

**Assessment of the Financial Management Systems of
Gelephu and Samdrup Jongkhar Thromdes**

**Municipal Finance and Management Component
Bhutan Second Urban Development Project (BUDP-2)**

**Ministry of Works and Human Settlement
Royal Government of Bhutan**

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1. Abbreviation

Acronym	Description
AB-DEAS	Accrual Based Double Entry Accounting System
BAS	Budget and Accounting System
COA	Chart of Accounts
FY	Financial Year
GT	Gelephu Thromde
HR	Human Resource
IT	Information Technology
MB	Measurement Book
MoF	Ministry of Finance
MoWHS	Ministry of Works and Human Settlement
NLC	National Land Commission
PAVA	Property Assessment and Valuation Agency
PEMS	Public Expenditure Management Systems
PRR	Procurement Rules and Regulations, 2009
PT	Phuentsholing Thromde
RGoB	Royal Government of Bhutan
RMR	Revenue Money Receipt
ST	Samdrup Jongkhar Thromde
TT	Thimphu Thromde
UBS	Utility Billing System

2. Background

Bhutan is a small landlocked country in South Asia, located in the eastern Himalayas. The Kingdom is home to a population of about 672,000 spread over an area of 38,500 square kilometers with about 70 percent of land under forest cover. In the past couple of decades, the Kingdom of Bhutan has experienced rapid social and economic growth as a result of prudent macroeconomic management, beneficial exploitation of hydropower resources and support from development partners. Also, the country has seen significant political changes and transitions in recent years.

Bhutan's political system has evolved from an absolute monarchy into a constitutional monarchy, following a decade of planning and consultations. The social and economic transition is fueling rapid urbanization. Since 2000, the urban population in Bhutan is estimated to have grown by about 4.7 percent per year. Starting from a low base, the urban population now accounts for about a third of total population, and is expected to reach 50 percent by 2020. Rapid urban growth is generating a host of major challenges for this hilly country of scattered small settlements. Meeting the challenges of urban development, management and finance has become a key developmental agenda for the Royal Government of Bhutan (RGOB).

Professionalization and technical upgrading of the finance function in the Thromdes would lead to implementation of modern systems and procedures for financial operations as well as adequate number of staff trained to carry out financial management responsibilities, without which both the new Thromdes, viz. Gelephu and Samdrup Jongkhar would be unable to utilize the new effective system of providing modern, computer operated systems or even adhere to existing legal requirements regarding fee collection, accounting, and financial reporting due to lack of capacity and staff.

The scopes of this report include undertaking an "As-Is" assessment of the municipal financial management systems of the two new Thromdes (Gelephu and Samdrup Jongkhar), prepare a report on the status and quality of those systems and making recommendations on the support required in the two new Thromdes.

3. Introduction

3.1. Gelephu Thromde

Gelephu Thromde was formed as Class A Thromdes and was established in 2011 before which it was known as Gelephu Municipal Corporation administratively set up under Sarpang Dzongkhag and Gelephu Dungkhag Administration. Gelephu is a town in Sarpang District in Bhutan. It is located on the Indian border, about 30 km to the east of Sarpang, the Dzongkhag (District) headquarters, and has a population of 9,199 as per 2005 census.

Its Core market area is very close to the Indo-Bhutan border. Gelephu Thromde has 11.52 square kilometer planning boundary areas which can be increased further. It has 6 sub zones (Demkhong) listed as:

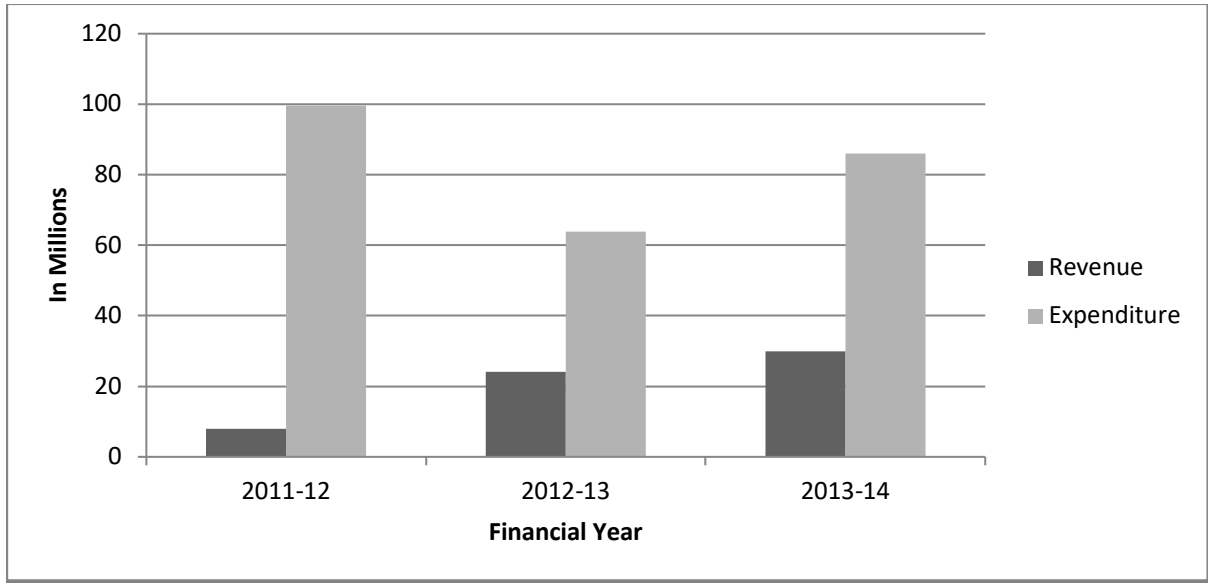
- a. Trashiling
- b. Namkhaling
- c. Jampeling

- d. Rabtengling
- e. Samdrupling
- f. Sonam Gatsel

It has a staff strength of 84 which consists of Engineers, Urban Planners, Architects, Accountants, Officers, Inspectors and other support staff headed by Thrompon (Elected Mayor) and Executive Secretary (Government Appointee). The below chart depicts the complete structure of the Gelephu Thromde enlisting the kind of works handled by the Thromde:



The Thromde is generating revenue of an average of Nu 21 Million each financial year ending 30 June. A summary of the revenue generated and expenditure incurred by the Thromde in the last three financial years is as below:



The expenditure consists of Current and Capital Expenditures as: (Nu in Million)

	2011-12	2012-13	2013-14	Average
Revenue	8.013	24.07	29.89	20.66
Expenditure	99.604	63.922	86.04	83.19
-Current	29.778	28.311	34.6	30.90
-Capital	69.827	35.61	51.44	52.29
Deficit	(91.591)	(39.852)	(56.15)	(62.53)

