve accessibility to less-developed regions of the country.

This will help facilitate greater and more equitable coverage of potential benefits from tourism growth, stimulate private sector development, and generate employment opportunities for the poor.

**Project Rationale and Linkage to Country/Regional Strategy**

Paro International Airport (PIA), Bhutan's only operating airport until recently and still the only one providing international air access, is located near the capital city of Thimphu in the western region. Due to the lack of domestic air connectivity, other regions of the country - particularly in the center, south, and, east - have limited access to regional and global markets. The tourism industry, for instance, a substantial economic contributor, is much better developed in the west compared with other regions.

This imbalance in accessibility - to opportunity, enterprise, markets, and services - has been an obstacle to achieving broad-based economic growth, which is one of the government's major development goals.

In view of the anticipated increase in aircraft movements and passenger volume, current deficiencies must be addressed, and initial developments undertaken by the government at the three domestic airports expanded to strengthen safety and security, and enhance capacity. The project will include (i) improving air operation safety by providing required air rescue and firefighting system facilities, aeronautical communication and navigation, and runway drainage; (ii) strengthening security with an airport cordon around the perimeter; and (iii) expanding capacity for terminal space, aircraft parking apron, and taxiway. The improvements were prioritized based on development needs identified in updated master plans for the three airports, projected traffic

forecasts in terms of peak hour aircraft movements and passenger volume, as well as updated assessment of current developments and priorities for air transport in the country. By improving safety, security, and capacity at the three domestic airports, the project will help ensure operation of aircrafts with adequate capacity for continued passenger traffic growth and improved service and safety.

The project and its outcome is consistent with the strategic objective set out in the interim country partnership strategy, 2012-2013: to assist the government in achieving broad-based economic growth. It will enhance the country's air transport connectivity, help improve access to regional and global markets throughout the country, and support tourism growth in less-developed regions. The project is included in the Bhutan country operations business plan, 2012-2014.

**Objectives of Auditing:**

- (i) To determine that the financial statements correctly reflect the financial operations in accordance with the financial rules, budgetary norms and whether the “Air Transport Connectivity Enhancement Project”, funded by Asian Development Bank, Paro has complied with Grant Agreement and the loan Disbursement handbook of the Asian Development Bank;
- (ii) To determine whether the “Air Transport Connectivity Enhancement Project”, funded by ADB, Paro has been managing and utilizing its financial resources economically and efficiently;
- (iii) To determine whether the desired results or benefits established by the project are being achieved;
- (iv) To determine whether the taxes and levies are realized and accounted for accurately;
- (v) To check the legality, regularity and propriety and to appraise economy, efficiency and effectiveness of expenditure; and
- (vi) To ascertain adequacy and effectiveness of internal control system.

## **Annexure:-F**

### **Methods adopted for auditing:**

- i. Reviewing internal controls in place in the system;
- ii. Inspection and examination of the records, documents and statements;
- iii. Determining if the rules and regulations that are in force have been complied with;
- iv. Review of Financial Statements prepared by the Project Management of ATCEP, funded by ADB Grant No.0295-BHU along with the Books of Accounts maintained;
- v. Reconciliation of the overall fund position with budgetary fund releases, expenditure incurred by the Project Management of the ATCEP, implemented by the DoAT, Paro;
- vi. Seeking relevant information from knowledgeable person inside and outside the organization;
- vii. Conducting interviews with the beneficiaries or payee;
- viii. Checking the arithmetical accuracy of the accounting records; and
- ix. Conducting the physical verification of construction works, assets and stores.

