

## **Final Report**

### **Strengthening Municipal Finance and Management Gelephu and Samdrup Jongkhar**

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

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## 1. Executive Summary

The Bhutan Second Urban Development Project (BUDPII) started in 2010 which consisted of three components are:

- a. Municipal finance and management component;
- b. Thimphu Northern Area Development component; and
- c. Capacity building component.

The aim of Municipal Finance and Management component was strengthening the institutional systems and processes of Thimphu and Phuentsholing Thromdes to enable them to function effectively as efficient, transparent and accountable urban local government capable of providing urban services in a sustainable manner. Two broad areas were covered by first component are:

- a. strengthening the local revenue policies and local revenue administration system and processes of Thimphu and Phuentsholing Thromdes; and
- b. strengthening the expenditure management systems and financial management systems and processes of Thimphu and Phuentsholing Thromdes.

Under the additional financing arrangement municipal finance and managements introduced in Thimphu and Phuentsholing Thromdes under BUDPII were extended to Gelephu and Samdrup Jongkhar Thromdes. Project support areas included:

- a. Asset registration and digitization; and
- b. Accounting and re-engineered business processes.

The objective of the project is to extend the support provided to Thimphu and Phuentsholing Thromdes to Gelephu and Samdrup Jongkhar Thromdes. The outcome the activities is to strengthen municipal financial management in the two Thromdes. Further, the aim is to establish uniformity in financial management practices and processes among all Thromdes. The manuals and guidelines developed for Thimphu and Phuentsholing under BUDPII are to be implemented in the other two Thromde.

iTechnologies executed the assignment over a period of 14 months starting July 2017. During the execution of the assignment, consultants visited the two Thromdes several times to create awareness, provide capacity building, provide handholding and prepare deliverables that are required to be continued by the Thromdes in future.

Some of the challenges faced during the execution of the project were unavailability of data required to generate the deliverables, confusions as a result reporting requirement to external agency like ministry of finance, multi-tasking nature of Thromde human resources, etc. Thromde project team could not review the deliverables on time due to lack of time as the project team members were required to handle normal day-to-tasks.

In general Thromdes realize the benefits of such reforms and are committed to continuity of the reforms. However, **status-quo is good enough** approach may impact the continuity of the reforms.

Such situations can be handled through adoption and institutionalization of the deliverables by Thromde Tshogde and issuance of directive by the management. The deliverables should be treated as important operational documents and preserved as institutional memory and regularly updated to ensure relevancy of the information with change in time, technology advancement, organizational dynamism and growth. Some aspects of deliverables like business process re-engineering and ICT controls prescribe for investment to be made. Adequate resource allocation should be considered to ensure the Thromde remain abreast technological advancements and at par with the state of partner organization. Accounting manual, budget manual and internal control guideline require regular refresher capacity building. Thromdes should have plans and provisions to organize such activities.

Organizational data will keep on growing which requires proper protection and preservation as data will prove to be best asset for decision making.

## **2. Project Background**

A small landlocked country located between emerging economic giants of India and China, Bhutan has a population of just about 700,000 with an area of 38,500 square kilometres. In the past few decades, Bhutan has experienced rapid social and economic growth which is a result of prudent macroeconomic management, planned exploitation of hydropower resources. Multiple development partners have supported economic development. Also, Bhutan has cruised significant political transition without impacting the economic progress.

The social and economic transition is fuelling rapid urbanization. Since 2000, the urban population grew by about 4.7 percent each year and now urban population accounts for more than a third of total population. Urban population is forecasted to become 50 percent of the total population by the year 2020. Such rapid increase in urban population is posing multiple challenges especially to the urban local governments to meet the needs of urban residents and financial management. Four main Thromdes – Thimphu, Phuentsholing, Gelephu and Samdrup Jongkhar -- are facing similar challenges. Adoption of land pooling concept helped the urban administrations to reduce legal and financial burden as Thromdes need not go through land acquisition process to build urban infrastructure. All four Thromdes have developed Thromde structure plan and Local Area Plans (LAP).

To implement the plans the RGoB approached development partners mainly International Development Association (IDA) and Asian Development Bank (ADB). Internal revenue generation is very small and financial management processes are based on the government rules and regulation.

IDA started supporting Bhutan's urban development since 1999 with the Bhutan Urban Development Project which helped to develop urban infrastructure systems in ten small and medium sized towns as well as serviced sites in three of the towns. It also helped strengthen local government's project management and cost recovery for water supply.