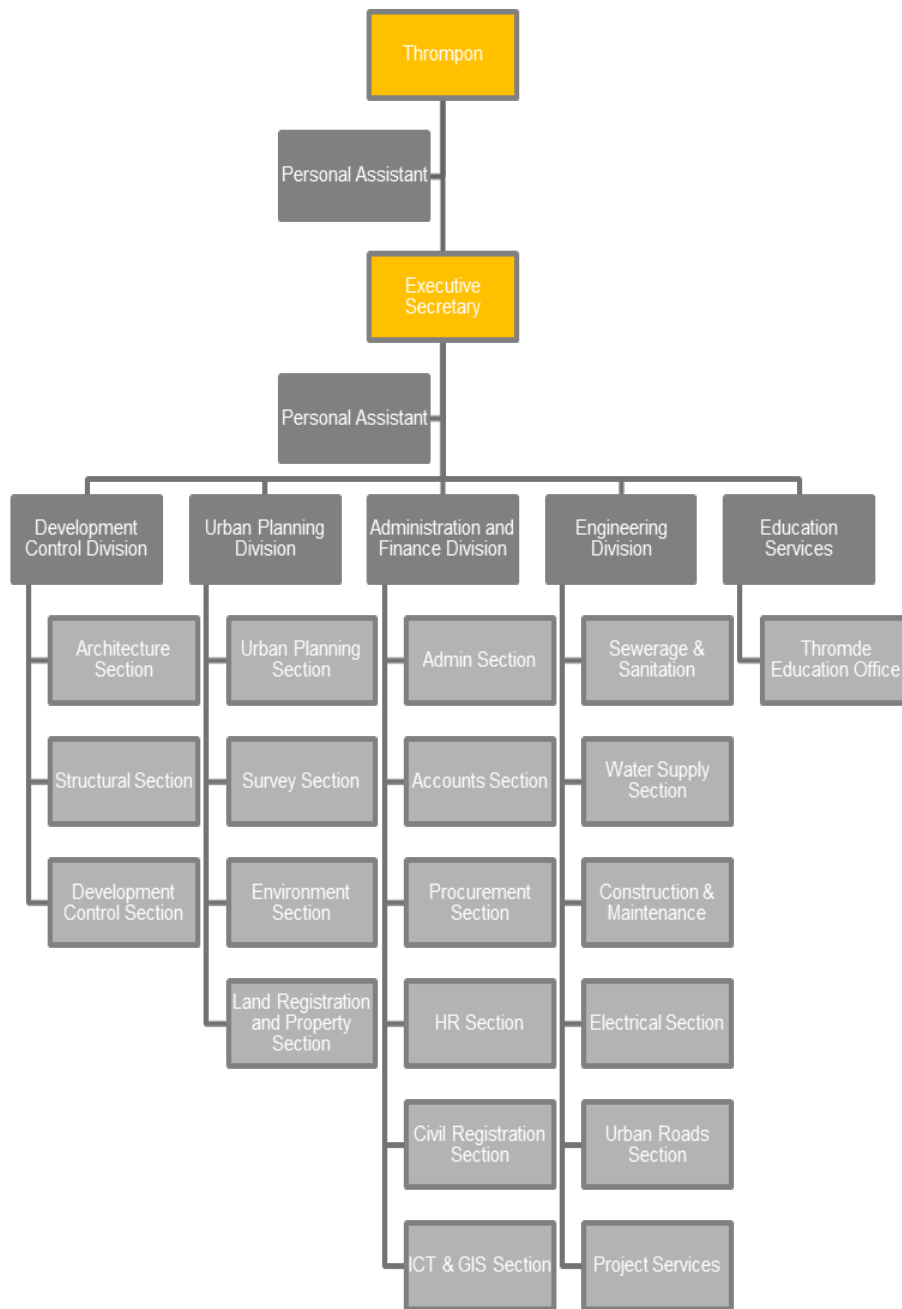
The tax and non-tax revenue collected is deposited in to a separate bank account and used for normal day to day operations. The deficit is met by the Budgetary Support provided by the Royal Government of Bhutan for both capital and revenue expenditure.

3.2. Samdrup Jongkhar Thromde

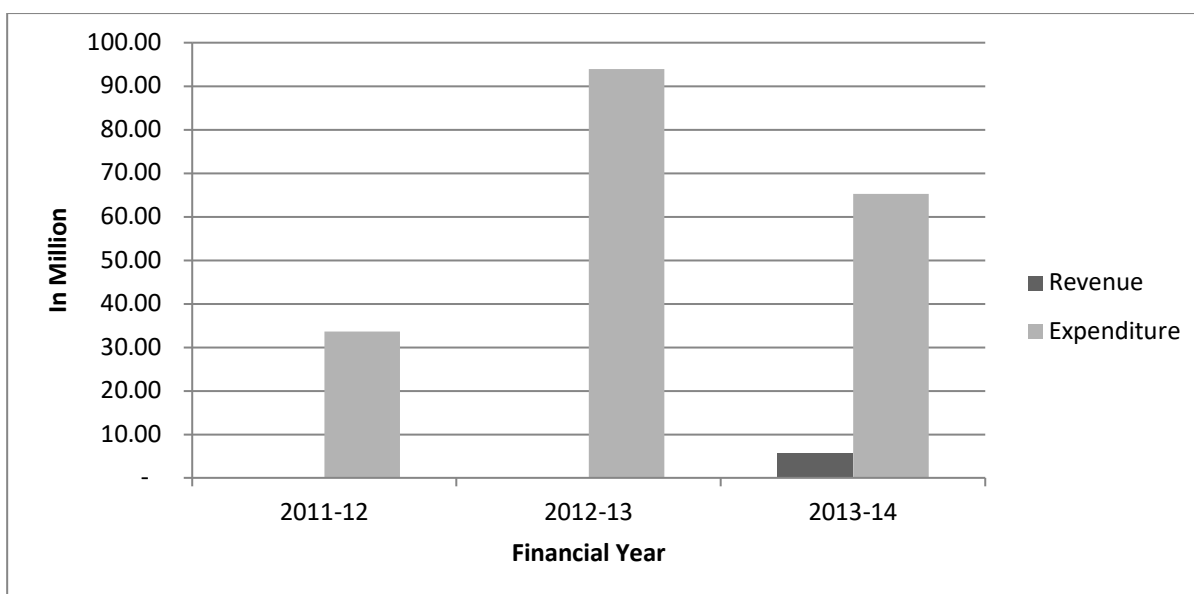
Samdrup Jongkhar Thromde was formed as Class A Thromde by the Parliament in 2010. The Thromde area extends from Samdrup Jongkhar main gate till Dewathang town.

