

APPENDIX I-2

**BHUTAN POWER CORPORATION LIMITED**

**( A Royal Government of Bhutan Undertaking)**

**ANNEXURE – I**

**REFERRED TO IN OUR AUDIT REPORT OF EVEN DATE**

**MINIMUM AUDIT EXAMINATION AND REPORTING REQUIREMENT**

- 1.1 The Corporation has maintained proper records to show full particulars including quantitative details of the fixed assets.
- In accordance with a phased programme adopted by the Company to complete physical verification all fixed assets within a cycle of 3 years, certain fixed assets have been physically verified during the year. **Pending ascertainment of the extent of discrepancies, if any, on completion of reconciliation of book balances with the physical balance, no adjustment in accounts has been carried out for the same.**
- 1.2 None of the fixed assets have been revalued during the year.
- 1.3 The physical verifications of stores and spares at all locations **except for ESD Samtse and ES Tashigang** were conducted in the year.
- As the Corporation is engaged in transmission and distribution of electricity, the question of physical verification of finished goods and raw materials does not arise.
- 1.4 In our opinion and according to information and explanation given to us, the procedures of physical verification of stock followed by the management are adequate in relation to the size of the Corporation and the nature of its business. **However, efforts should be made to complete physical verification of stores and spares at all locations within the year.**
- 1.5 The discrepancies noticed in physical verification of stocks as compared to book records in respect of Central Stores, which were not material, have been adjusted in the books accounts. **However, in respect of other stores shortage /excess have not been adjusted pending ascertainment of the same on compilation and finalization of the physical verification reports as also completion of physical verification of ESD Samtse and Tashigang.**
- 1.6 On the basis of our examination of stock records, we are of the opinion that the valuation of the stock is fair and proper and in accordance with the normally accepted accounting principles and as per the policy of the Corporation. During the year the Company has ascertained the extent of slow-moving and non-moving items at Central Stores and based on technical assessment of the items, provision for Nu. 1337,773 has been made towards obsolescence. **Slow moving and non-moving items of other Regional Stores and O&M stores are in the process of being ascertained.**
- The basis of valuation of stock is same as in the preceding year.
- 1.7 The Corporation has taken unsecured loans from the Royal Government of Bhutan and the rate of interest and other terms and conditions of such loans are not prima facie prejudicial to the interest of the Corporation.
- The Corporation has not taken any loan from any Companies under the same management.
- 1.8 The Corporation has not granted loans to any company under the same Management.

- 1.9 The Corporation, wherever it has given any loan and advances to its staff or other parties against purchases orders/work orders has generally ensured that repayments / adjustments are made promptly and as per the stipulations.
- 1.10 The loans/advances granted by the Corporation to officers/staff are in keeping with the provisions of its service rules. We have not come across instances of excessive/frequent advances or any accumulation of large advances against particular individual.
- 1.11 The Corporation has established adequate system of internal controls to ensure completeness, accuracy and reliability of accounting records, carrying out the business in an orderly and efficient manner, to safeguard the assets of the company as well as to ensure adherence to the rules/regulations and system and procedures.
- However, the system of maintenance of records regarding stores and spares (capital and revenue) needs to be further improved to generate periodical list of items highlighting the specific status such as moving, and non-moving for Regional and Sub-stores..**
- 1.12 There is a system of competitive bidding commensurate with the size of the Corporation and nature of its business, for the purchase of goods and services including stores, plant and machinery, equipment and other assets.
- The Corporation is engaged in transmission and distribution of electricity and purchase and sales of electricity is regulated by the Bhutan Electricity Authority.
- 1.13 **In absence of declarations received from the Directors, we are unable to specifically ascertain whether there is any transaction for purchases and sales of goods and services made in pursuance of contracts or arrangements entered into with the director(s) or any other party(ies) related to the director(s) or with companies or firms in which the director(s) are directly or indirectly interested. However, the Directors of the Corporation are all Government nominees and there may or may not be transactions with other government companies.**
- 1.14 The damaged items have been identified and auctioned off during the year. No further provision is required on this account.
- 1.15 As the Corporation is mainly engaged in transmission and distribution of electricity, this clause is not applicable.
- With regard to stores items, transformers and other project items directly transported by the Corporation, there is no insurance policy for handling/transit losses within Bhutan.
- 1.16 The Corporation is engaged in transmission and distribution of electricity, and so there is no question of breakage/loss in transit to its raw materials, finished goods and packing materials. However, reasonable records of energy received and energy distributed are maintained by the Corporation.
- 1.17 The Corporation maintains scrap register to record sale and disposal of scraps. However, scraps and unserviceable items as disclosed by the Units were reported to the Board for approval of disposal and accordingly, based on Board's approval, they were auctioned at Phuntsholing.
- 1.18 According to the records of the Corporation examined by us and according to the information and explanations given to us, in our opinion, the Corporation is regular in depositing its provident fund, salary tax and health tax, contract tax, Bhutan sales tax dues with the appropriate authorities.
- 1.19 There was no undisputed amount payable in respect of tax deducted at source.