With enactment of Thromde Act 2007, the legal framework for urban local government got enhanced. The Local Government Act 2009 further integrated all the laws related to local governments.

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Aim of Municipal Finance and Management component was strengthening the institutional systems and processes of Thimphu and Phuentsholing Thromdes to enable them to function effectively as efficient, transparent and accountable urban local government capable of providing urban services in a sustainable manner. Two broad areas were covered by first component are:

- a. strengthening the local revenue policies and local revenue administration system and processes of Thimphu and Phuentsholing Thromdes; and
- b. strengthening the expenditure management systems and financial management systems and processes of Thimphu and Phuentsholing Thromdes

Under the municipal finance and management component several activities were executed. Main activities included the following with activity sites are Thimphu and Phuentsholing Thromdes:

- a. Development and Implementation of Thromde Budget Manual;
- b. Development and Implementation of Thromde Accounting Manual;
- c. Development and institutionalization of Internal Control Guidelines;
- d. Development of Revenue Administration Manual;
- e. Business process assessment and re-engineering business Processes;
- f. Assessment of Thromde Service costing and recommendation to improve Thromde service costing;
- g. Design and institutionalization of Thromde performance reporting system;
- h. Digitization of taxpayers;
- i. Digitization of properties;
- j. Digitization of Thromde Assets; and
- k. Development and implementation of Revenue Management System and Digitized Asset Register.

Activities under additional financing commenced towards end of 2014. Components under the additional are:

- a. Municipal Finance and Management;
- b. Thimphu Northern Area Development; and
- c. Policy Implementation support.

Under the additional financing arrangement municipal finance and managements introduced in Thimphu and Phuentsholing Thromdes under BUDPII were extended to Gelephu and Samdrup Jongkhar Thromdes. Project support areas included:

- a. asset registration and digitization; and
- b. accounting and re-engineered business processes.

### **3. Project Objective**

The objective of the project is to extend the support provided to Thimphu and Phuentsholing Thromdes to Gelephu and Samdrup Jongkhar Thromdes. The outcome the activities is to strengthen municipal financial management in the two Thromdes. Further, the aim is to establish uniformity in financial management practices and processes among all Thromdes. The manuals and guidelines developed for Thimphu and Phuentsholing under BUDPII are to be implemented in the other two Thromde.

#### 4. Scope of Activities

The activities were aimed to replicate, adopt, customize and implement the output of the similar activities in Thimphu and Phuentsholing Thromdes. The specific areas of support provided to Gelephu and Samdrup Jongkhar Thromdes were as follows:

Sl. No.	Support Area	Description
1	Implementation of Budget Manual	<ul style="list-style-type: none"> <li>Carry out assessment of the current budget process, identify the gap and provide recommendations for improvement in accordance with the Thromde Budget Manual.</li> <li>Provide assistance in preparation of capital and operating/recurrent budgets in accordance with the Thromde Budget Manual.</li> <li>Provide handholding to the Thromde Budget officers on using the Budget Manual while preparing Annual Budget</li> </ul>
2	Implementation of redesigned Accounting manual	<ul style="list-style-type: none"> <li>Carry out assessment of current accounting practices (cash basis), identify the gap and provide recommendations for adoption of accrual accounting practices as prescribed in the Thromde Accounting Manual.</li> <li>Review the chart of accounts included in the Thromde Accounting Manual and recommend functional chart of account.</li> <li>Provide handholding support to the account personnel</li> <li>Prepare annual financial statements as per format provided by the project office for the financial year 2016-2017 and 2017-2018</li> </ul>
3	Implementation of effective internal controls	<ul style="list-style-type: none"> <li>Support in implementation of Internal Control System based on the Internal Control Guidelines developed under BUDP II</li> <li>Handholding of relevant officials involved in continuity of internal control system</li> <li>Provide recommendations on the Internal control guidelines developed for Thimphu and Phuentsholing Thromdes</li> </ul>
4	Design and Implementation of Performance Reporting	<ul style="list-style-type: none"> <li>Review and assess the performance reporting system used by Thimphu and Phuentsholing Thromdes</li> </ul>