Samdrup Jongkhar Thromde stretches down from Dewathang to the India-Bhutan gateway in the south, sharing its border with the Indian state of Assam. The Samdrup Jongkhar Thromde has a population of 10,545 with an area of 4.47 square kilometers.

It has a staff strength of 59 which consists of Engineers, Urban Planners, Architects, Officers, Inspectors and other support staff headed by DASHO THROMPON (Elected Mayor) and Executive Secretary (Government Appointee). The below chart depicts the complete structure of the Samdrup Jongkhar Thromde enlisting the kind of works handled by the Thromde:



The Thromde is generating revenue of Nu 5.48 Million financial year ending 30 June 2014. A summary of the revenue generated and expenditure incurred by the Thromde in the last three financial years is as below:



The expenditure consists of Current and Capital Expenditures as: (Nu in Million)

	2011-12	2012-13	2013-14	Average
Revenue	*Refer Note - A		5.48	5.48#
Expenditure	33.60	93.97	65.18	64.25
-Current	12.87	15.86	24.24	17.66
-Capital	20.73	78.11	40.94	46.59
Deficit	(33.60)	(93.97)	(59.7)	(58.77)

*Note A - The details pertaining to revenue collection and deposit of the Thromde are maintained in Excel files with the erstwhile revenue officer, due to which revenue details for financial year 2011-12 and 2012-13 were not readily available to us by the current revenue officer.

#Figure Same as FY 2013-14 since previous year's figure not available.

The Thromdes operations are met by the Budgetary Support provided by the Royal Government of Bhutan for both capital and revenue expenditure. The revenue collected from citizens is deposited in to a separate bank account and is not used for their normal day to day operations by the Samdrup Jongkhar Thromde.

4. Summary Action Points for new Thromdes

Municipal Financial Management Assessment is undertaken for Gelephu (GT) and Samdrup Jongkhar Thromde (ST) (refer section 5 for detailed report), to suggest steps required to be undertaken for strengthening the systems enabling efficient, effective, transparent and accountable functioning of the new Thromdes.

The existing processes and controls were in line similar to processes followed in the Thimphu and Phuentsholing Thromde. However, since the overall size and operation of the GT and ST is comparatively smaller, they have lesser complexities in terms of revenue collection and management. The processes and controls around revenue assessment, collection and reporting

are more streamlined as they were able to digitize the records of the tax payers by which a comprehensive tax and non-tax revenue management module should be implemented in these two Thromdes which would enable assessment, automated billing, payment processing/collection systems, electronic payments through payment gateways. Also, multiple modes/methods of tax collection and recovery including e-payments, kiosks, redressal forums, collection drive, etc. should be introduced for better revenue collection efficiency.

Both the Thromdes should prepare Fixed Asset Register as per the applicable rules along with the valuation.

After the streamlining of revenue systems, receivable data and fixed asset register, both the Thromdes should prepare their Opening Balance Sheet. Steps for data entry in to the new integrated accounting package should be undertaken for recording and maintenance of financial information. This would enable Thromdes in preparing comprehensive financial statements including Receipt and Payment Account, Balance Sheet and Cash Flow Statement under Double entry accrual-based accounting system.

As the financial information would be streamlined and records under accrual-based accounting system would be prepared, Thromdes would be able to ascertain cost of providing various municipal services by enabling them to revise their tariff and recover appropriate user cost. Performance report for both the Thromdes should be prepared for improving the overall reporting framework of the Thromdes and giving a clear insight on the achievement and progress of the Thromdes operations.

Internal Audit Manual should parallel be implemented for Robust Internal Control and correct process flows which would strengthen the oversight functions and integrate all sections and divisions of the Thromdes. Also, Internal Audit Department should be set up and strengthened for better performance levels within the Thromdes.

Under the Annual Budgeting Exercise Thromdes should start using scientific tools and implement the budget manual for estimating revenue receipts and payments under the Medium-term expenditure framework.

Training and capacity building programme should also be institutionalized which would ensure continuity and better understanding of the processes and procedures to be implemented as part of the strengthening the manpower and putting in place the reforms.

5. As-Is Assessment and Recommendations

5.1. Accounting

The two Thromdes are also dependent on budgetary grant received from the RGoB and are required to keep record of all expenditures (Both Revenue and Capital) following cash basis double entry accounting system incurred during the financial year in Budget and Accounting System (BAS Software). BAS was previously used by the RGoB and its departments; however, the RGoB has discontinued and replaced BAS with Public Expenditure Management Systems (PEMS) which is only payment software enabling the user to record and pay for their expenditures. However, since Thromdes also internally generate revenue through local taxes and having both receipts and expenditure, BAS was the only immediate solution at that time. BAS has 3 modules namely Accounting, Budget and Payroll out of which Thromdes are only

using Accounting and Budget module and use a separate off the shelf software 'DrukPay' for payroll processing.

The Accounting Module is designed to record only payment entries on double entries basis. Budget Module used by the Thromdes is just used as a data collation tool for report generation by the Thromdes and does not have any scientific budgeting tools or guidance.

5.1.1. HR and Payroll

Both the Thromdes were using Excel sheets until 2013 for payroll processing and maintenance, after which Thromdes Purchased an off the shelf payroll software 'DrukPay' based on MS Access platform due to increase in complexity and processing volume per month. DrukPay is easy to use and generate section wise/division wise details. Also, all statutory deductions including other financial adjustments are taken care by the software however it has to be manually updated in to the database.

The HR department is responsible for updating the Attendance and leave records for all the employees working in the Thromdes. All the records are maintained in excel sheets and in manual hard copy employee files. The employee records are also then updated on the online portal maintained by the Royal Civil Service Commission. The leave application is made by the respective employees through a pre-printed form and is approved by the respective supervisor after which the same is given to the HR officer for verifying the leave balance. Respective Division Head and the chief administration officer are required to approve every leave application.

The Payroll processing is done by taking 25th of every month as cut of date. All pay related information including statutory and financial adjustments among others are updated by the Accounts officer manually. Tax (TDS) and Provident Fund (PF) are deducted by the DrukPay Software automatically as per the pre fed rates updated in to the software.

Each month pay details are sent to bank for payment directly in to the employees bank account. For temporary staff, Thromdes prepares muster roll, and all the payments are made in cash by the supervisor of the respective division. The payments made to the staff are adjusted against the respective predefined budget activity code in BAS.