- 1.20 According to the information and explanations given to us, and on the basis of our checking of the accounts and other books and records, to the best of our knowledge, no personal expenses have been debited to the Profit & Loss Account other than those payable under contractual obligations/ service rules.
- 1.21 The Corporation has reasonable system of recording receipts, issues and consumption of stores and allocating materials consumed to the respective jobs, commensurate with its size and nature of its business.
- 1.22 Quantitative reconciliation is carried out at the end of the accounting year in respect of electricity.
- 1.23 Board approval has been obtained for all write offs of losses in the books.
- 1.24 There is a reasonable system of authorization at proper levels and adequate system of internal control commensurate with the size of the Corporation and nature of its business, on issue of stores and allocation of labour to jobs.
- 1.25 The price for sale of electricity is fixed by the Bhutan Electricity Authority.
- 1.26 The Corporation is engaged in transmission and distribution of electricity and the due dates of bills raised on the customers are fixed based on the category of the customers and the region. In our opinion, the credit allowed to the customers is reasonable.
- 1.27 As there is no sale through commission agents, this clause is not applicable to the Corporation.
- 1.28 In our opinion, the system for follow-up with debtors and other parties for recovery of outstanding amounts are reasonable.  
Age-wise analysis of outstanding amounts is carried out by the management as and when required for information and follow-up action.
- 1.29 The Corporation generally has surplus cash/bank balances and based on future requirements, funds are invested in Fixed Deposit with Banks and in RMA Bills.
- 1.30 According to the information and explanations given to us, and on the basis of examination of books and records, in our opinion and to the best of our knowledge, the activities carried out by the Corporation are lawful and intra vires to the Articles of Incorporation of the Corporation.
- 1.31 On the basis of our verification and according to the information and explanations given to us, the Corporation has a regular system of approval of the Board for all capital investment decision. Investments in new projects are made after considering the technical and economic feasibility of such projects.  
The Corporation has not made any financial investments of its funds in securities except occasional investments of surplus fund in Fixed Deposits with Banks and in Secured Bonds of Royal Monetary Authority of Bhutan.
- 1.32 The Corporation has an adequate budgetary control system.
- 1.33 The details of remunerations paid to the Managing Director and sitting fees paid to other directors are disclosed in the Notes to the Accounts.
- 1.34 According to the information and explanations given to us, the directives of the Board have been complied with.
- 1.35 Price fixation is done by the Bhutan Electricity Authority, set up by the Royal Government of Bhutan. On the basis of information received from the management, and on the basis of our

verification of records and documents, price sensitive information, to the best of our knowledge, have not been transmitted by any officer of the Corporation, unauthorisedly to any other person with intent to benefit themselves.

1.36 During the year the Corporation has identified the slow-moving and non-moving items of stores and spares and based on technical assessments of the items, provision has been made. .

## 2 Computerized Accounting Environment

- a) **The organizational and system development controls and other internal controls should be adequately strengthened by introducing on-line recording of transactions.**
- b) Adequate safeguard measures and backup facilities exist in the organization.
- c) Adequate backup facilities and disaster recovery measures including keeping the files in different and remote locations is in place.
- d) There is an adequate operational control to ensure correctness and validity of input and output data information, **except in certain cases of inventory where the output data should be made more exhaustive in order to make effective validation checks for the same.** However, the Management has taken necessary action to address the issue in future.
- e) Adequate measures are in place to control unauthorized access over computer installations and files.

3. Based on the net asset position reflected by the Corporation's Balance Sheet as at 31<sup>st</sup> December, 2009 and audited by us in accordance with the generally accepted auditing standards and on the basis of such other tests as we considered necessary in this regard, we have no reason to believe that the Corporation is not a going concern on the Balance Sheet date.

4. According to the information and explanation given to us by the management and based on a Compliance Checklist completed by the Corporation Officials, the Corporation has complied with all the provisions of the Companies Act of the Kingdom of Bhutan, 2000, **except in case of charging of Depreciation in accounts as disclosed in Accounting Policy No. 3 of Schedule 19.**

5. **It is not possible for us to comment as regards adherence to all Laws, Rules and Regulations, System, Procedures and Practices by the Corporation, as comprehensive Compliance Reporting and Recording System of the Corporation in this regard is currently not in place. However, any non compliance or departure from accepted practice and approved system/ procedures having effect on financial statements that came to our notice during the course of our audit have been indicated by the way of notes on accounts.**

4. Financial and Operational Resume of the Corporation has been given in Exhibits to this Annexure – I.

Place: Kolkata

For S. S. KOTHARI & ASSOCIATES  
Chartered Accountants

The day 2010

(P. K. BHATTACHARYA)

Partner