		<ul style="list-style-type: none"> <li>• Design and implement performance reporting system for Gelephu and Samdrup Jongkhar Thromdes based on the system used in Thimphu and Phuentsholing Thromdes</li> <li>• Provide handholding support and institutionalization support of the performance reporting system</li> <li>• Provide support to the Thromdes to prepare two consecutive half-yearly performance reports</li> </ul>
5	Cost Efficiency Improvement	<ul style="list-style-type: none"> <li>• Assessment of current service costing approach</li> <li>• Prepare service costing framework / manual</li> <li>• Provide handholding to Thromde officials on using the service costing framework to derive service costing</li> </ul>
6	Revenue process re-engineering	<ul style="list-style-type: none"> <li>• Document and review the existing system and processes for revenue collection</li> <li>• Re-engineer the processes to optimize the processes</li> <li>• Document the re-engineered future processes and determine the activities and investments required to implement the re-engineered processes</li> <li>• Prepare time line for implementation of new processes</li> </ul>
7	Implementation of Revenue Administration Manual	<ul style="list-style-type: none"> <li>• Review the revenue administration manual and assess vis-à-vis the re-engineered processes</li> <li>• Adapt the revenue administration manual as per the need to Gelephu and Samdrup Jongkhar Thromde</li> <li>• Document adapted revenue administration manual for Gelephu and Samdrup Jongkhar Thromdes.</li> </ul>

In addition to replication of previous outputs, set of activities were included to provide Technical and Advisory service to Thimphu, Phuentsholing, Gelephu and Samdrup Jongkhar Thromdes and MOWHS:

- Review of Computerization effort, preparation of ICT Control manual, and guidelines to implement the controls
- Preparation of Asset Valuation Guidelines and implementation manuals
- Prepare Asset Management Guidelines and implementation manuals
- Review of existing procurement management practices and systems and provide recommendations along with procurement manual
- Develop monitoring and evaluation framework and guidelines for MOWHS

Sl. No.	Support Area	Description
1	Computerization and ICT Controls	<ul style="list-style-type: none"> <li>• Carry out assessment of the current computerization, and existing ICT controls</li> <li>• Develop ICT control framework and manual</li> <li>• Capacity building on the controls</li> <li>• Institutionalization and implementation support on the ICT controls.</li> </ul>

2	Asset Valuation Guidelines	<ul style="list-style-type: none"> <li>• Assessment of current Asset Management approach and identify the asset valuation approach</li> <li>• Review Government asset valuation methodology</li> <li>• Develop Asset Valuation Guidelines and manuals</li> <li>• Use the Valuation guideline to determine the value of a sample of assets</li> </ul>
3	Asset Management Guidelines	<ul style="list-style-type: none"> <li>• Assessment of current Asset management practices in the Thromdes</li> <li>• Study international best practices in the municipal asset management</li> <li>• Prepare Asset Management Guidelines for Thromdes</li> <li>• Prepare user manual for the guidelines</li> <li>• Provide training on the asset management guidelines</li> <li>• Support implementation of the asset management guidelines in four Thromdes</li> </ul>
4	Procurement and Contract Management System	<ul style="list-style-type: none"> <li>• Review existing procurement and contract management procedures</li> <li>• Review and study the Government Procurement Manual</li> <li>• Study procurement management and contract management practices of other municipalities</li> <li>• Prepare procurement and contract management framework adopting the best practices</li> </ul>
5	Monitoring and Evaluation Framework	<ul style="list-style-type: none"> <li>• Identification of the indicators, definition of indicators, define target, identify data source, decide frequency of measurement, define stakeholder's roles, reporting requirement</li> <li>• Develop monitoring and evaluation framework</li> <li>• Develop M&amp;E template</li> </ul>
6	Implementation Status of Revenue Management System and Digitized Asset Register in Thimphu and Phuentsholing Thromdes.	<ul style="list-style-type: none"> <li>• Review of implementation status of the systems implemented in Thimphu and Phuentsholing Thromdes</li> <li>• Analyze the databases to check the transactions</li> <li>• Review and analyze the issues reported and resolved during the annual maintenance service</li> <li>• Determine the implementation status of the systems</li> <li>• Provide recommendations for smooth future operations of the systems.</li> </ul>

## 5. Execution methodology

The major set of activities requires replication, adoption, customization and implementation of recommendations, outputs, systems, processes, manuals and guidelines of the similar activities done in Thimphu and Phuentsholing Thromdes. The core delivery principles envelope the entire project life cycle to minimize the risk and to maximize the outcome.