Existing issues

- a. All HR policies and procedures of the Thromdes are as per the Bhutan Civil Service Rules. The Thromdes does not have any Municipal specific HR systems and policies in place detailing current job description, roles and responsibilities.
- b. There are number of unfilled vacancies across all departments for instance Legal Officer, Chief Development Control Officer, Chief Urban Planner, Chief Engineer, Jr Engineer Construction and Maintenance Division, and Jr Engineer Electrical Section in Samdrup Jongkhar Thromde, Internal Auditor and Property Officer for Both the Thromdes limited technical capabilities in terms of accounting and finance which leads to inefficient process and systems.
- c. DrukPay Software is on MS Access platform and has numerous limitations. The Software cannot be integrated with any other accounting software due to which integration of Accounts, Budget Revenue, and Personnel systems will not be

- possible, which results in duplication of work and manual intervention making transactions prone to error.
- d. In case of any updation/modification required in master database the software developer is required to be physically called upon which makes the process unfeasible and costly in case of modifications.
 - e. Payroll Software does not support any adjustments pertaining to attendance records due to its limitation and adjustment is made before sending the payment advice to bank.
 - f. Deductions and other adjustments like Advance recovery, etc. are required to be manually updated on line by line basis against each employee in the software.
 - g. All HR information including leave details are updated in to a separate module operated under Bhutan Civil Service rules. Also, all the record is maintained in hard copy files as DrukPay do not support storage/maintenance of such information resulting in to duplication of work for the HR department.
 - h. There is no data backup or archival system in the Thromdes for maintenance of electronic data and all the data is maintained in hard copy files.

Recommendations

- a. A HR manual should be developed for standardizing specific job titles, job descriptions, and qualifications tailored to the needs of the Thromdes. This would also include developing standard personnel forms to be used by the Thromdes.
- b. Establish mechanism and dedicated software for linking among municipal budget, revenue, accounting, and personnel systems, which would lead to integration of all process and functions including leave records, attendance, advance adjustments, financial deductions, etc. and support Thromdes to handle complexities.
- c. Establish training development programme for municipal accountants which would enable Thromdes accounts and finance staff for greater understanding of accrual based double entry accounting system and overall financial reporting system.
- d. Procedures and processes are required to be introduced for physical security of personnel data including CCTV, access rights, etc.

5.1.2. Procurement and Stores

Procurement of goods and services are done under the PRR regulations 2009 through inviting bids/quotations before the start of each financial year. The contract is entered for purchase of goods/services with the lowest bidder.

The receipts of goods are made on the basis of requisition placed by the respective user departments/divisions on need basis through a preprinted 'requisition form'. The requisition form includes details about the goods/service including description and quantity and is prepared by the staff requisitioning the item, and authorised by the respective division head and Accountant (after verifying the budget limit).

After the receipt of duly authorised requisition from the respective division, the Stores department would check the availability of stock in stores and would issue the same.

However, if the material is not available in stores, the procurement officer would then raise the work order/supply order at pre contracted prices with the contracted vendors.

Delivery of materials from the supplier is verified and accepted by the stores department; however, quality check is done by the divisions using the material. Material receipt details and other details including vendor name, quantity, price, date of receipt is manually entered in the Inventory register. The stores department after verification of the submitted bill by the vendor, hands over the same to the Accounts department for payment.

The amount is expensed of in the activity code at the time of making payment to the vendor for the full amount.

It is to be noted that the department stops issuing fresh work order/service order by 15th June each year, i.e. before the closing of the financial year so as to complete the payment due to the vendor for purchases made in the respective financial year.

Existing issues

- a. A considerable time and resources are spent by the Thromdes Staff on account of effort being put in for recording and maintaining the inventory records. Also, all the forms and orders are presently generated and approved manually on hard copies in both the Thromdes. There is no IT system or processes in place to maintain the stores ledger electronically.
- b. The expenditure under each Account code is booked only at the time of payment irrespective of the timing of consumption of the inventory against the said activity. This leads to an incorrect accounting system and inability to track actual status of the work under each activity.
- c. There are no processes around year-end Inventory count or valuation. Also, no controls are in place to identify potential damaged or obsolete stocks.

Recommendations

- a. An integrated accounting package linking Inventory, Accounting and Budget records needs to be introduced which would enable the Thromdes in maintaining systematic records of Inventory including details like cost of purchase, date, quantity, type, etc. and would lead better management of inventory and significantly lower time to manage Inventory.
- b. A defined programme for inventory management including storing, physical verification, etc. needs to be developed which would include Thromde specific management information system support. This would enable the Thromdes to effectively manage and overview the Inventory minimizing the loss towards damaged and obsolete stocks.
- c. Evaluation of Internal Control Systems and Controls needs to be undertaken which would strengthen the oversight function and management ability.
- d. Rules and Procedures around planning, coordinating and supervising the entire Inventory count should be designed and implemented ensuring accuracy of Inventory records, and assigning proper carrying amount of inventory.
- e. Security systems ensuring physical security and quality of the inventory needs to be introduced.

Immediate Action Points

- a. Steps for updation and data entry in the new integrated accounting package need to be undertaken for recording and maintenance of stores Inventory appropriately under accrual based double entry accounting system.
- b. Systems should be in place for periodic count of the inventory.

5.1.3. Cash and Bank

Both the Thromdes operate 2 separate Bank Accounts; one for depositing the Tax/Fees Collected from tax payers and other for depositing RGoB grants and all Expenditure Payments. Both revenue and capital payments are processed by accounts department of the Thromdes through expenditure bank account and entered in BAS at the time of payment only. The booking is done by recording the payments in the preapproved budget codes as there is no account payable system in place in the Thromdes. Once the booking is done, unapproved voucher is manually signed by the accounts officer along with the cheque. The Accountant then approves the voucher entry in BAS, which results in posting of entries in the ledger accounts. Each Cheque is manually prepared and is signed by two officials namely Accounts Officer and the Executive Secretary. The cheque is signed along with disbursement voucher generated from BAS and other supporting documents, such as invoice, etc.

The transactions pertaining to one financial year is booked in the same financial year itself after processing of payment. The Thromdes accept the bills from the vendors on or before the cutoff date which is around 15 June every financial year. Funds are transferred from revenue bank account to expenditure bank account as and when required.

Different supporting documents are maintained by the Thromdes staffs for different types of payments such as:

- a. The invoices pertaining to material suppliers and services/labor supply for capital and recurrent expenditures is being approved by the procurement division/respective user divisions before submission to accounts division for payments. The Accounts Division after receiving the duly signed invoice verifies the supporting document (preapproved requisition form, packaging slip, etc.) and mathematical accuracy of the said invoices. The accountant enters the amount in BAS under a preapproved predetermined budget code, deducts the taxes as per the prescribed rates and prints the unapproved disbursement voucher for authorization from the accounts officer. After approval the cheques are prepared manually and issued to the vendor.
- b. Construction bills are sent by the engineering department to accounts division for payment and is supported by the measurement book (MB Book) duly signed by the respective division work supervisor, division head/engineer, and the contractor/vendor.
- c. The Vehicle maintenance and fuel bills used by the respective division is submitted to the accounts division with the calculation sheet detailing the nature of expenses, Km Reading of the vehicle, average consumption by the respective class of vehicle, etc. Supporting expense bills are also attached like diesel bills, bills for spare parts, etc. After verifying the same and checking of the mathematical accuracy, the bill is passed by the Accounts Division as per the defined procedure.