## Inception

- As-Is Scoping
- TOR Discussions
- Additional Scope of Work
- Counterpart Roles and Responsibilities
- Work plan and Mobilization Schedule

## Execution

- Mobilization of Experts and Support Consultant
- Understand
- Design
- Implement

## Closure

- Client Suggestions and Comments
- Support
- Way Forward

### 5.1. Inception Phase

The inception phase is a vital phase in the entire project that determines the success of a project. During the inception phase the execution path of the assignment is defined and discussions on the scope of work with all the stakeholders of the project are held. Our approach in the inception phase has been the following:

**As-Is Scoping study:** An analysis of the Terms of Reference (ToR) with specific activities under each line items of the project have been done with relevant stakeholders. Based on this study, work plans and resource deployment plans have been finalized.

**Realigned/Additional scope of work:** Additional activities/ support that may come up during discussions with relevant stakeholders have been evaluated to accommodate the same within the existing ToR post approval from MoWHS. Moreover, for effective utilization of specialists and achieving the desired output some of the existing tasks have been realigned under this component.

**Counterpart roles & responsibilities:** The consultants requested for a counterpart team from Thomdes to assist them in carrying out As-Is study, data collection and ensuring project coordination amongst relevant stakeholders throughout the project duration.

**Work plan & mobilization plan:** The consultants have discussed and agreed with the client about the timelines of execution of the project, and submission of deliverables.

### 5.2. Execution Phase

This assignment will be executed based on the overall approach and roadmap finalized in the inception phase. The approach that will be followed during execution phase is as follows:

**Mobilization of specialists:** The technical specialists identified to undertake specific activities under this component will be brought in according to the agreed mobilization plan. Where handholding is deemed necessary, the support consultants will be brought in to support the client in executing the assignment

**Understand:** Based on the scope of work and the deliverable to be submitted, the data/information required will be collected from the stakeholders. Piloting of the deliverables, if necessary, will be made in the agreed division with the help of the government counterpart team. Piloting comprises of all preparation of financial statements, performance reports, etc.

- a. Desk study of outputs of similar activities in Thimphu and Phuentsholing Thromde
- b. Study Current systems, SOPs, manuals, rules and regulations
- c. Good practices
- d. Collate Data and information

**Design:** Design activities will be typically to determine the gaps, prepare adoption / replication plans, Preparation of manual and guidelines, preparation training materials, implementation plans, etc. For some of the components where field visits may not be possible to each of the stakeholder, consultative workshops will be arranged. Representatives of the stakeholder agencies will be invited to attend these workshops and the work will be discussed with them. Support will be provided to the government counterpart teams and representatives of the agencies in undertaking the a few activities to complete the agency specific work.

**Implement:** This stage involves adoption of new processes, manuals, guidelines, generate outputs using new processes, manuals and guidelines.

**Training:** Capacity development of each of the activity will be conducted to ensure the counterpart divisions acquire required knowledge.

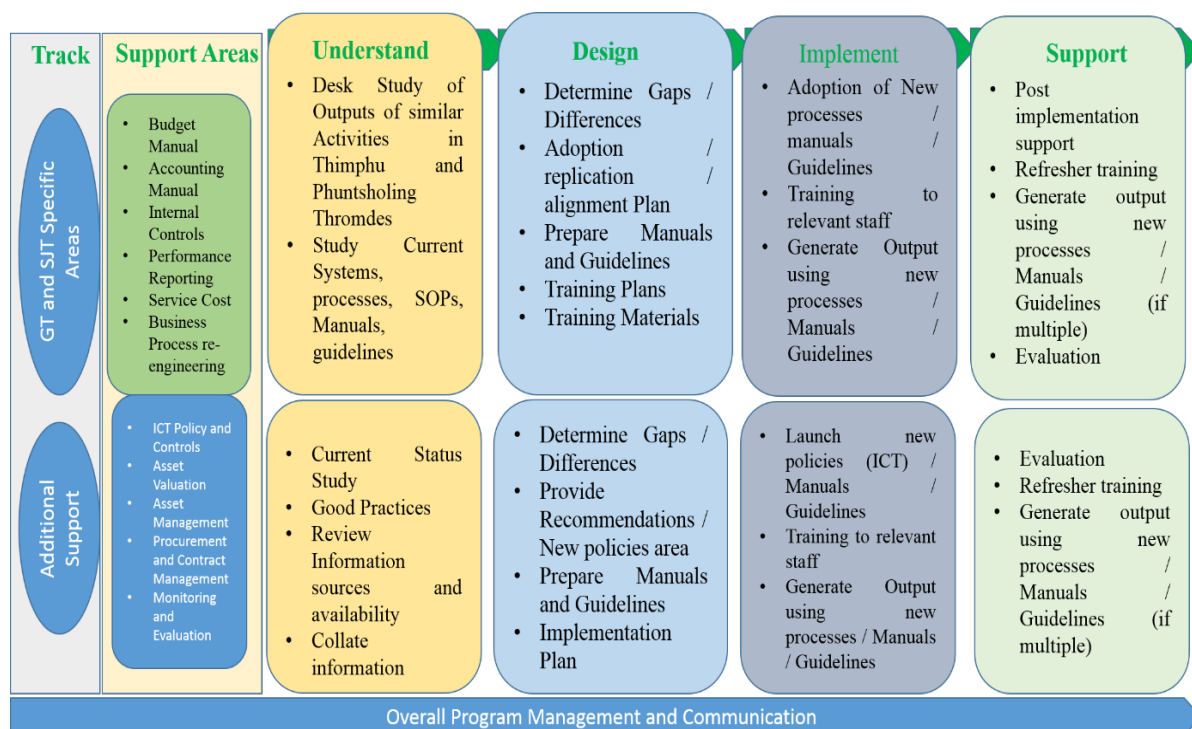
### 5.3. Closure Phase

During the closure phase the consultants will identify and finalize the way forward for the recommendation made during the execution phase. The approach that we intend to take for closing the project is discussed hereunder:

**Client suggestions and comments:** The deliverables will be presented and the findings and recommendations will be discussed with the respective stakeholder for their comments and suggestions. These will be duly incorporated in the report since the stakeholders will be responsible for implementing the recommendations.

### 5.4. Activities Track

In order to effectively complete a diversified assignment of this nature which includes multiple focus areas with varied mandate as discussed above, we will follow a methodology to achieve the stated objectives of each of the focus areas separately, yet taking a conflated approach ensuring attainment of common objective of the project as a whole.



Two tracks of activities are required to be executed for successful completion of the assignment. The two tracks are:

- Track 1** – This track deals with replication, adoption, customization and implementation of outputs of similar activities execute under BUDP II in Thimphu and Phuntsholing Thromdes
- Track 2** – This track deals with technical and advisory services for all four Thromdes

## 6. Activities Conducted

### 6.1. Onsite Activities and Site Visits

During the execution of assignment starting July, 2017 to October 2018, consultants visited the Thromdes to carry different set of activities.

Sl. No.	Visit Dates	Activity	Activity site	Task Details
1	August 17 to August 18, 2017	Inception Visit	Samdrup Jongkhar Thromde	<ul style="list-style-type: none"> <li>Introduction to the project, scope of work and deliverables.</li> </ul>
2	August 21 to August 22, 2017		Gelephu Thromde	<ul style="list-style-type: none"> <li>Discussion on the activities to be executed, requirement of data and information from the Thromdes</li> </ul>
3	October 4 to October 6, 2017	Capacity Development	Gelephu Thromde	

4	October 9 to October 11, 2017		Samdrup Jongkhar Thromde	<ul style="list-style-type: none"> <li>• Understanding the existing status of budgeting process</li> <li>• Awareness on deficiencies of the budgeting manual</li> <li>• Capacity building on the Thromde Budget Manual</li> </ul>
5	November 27 to December 1, 2017	Capacity Development	Gelephu Thromde	<ul style="list-style-type: none"> <li>• Inception report presentation</li> </ul>
6	December 4 to December 8, 2017		Samdrup Jongkhar Thromde	<ul style="list-style-type: none"> <li>• Understanding of Internal control process status-quo</li> <li>• Capacity Building on Internal Control Guidelines</li> <li>• Capacity Building on Thromde Accounting Manual</li> <li>• Introduction to the Thromde Chart of Accounts</li> <li>• Introduction and discussion on the Performance Reporting System</li> <li>• Preliminary presentation and discussion on Asset Management and Valuation Guidelines in Gelephu Thromde.</li> </ul>
7	January 25 to January 26, 2018	Handholding Support	Samdrup Jongkhar Thromde	<ul style="list-style-type: none"> <li>• Preparation of opening balance sheet</li> </ul>
8	January 29 to January 30, 2018		Gelephu Thromde	<ul style="list-style-type: none"> <li>• Discussion on the information required for preparation of Opening Balance Sheet</li> <li>• Discussion on information retrieval from BAS / existing system</li> <li>• Refresher on budgeting process and required activities in annual budgeting as per Thromde Budget Manual</li> </ul>