- d. Utility bills like Water, telephone, electricity, etc. used by its respective sections/departments are submitted by the user/admin department for payment by the accounts department.
- e. The Thromdes staffs are generally not allowed to spend big amount from their own pocket and claim reimbursement. However, small immediate expenses are incurred which is claimed by submitting a pre-printed reimbursement claim form duly approved by the division head and the executive secretary. The Thromdes Staff are also allowed to take advance against the salary which is given to the staffs on the basis of written request duly approved by the division head and the executive secretary.
- f. Payments to temporary staffs are made through Muster roll payments indicating the nature and man days of work done. The accounts department issue the muster roll sheet to the respective division (pre-printed form), which is manually filled and signed by the supervisor and the division head. The detail of the muster roll sheet is entered in to the muster roll book and a unique number (In the form of SL No/month/Year) is assigned to each muster sheet by the accountant. The payment to the temporary staff is made by the field supervisor who withdraws the cash from the cheque given by the Accounts Division. The field supervisor returns the muster roll sheet duly signed by the temporary staffs.

Existing issues

- a. All the financial transactions are posted and recorded in the operational budget on the date of payment. It helps in tracking all inflows and outflows of cash but fails to explain the actual performance of the Thromdes in terms of Surplus or Deficit at the end of the period.
- b. Under the present system of accounting and recording of financial transaction Thromdes do not record any non-cash expenditure and liabilities like gratuity, pensions, accrued interest & finance charges and provisions like provision for bad and doubtful debts, depreciation on fixed assets.
- c. For processing of bill payments to each vendor, multiple section/division of the Thromdes are required to approve and verify the details manually resulting in generation of lot of documents resulting in significant wastage of time and resources.
- d. The Thromdes do not have any accounts payable system in place through which outstanding liabilities can be tracked.
- e. There are no detailed reviews and monitoring controls in place which would further strengthen the oversight function.

Recommendations

- a. All the financial transactions should be recorded on the date of occurrence. Revenues and costs should be accrued for as and when they are earned or incurred and accounted for in the period to which they relate.
- b. A new Chart of Accounts (CoA) needs to be implemented which would include all major heads under tax and non-tax sources. It would classify all major services like water supply, drainage, sewerage, solid waste management, etc.
- c. Introduction of Robust Internal Control, Detailed process flows and institutionalizing the Thromdes with respect to authority and responsibility which

- would strengthen the oversight functions and integrates all sections and divisions of the Thromdes.
- d. Establish mechanism for linking among municipal budget, revenue, accounting, and personnel systems. It would lead to integration of all process and functions including payments, reports, etc.
 - e. Financial statements including other financial reports should be generated from accounting software's to increase the efficiency of the Thromdes staff.
 - f. Establishing a training programme for municipal accountants and a guidebook that explains the movement of accounts for every financial transaction leading to greater understanding and overall effectiveness of the finance/accounts section of the Thromdes.

Immediate Action Points

- a. Data Entry under the revised Chart of Accounts (CoA) needs to be undertaken in an integrated accounting application to prepare opening balance sheet and subsequently the full set of financial statements under the accrual based double entry accounting system.

5.1.4. Revenue Collection and Receipts

The Thromdes has multiple sources of revenue collection which is broadly under the Taxation Policy 1992.

Non periodic taxes and fees are imposed through invoices issued by the official in charge and delivered/collected personally to/by the tax payer. Annual taxes are imposed through taxpayer lists prepared by the section in charge and approved by the Executive secretary or an authorised officer of the Thromdes.

The Revenue department maintains a separate bank account for revenue collection of the Thromdes. The collection is done through cash collection centers by manually issuing pre-numbered Revenue Money Receipt (RMR). The Thromdes are currently collecting only cash from the citizens and accept cheques only from government bodies and institutions. Details of cash collected is updated in an excel sheet detailing the RMR number, name of the tax payer, amount and date. The day total is then added and cash is tallied on a daily basis before the same is deposited in to the bank account next banking day.

Both the Thromdes record the details pertaining to revenue assessment and collection in excel work book and/or User Interface. Also, as per our discussion with the officers, Gelephu Thromde is planning to undertake preparation of GIS based property tax records.

The major sources of Income in the two Thromdes are discussed below:

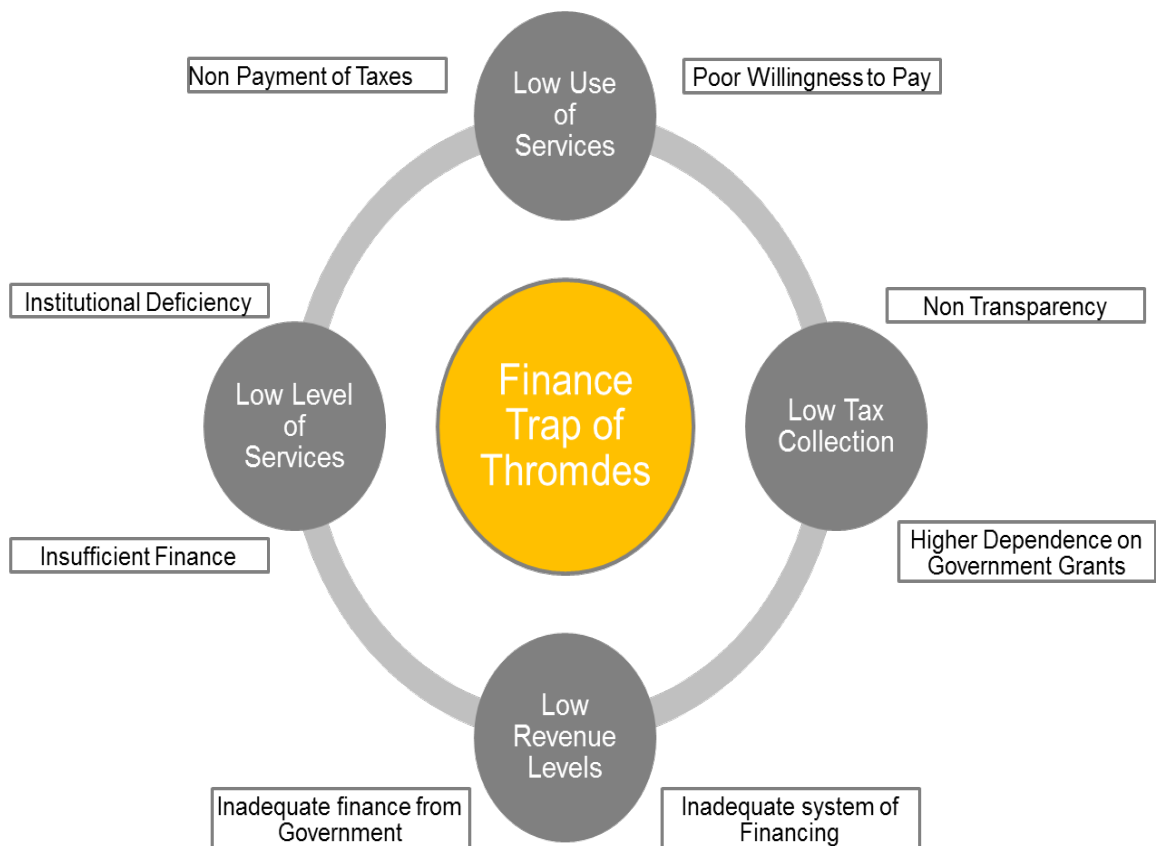
- a. **Land Tax** – Land tax is collected by the Thromdes annually from the citizens on the basis of rates prescribed under taxation policy 1992. Gelephu Thromde assesses taxes and issues bills to the respective tax payer at the counter with the help of the user interface internally developed on MS Access platform. The database of the interface is updated with the details of the land records and other billing details including location of property, nature of use, tax payer demographic details, etc.