				<ul style="list-style-type: none"> <li>Capacity building on trend analysis during budget preparation</li> </ul>
9	February 26 to March 3, 2018	Performance Reporting, BPR and RAM	Gelephu Thromde	<ul style="list-style-type: none"> <li>Data collection for Performance report Set I</li> <li>Presentation and Discussion on ICT Controls</li> <li>Presentation on Business Process Re-engineering of Thromde Processes and technology road map</li> <li>Presentation on Revenue Administration Manual</li> <li>Data collection for Performance Reports Set I.</li> </ul>
10	March 6 to March 10, 2018		Samdrup Jongkhar Thromde	
11	May 14 to May 15, 2018 – Financial Consultant May 16 to May 18, 2018 – Asset and IT Consultant	Preparation of Financial Statements  AMG, AVG, BPR and RAM	Samdrup Jongkhar Thromde	<ul style="list-style-type: none"> <li>Data collection for preparation of Financial Statements for FY 2016-17</li> <li>Presentation of the Draft Financial Statements to the Accounts Officials</li> <li>Presentation of First Draft of Asset Management Guideline and Asset Valuation Guideline</li> <li>Presentation of Business Process Re-engineering report and Revenue Administration Manual</li> </ul>
12	May 17 to May 18, 2018 – Financial Consultant May 21 to May 24, 2018 -- Asset and IT Consultant	Presentation	Gelephu Thromde	
14	July 23 to July 24, 2018	Financial Statements	Samdrup Jongkhar Thromde	<ul style="list-style-type: none"> <li>Data collection for preparation of Financial Statements for FY 2017-18</li> <li>Preparation of Financial Statement and presentation of draft Financial</li> </ul>
15	July 26 to July 28, 2018	Service Costing Framework	Gelephu Thromde	

				<p>Statements to Accounts Personnel</p> <ul style="list-style-type: none"> <li>• Capacity building to Sector heads and accounts officials on service costing framework</li> <li>• Discussion of Investment avenues for Thromdes</li> </ul>
16	August 14 to August 18, 2018	Performance reports	Gelephu Thromde	<ul style="list-style-type: none"> <li>• Data collection for Performance Reports Set II</li> <li>• Performance Report Preparation</li> <li>• Revenue Administration Manual synchronization with Asset and Revenue Management System.</li> <li>• Discussion on procurement and contract management framework.</li> </ul>
17	August 21 to August 24, 2018		Samdrup Jongkhar Thromde	
18	August 17, 2018	AVG & AMG Presentation	Ministry of Works and Human Settlements	<ul style="list-style-type: none"> <li>• Asset Management Guideline and Asset Valuation Guideline presentation done to the representatives from Ministry of Works and Human Settlement</li> </ul>
19	October 23, 2018	AVG & AMG Presentation	Thimphu Thromde	<ul style="list-style-type: none"> <li>• Asset Management Guideline and Asset Valuation Guideline presentation done to the representatives from Thimphu Thromde</li> </ul>
20	October 25, 2018	AVG & AMG Presentation	Phuentsholing Thromde	<ul style="list-style-type: none"> <li>• Asset Management Guideline and Asset Valuation Guideline presentation done to the representatives from Phuentsholing Thromde</li> </ul>
21	November 12 to November 14, 2018	Capacity Building	Paro	<ul style="list-style-type: none"> <li>• Capacity building to accounts officials from all 4 Thromdes</li> </ul>

				on the fundamental principles of accrual accounting and hands on practice with Tally accounting.
22	November 29, 2018	AVG & AMG Presentation	Samdrup Jongkhar Thromde	<ul style="list-style-type: none"> <li>Asset Management Guideline and Asset Valuation Guideline presentation done to the representatives from Samdrup Jongkhar Thromde</li> </ul>
23	Dec 10 to Dec 11	Closure	Gelephu Thromde	<ul style="list-style-type: none"> <li>Presentation on the activities and achievements to management and Division / Section Heads</li> <li>Handing taking of deliverables</li> <li>Discussion of Continuity approaches</li> </ul>
24	Dec 10 to Dec 11		Samdrup Jongkhar Thromde	
25	January 4, 2019	AVG & AMG Presentation	Gelephu Thromde	<ul style="list-style-type: none"> <li>Asset Management Guideline and Asset Valuation Guideline presentation done to the representatives from Gelephu Thromde</li> </ul>

## 6.2. Achievement Status Summary

Sl. No.	Major Activity / Deliverable	Accomplishment	Remarks
1	Review of Thromde Budget Manual	Accomplished	Issues identified with regards to the manual is provided to the Thromdes and the Ministry.
2	Capacity Building of the Thromde Budget Manual	Accomplished	The difference between the new system and the existing has been communicated to the Thromdes. The requirements of the new budgeting approach are discussed with the Thromde officials. User feedbacks is submitted in the reports.
3	Assistance in Budget preparation	Accomplished in Gelephu	The accounts personnel were provided with assistance to prepare the budget as per the prescription in new Budget manual. Gelephu Thromde prepared improvised budget and submitted but

			<p>Samdrup Jongkhar Thromde could not submit in new format.</p> <p>The reasons for not being able to accomplish in Samdrup Jongkhar is due to the scepticism of accounts personnel that Department of National Budget may not accept the budget proposal in new format and inability to resolve the issues in the Thromde Budget Manual.</p>
4	Review of Thromde Accounting Manual	Accomplished	Issues and discrepancies identified are provided to the Thromdes and the Ministry.
5	Capacity Building on Thromde Accounting Manual	Accomplished	Thromde accounts personnel and management familiarized with Accrual System and the Chart of Accounts. Requirements of the Thromde Accounting Manual and the difference between the existing accounting approach and accrual accounting approach have been deliberated at length with Thromdes.
6	Preparation of Improvised Chart of Accounts	Accomplished	Functional Chart of Accounts is prepared and provided to the Thromdes for implementation. Same is submitted to the Ministry.
7	Provide Handholding Support	Accomplished	Accounts personnel of all four thromdes have been familiarized with the accrual system of accounting, fundamental concepts and the rules of debit and credit and recording of transactions using Tally accounting system.
8	Preparation of Financial Statements for FY 2016-17 and 2017-18	Accomplished	Financial statements prepared in revised format provided by the project management unit of MoWHS. Thromde accounts staffs trained on data extraction from BAS and preparation of the statement.
9	Capacity Building and Institutionalization of Internal Controls system	Accomplished	The internal control guideline is discussed with the Thromde staff in comparison with the existing state of internal control system. It is realized the complete IC requirement may not be implemented at one go. However, Thromdes have committed to gradually institutionalize the internal controls. Some rectification requirements are recommended.
10	Implementation of Performance Reporting System	Accomplished	Thromdes are not maintaining information required to derive



			performance of Thromde in service delivery aspect.
11	Capacity Building on the Thromde Performance Reporting System	Accomplished	Thromde staff oriented on the indicators, data sources and data compilation sheet developed.
12	Preparation of two sets of Performance Reports	Accomplished	Two set of performance report prepared with available data and provided to Thromdes as reference reports.
13	Assessment of Current cost of services	Not Accomplished	Thromdes are not maintaining financial data specific to each service. Getting expenses for each service is difficult from the accounting records as the accounting records are based on budget heads.
14	Approach for improving cost efficiency	Not Accomplished	Due to inability to determine and assess the current cost of services, approach for improving cost of services could not be derived.
15	Preparation of Service Costing Framework	Accomplished	Cost sheet is prepared for ten municipal services and provided to the Thromdes.
16	Capacity Building on the Service Costing	Accomplished	Thromde management and accounts personnel oriented on using the cost sheet for service costing. Data requirement is clearly specified in the cost sheet.
17	Preparation of Investment Plan	Accomplished	Investment plan is prepared for possible new investment avenues is prepared and submitted to Thromdes. The investment plan is in line with the Thromdes' 12 <sup>th</sup> Five Year Plan.
18	Computerization and IT Controls	Accomplished	Assessment of computerization in Thromdes is done and based on the computerization and future plans, IT controls guideline is prepared. Thromde IT staff is oriented on the IT controls. The controls are categorized as mandatory controls and recommended controls.
19	Business Process Re-Engineering	Accomplished	Thromdes consulted on AS-IS business processes and issues and challenges. TO-BE business processes are determined in consideration with new technologies that can be adopted and implemented. Technology roadmap is discussed with Thromde IT and management.
20	Implementation of Revenue Administration Manual	Accomplished	The revenue administration manual is implemented in revenue management