Hard copy property tax bills are stored along with the RMR number manually written on the face of the bill by the cash collecting officer of the Thromdes and payment status is then duly updated in the user interface thereafter. In Samdrup Jongkhar Thromde land tax bills are not issued to the respective tax payers however, RMR is issued and stored by the tax payer as a proof of payment. The property tax assessment is done on the basis of property tax records maintained by the revenue officers in excel work book and all details including payment status, tax payer demographic details, etc. is updated in respective excel workbook maintained for each Financial Year.

- b. **Water Charges** – Water billing in both the Thromdes is being done by Utility Billing System (UBS) through which the monthly water bills are generated to the user on the basis of meter reading done by the staff (meter reader). The Meter reading is manually entered in to the system and bills are physically handed over to the user by the Thromdes staff every month. The User is required to come to the Revenue Collection Centres to pay the necessary usage charges. The manual prepared RMR shared with the citizens and the collection details is then manually updated in UBS by the Water billing department on a periodical basis. In case of non-collection of the usage charges the subsequent month's bill would reflect the arrear amount and interest which is calculated by the software automatically.
- c. **Property Transfer Tax** – Thromdes are collecting 5% of the transfer value of the land/building/house for changing the name of the registered owner in the land records maintained by the Thromdes and the National Land Commission (NLC). The same is calculated on the basis of Property Assessment and Valuation Agency (PAVA) rate or actual contract value whichever is higher.
- d. An application for transfer of ownership with the supporting documents is received by land record department of the Thromdes and it is sent to NLC for updation of records after processing the application. After the confirmation is received the Thromdes update their land records and the user interface/excel work book through which they assess land taxes and intimate the respective tax payer.
- e. **Lease Rent** – The Thromdes leases out government land to the applicant users as per the defined/PAVA rates of the respective region. The application is placed before the division in charge who processes the request and after obtaining necessary approvals from department heads and the Executive Secretary the details are recorded/updated in an excel work book. The Thromdes do not generate any invoices/bills to the tenants/leases and all the rent is collected from the tenants on the basis of RMR issued to them. The Thromdes from the excel sheets pull out all the relevant details of the leased-out properties including the term, amount, and other relevant billing information through which they assess and collect of the lease rentals.
- f. **Parking Fee** – The Thromdes physically identify specific areas as parking zone within the Thromdes limits. The Thromdes comes out with auctioning of collection rights wherein private parties are invited and highest bidder is given parking collection rights. As per the terms of contract between the private agency and Thromdes the former is required to deposit the agreed amount against which RMR is issued by the revenue collection center.

Existing issues

- a. Both the Thromdes are heavily dependent on Government Grants as their internal revenue generation through tax collection is insufficient. Municipal finance holds the key to the overall status and progress of service delivery in the right direction. Poor finances of the Thromdes are leading to poor basic services, low capital investments, poor revenue collection efficiency. This vicious circle would lead to poor delivery and low quality of services hampering the overall growth of the Thromdes.



- b. There are multiple processes, procedures and systems followed for different tax and non-tax revenue receipts of the Thromdes. For E.g. Utility billing system is used for Water Billing, Excel Sheets are used for Property Taxes, Pre-printed Manual bills for non-tax revenue, etc. Also, due to lack of integration between the systems, Thromdes fails to collect revenue and track defaulters who continue to enjoy utility services without payment.
- c. Property Tax rates have not been revised since 1992 taxation policy.
- d. Thromdes presently record receipts and expenditure of different municipal services separately and thus fails to assess the cost efficiency or cost recovery in operations and maintenance of municipal services. The realistic cost of these services is required for decision making to recover costs through levy of appropriate user charges.
- e. There is a significant delay in depositing revenue collected into the bank account and updation of the revenue reports by the Thromde Officers. This leads to noncompliance of financial rules and Regulations, 2001 which states that tax collected should be deposited in to the revenue bank account promptly. The delay

is mainly due to significant number of unfilled vacancies and improper staffing in revenue department of the Thromdes.

- f. Tax Collection records are not kept updated which results in delay in serving tax notices on time. Also, citizens/tax payers are unaware of their current outstanding/due amount.
- g. In both the Thromdes details are maintained manually in excel files which takes considerable time of the officials affecting the efficiency and effectiveness of the overall system and making the data prone to error.
- h. Present system of accounting and record keeping does not record of revenue receipts and expenditure payments together in one system. Payments is maintained in BAS whereas various tax and non-tax revenue collected is recorded in excel files.
- i. There is no proper structured record management and monitoring system. Since different sections of the Thromdes are not linked (through an IT network or otherwise), it is difficult to monitor the demand, collection and expenditure incurred on different components of various services provided by the municipality.
- j. There are no data archival or management system at the Thromdes level and all important and confidential information is maintained/saved only by the concerned officer.

Recommendations

- a. Reassessment of Property Tax rates needs to be undertaken by the Thromdes based on property valuation principles.
- b. A comprehensive tax and non-tax module must be introduced in the Thromdes which would enable assessment, automated billing, payment processing/collection systems, electronic payments through payment gateways.
- c. Introduction of Robust Internal Control, Detailed process flows and institutionalizing the Thromdes with respect to authority and responsibility which would strengthen the oversight function, strengthen and integrate all sections and divisions of the Thromdes.
- d. Assessment and introduction of multiple modes/methods of tax collection and recovery should be introduced including e-payments, kiosks, redressal forums, collection drive, etc. which would result in better revenue collection efficiency.
- e. Incorporation of Financial Management Information Systems that allows forecasting and budgeting and a separate management information system that displays various dash boards providing statistical data.
- f. Document management system needs to be introduced to access all historical records including correspondence received by the department.
- g. Setting up and upgrading the legal section of the Thromdes which can establish action against the defaulters. The Thromdes should bring pressure on the defaulters so that collection efficiency could be increased.
- h. Updation of tax collection records: Property records and tax collection records should be kept up to date. Regular posting of tax collection information/registers would lead to effective tracking mechanism enabling the Thromdes for checking of payment status of a tax payer and to serve tax notice on time. This would also enable the tax payers to know their current position and provide information for rebates and penalties.

Immediate Action Points

- a. Thomdes should Review the existing system and procedures for local revenue collection and develop a reengineering plan for expansion of their internal revenue generation.
- b. Cost of providing various municipal services needs to be ascertained for which would help both the Thomdes to revise their tariff and recover appropriate user cost.

5.1.5. Property Management

Acquisition and Maintenance of assets including Infrastructure and Administrative assets are entrusted with the respective user department. All sections/divisions of the Thomdes are entrusted to list down their respective capital and revenue expenditure requirements for each financial year to perform entrusted activities and maintain the respective details.

Capital expenditures incurred by the sections/divisions are recorded as expense in the year of purchase under the preapproved activity code. The procurement and payment process to vendors/suppliers is same for both capital and revenue expenditure.

Existing issues

- a. Thomdes staffs do not list down asset purchased and hence do not have any fixed asset register. Also, they do not have any valuation techniques/methods for valuation of fixed assets.
- b. The expenditure in assets (with productive life more than one year) is recorded as a capital expenditure in its entirety in the reporting accounting period, even though its useful life to the Thomdes may range from 2 years to 30 years. As such, use of assets in providing services (depreciation/deletion) is not recognized by the Thomdes.
- c. The Work-in-Progress (WIP) in respect of assets created for the Thomdes through in-house inputs of labor, materials are not recorded at all by the Thomdes. However, payments to contractors in respect of new infrastructure assets are recorded as capital expenditure even though the relevant infrastructure assets are partially completed.
- d. There is no independent team conducting periodic inspection to verify and identify obsolete/damaged assets, thus the Thomdes are unable to track and monitor its assets and have limited review control over its property.
- e. There are no Computerized Asset Management System/tools in place tailored to cater Thomdes needs and help in organizing and maintenance of Assets.
- f. Both the Thomdes do not have any estate officer who would manage the functions related to acquisition, upkeep and disposal of properties.

Recommendations

- a. All assets including Infrastructure assets like water supply and distribution system, sewerage system, drainage, sewerage treatment plant, street lighting, recreational parks etc., needs to be identified and listed through exhaustive survey, and also needs to be valued using best practices valuation models.

- b. Thomdes should maintain a systematic record of individual assets including acquisition cost, original service life, remaining useful life, and record of physical condition.
- c. A defined programme for sustainable use and planned maintenance, repair, and replacement of assets needs to be developed and implemented by the Thomdes and should be included in management information system reports.
- d. A separate Property Officer/Estate Officer is required to be positioned in the Thomdes who would be collectively responsible for all the assets owned and maintained by the Thomdes to ensure security, efficiency, and better useful life of the assets.
- e. Procedures and process needs to be established for physical security of tangible and intangible assets by introducing CCTV, Access controls, Firewalls and IPS, etc.

Immediate Action Points

- a. Thomdes should prepare their own Fixed Asset Registers with valuations as per the applicable rules which would enable them in preparation of comprehensive financial statements and have better control over the assets.

5.2. Budgeting

The Budgeting Exercise of the Thomdes is governed as per the Budget Manual 2001 under financial rules and regulations. The budget of the Thomdes is prepared on the basis of overall budget ceiling provided by the Department of National Budget (DNB). Each division/section is required to prepare their current and capital budget with a brief description for each budgeted activity. The individual budget after consolidation by the Accounts Division is placed before the Executive Secretary for review, after which the same is being entered in to BAS and submitted to DNB with other supporting documents as per the defined format under the financial management manual issued by Ministry of Finance. After the approval is received from Parliament through DNB, the budgeted amount against each activity is updated in to the BAS.

The Budgets are prepared on the basis of last year actual amount and is adjusted hypothetically as per the best estimate of the user department. Both revenue and expenditure are extrapolated as per the Thomde officials estimate which not supported by any scientific basis or documentation. The Thomdes do not have strict budgetary controls as the estimates once approved is changed throughout the year by passing re-appropriation entries adjusting budgeted amount from one budget line to another budget line in the books of accounts to adjust current expenditure vs budgeted amounts. The actual expenditure of the Thomde does not exceed the overall budget ceiling approved by the Parliament.

Existing issues

- a. The revenue and expenditure estimates are made on the basis of last year actuals without use of any scientific tools or documentation supporting the estimates by the Thomdes.
- b. The present budgeting system fails to maintain long term financial perspective and no new programs or services are being scrutinized to determine long term impact on the city and on the Thomdes budget.

- c. There is no public participation in the overall budget preparation process which results in noncompliance to the rule described under the budget manual issued by the ministry of finance and also failing to respond to the larger community issues/requirements.
- d. Various forms and formats listed in the budget manual issued by Ministry of Finance (MoF) under the Budget Manual 2001 are not submitted along with budget proposal For instance Budget form for Deposit Works, Combine release report, Asset Inventory form of Buildings, Vehicles, Furniture, Equipment, Receipt and Payment Account are not submitted by the Thromdes along with Budget Proposal.
- e. There is a practice of constant budget revision through budget Re-appropriation entries in BAS as the Thromdes fail to meet the actual expenditure against the revised budget. The failure in meeting the budgeted expenditure is mainly due to weakness in budgeting process as they do not follow scientific tools for budgeting for instance and weak budgetary controls of the Thromdes.
- f. There is no preamble section specifying the assumptions used to generate estimates and providing an overview of the economic and financial conditions of the Thromdes and the principles used by the Thromdes management in preparing the budget.
- g. Due to Monetary Constraints Thromdes are estimating expenditures on the lower side and internal accruals on the higher side to get all the important projects/proposals being fit in. However, these results in budget overrun and present poor budgeting techniques.

Recommendations

- a. Setting up of Budget Task Force to implement scientific tools for instance Multi Year Rolling Framework, Performance Based Budgeting, forecasting technique through use of Economic Indicators, extrapolating with reference to Variable factors, etc. to estimate income and expenditure and make the budgets for the Thromdes.
- b. All the new programs and projects should be identified and selected through Long term impact assessment on the city while planning and Budgeting is undertaken.
- c. Thromdes are required to use the best practices, while preparing the budgets. Introduction of greater public participation, user surveys, and other means needs to be introduced. This would also result in creating positive environment and would result in better collection of taxes.
- d. Thromdes staff should err on low side for revenue estimates and err on higher side for expenditure estimates which would ensure sufficient financial flexibility and Thromdes would be able to meet any unforeseen liability/event.

Immediate Actions Points

- a. Thromdes should setup Budget Task Force to implement and use scientific tools while preparing Annual Budget. Also, Thromdes should identify means and ways for adopting global best practices through detailed discussions and deliberations with all the stakeholders.

5.3. Reporting and Year End Procedures

Accounting records including cash book, bank book, advance details, security deposits and all other details pertaining to payment/accounting entry is maintained in BAS. However, other details like bank reconciliation statements, Inventory details, etc. are maintained in excel files. The Thromdes presently does not have any robust MIS or reporting system in place. As per discussion with the Thromdes staff, they are also not preparing any Receipt and Payment, Balance Sheet, Cash Flow Statements, etc. as required by the Financial Rules and Regulation governing the local government.

Thromdes have half yearly meetings with the department heads and executive secretary for reporting of status and performance of each department and status of work. The reporting includes department wise Budget vs Actual statement, Month on Month Revenue Collection, BRS among others is shared with the Executive Secretary.

The Thromdes are subjected to audit undertaken by the Royal Audit Authority (RAA) each year and is required to get all the revenue and expenditure verified and cleared by the Auditor.

Existing issues

- a. Accounts and Finance Staffs are not well conversant with the concept of AB-DEAS including methods and formats for preparing Financial Statements which results in untimely/non-preparation of reports. Also, major activities are manually performed which results in underutilization and inefficient use of resources.
- b. Due to weak reporting structure the reports generated by the Thromdes do not provide periodic information about total receivables (including against various taxes, charges and fees) and payables including various other important financial information relevant for understanding the actual performance of the Thromdes.
- c. The Receipts and Payments recorded over several years cannot be taken as realistic portrayal of trend of receipts and expenditure of that Thromdes. This is because the receipts and expenditure recorded in any year may not represent all receipts earned and all expenditure incurred pertaining to each year. Further, all expenditure recorded in any year are dependent upon available cash during that year, which may not truly represent actual expenditure incurred for that year.
- d. As per the Constitution, local government entities are entitled to own assets and incur liabilities. However, Thromdes do not account/record the value of assets, liabilities presently available with the Thromdes.
- e. The Thromdes are not preparing Financial Statements including Receipt and Payment Account, Balance Sheet, and Cash Flow Statement as required under the financial rules and Regulations governing the Local government in Bhutan.
- f. The accounting system does not support accounting of revenue transactions since BAS does not have an inbuilt Revenue Module. Under the existing process the accounting for various tax and non-tax revenue is done manually in excel workbook. Hence BAS does not support preparation of comprehensive financial statement furnishing revenue Income and expenditure details together however, if required it has to be prepared manually by the Thromde Staff.
- g. No Internal Audit department is setup in the Thromdes.
- h. Thromdes would be unable to raise any sort of financing arrangements from any financial institutions or through issuance of bonds since the current practice of accounting and preparation of financial statements are incomplete and not as per prudent accounting principles.

- i. There is absence of common interface between budget, revenue, and accounts, thus authentication of the accuracy of the accounting records and posting in proper account codes cannot be verified.
- j. There is a weak oversight and monitoring control over the operations of the Thromdes as they lack MIS reporting framework (financial) and performance reporting framework (operational).
- k. The Thromdes presently fails to provide cost of services. The realistic cost of these services is required for decisions to recover the costs through levy of appropriate user charges from the user/citizens.
- l. Thromdes do not have a treasury management system in place leading loss of revenue and non-usage of idle funds.
- m. The Thromdes are unable measure even basic performance indicators due to unavailability of financial information in requisite detail and format.

Recommendations

- a. Thromdes are required to prepare comprehensive financial statements including Receipt and Payment Account, Balance Sheet and Cash Flow Statement for which they need to migrate to Accrual based double entry accounting system from cash Based accounting system. Also, preparation of opening balance sheet is an essential pre requisite for preparation of comprehensive financial statements.
- b. A new Chart of Accounts (CoA) needs to be implemented which would include all major heads under tax and non-tax Sources. It would classify all major services like water supply, drainage, sewerage, solid waste management, etc.
- c. Introduction of Robust Internal Control, Detailed process flows and institutionalizing the Thromdes with respect to authority and responsibility which would strengthen the oversight functions and integrates all sections and divisions of the Thromdes.
- d. Thromdes needs to introduce and institutionalize detailed MIS reporting systems pertaining to Thromdes functions in the overall reporting and operating structure of the Thromdes.
- e. Performance Indicators and measures needs to be introduced in the overall reporting framework of the Thromdes which would give a clear insight on the achievement and progress of the Thromdes operations.
- f. Introduction of Thromdes specific policies and procedures around treasury management so that Thromdes can effectively manage its resources and minimize its financial risk.
- g. Setting up of Internal Audit Department and strengthening of Internal Controls, performance levels within the Thromdes.
- h. Establishing a training programme and a guidebook for finance/accounts section of the Thromdes enabling greater understanding and make their own comprehensive financial statements as per the rules specified therein.

Immediate Action Points

- a. Thromdes should prepare their Opening Balance Sheet as on 1 July 2014 for preparation of comprehensive financial statements.

- b. Thromdes need to implement an integrated accounting package which supports accrual based double entry accounting system and automizing various functions of the Thromdes.
- c. Data entry in new accounting package for FY 2014-15 and 2015-16 under accrual based double entry accounting system in line with the revised Chart of Accounts (CoA). Since 2014-15 is going to end soon, this would be very helpful and ensure that the thromdes would be up to date from 2015-16 and undertake live accounting.
- d. Preparation of financial statements including Receipt and Payment Account, Balance Sheet and Cash Flow Statement for the FY ended 30 June 2015 and 30 June 2016 under accrual based double entry accounting system for both Gelephu and Samdrup Jongkhar Thromdes.
- e. Preparation of 2 consecutive half yearly performance reports for the Gelephu and Samdrup Jongkhar Thromdes which would improve the overall reporting framework of the Thromdes and give a clear insight on the achievement and progress of the Thromdes operations
- f. Preparation and implementation of Internal Audit Manual by setting up Internal Audit Department in both the Thromdes.