			modules of the Asset and Revenue Management System.
21	Asset Management Guideline	Accomplished	Asset management guideline is developed and discussed with Thromdes and Ministry.
22	Asset Valuation Guideline	Accomplished	Asset Valuation Guideline is developed and discussed with Thromdes and Ministry.
23	RMS and DAR Implementation Status	Accomplished	Implementation status and war forward on the Revenue Management System and Digitized Asset Register in Thimphu and Phuentsholing Thromdes is provided.
24	Monitoring and Evaluation Framework	Accomplished	Monitoring and evaluation framework with indicators and evaluation approach is provided.
25	Procurement and Contract Management Framework	Accomplished	Discussion on current practices of procurement which is based on the Procurement Rules and Regulation 2009 of Royal Government of Bhutan and contract management post award of work is

## 7. Reform Status

### 7.1. Accounting Manual

#### **Before**

Prior to the commencement of the assignment, situation in the Thromdes with regard to accounting practices were:

- a. The Thromdes followed cash basis of accounting.
- b. BAS (Budget and Accounts System) was used for all receipts and payments excepting Thromde based schools for whom PEMS was used. Also, the payroll was maintained in DrukPay / MS Excel and only the consolidated figures against each head is imported to BAS.
- c. Revenue collection was maintained in an MS Excel Spreadsheet and was reconciled with Thromde Financial Accounts on a monthly basis.
- d. Revenues collected were deposited on the following working day.
- e. BRS was prepared on a monthly basis.
- f. Procurement is based on the RGoB Procurement rules.
- g. Inventory receipts and issues were being maintained manually in the Stock register. Both the Thromdes followed JIT system of inventory management. Therefore, the inventory balances were minimized. Closing/Opening values of inventory were not maintained.
- h. Fixed Asset Register was in the process of being prepared at SJT while the same was yet to begin at GT. SJT was using the spreadsheet provided by the project.
- i. Estimation of revenue collection was rendered infeasible owing to low degree of taxpayer compliance; legal flexibility to pay the taxes anytime within three years

- with nominal penalties and growth of building and property patterns are indeterminable.
- j. Surplus fund balances, if any were not parked as investments in anticipation of objections from stakeholders. They were retained in the same, non-revenue generating CD account.
  - k. There is confusion on whether accrual basis of accounting will be approved of. Users confidence in the new system was indeterminable.
  - l. Valuation of the fixed assets such as roads and bridges formed a major area of reservation among the Thromde officials.
  - m. In the absence of a clear-cut instruction, there is a major issue with valuation of school properties. It is unclear as to whether these properties are to be treated as the Thromde's assets.
  - n. Non-cash expenses are not forming part of the current accounting system.
  - o. There are no reserve/special funds created at either Thromdes owing principally to fund inadequacies. Also, creation of special funds was deemed objectionable since they would lie idly and are rendered unproductive. Instead, case-based reimbursement/release against a contingency is being currently observed.
  - p. While there are roll-over projects existing, there is no practice of recording CWIP which is an acute accounting fallacy.
  - q. The Accounts, Revenue and Procurement officials of both the Thromdes have little/no exposure to Tally, the proposed accounting software to be used.

### **Activities**

During the project activities to introduce the revised Thromde accounting manual were executed which included:

- a. Review of the revised Thromde Accounting manual and provide comments and suggestions in consideration with the existing accounting practices in Thromdes;
- b. Preparation on improvised chart of accounts that is applicable to the current context of Thromdes;
- c. Capacity building on the Thromde accounting manual;
- d. Handholding on the accrual accounting practices to accounts personnel of four Thromdes;
- e. Assessment of current record keeping practices and identification of issues and challenges;
- f. Preparation of financial statements for fiscal year 2016-17 and 2017-18 in format provided by the project management office at the ministry.

### **Main Outputs**

- a. Comments and suggestions on the revised Thromde Accounting Manual
- b. Improvised Chart of Accounts
- c. Financial Statement for fiscal year 2016-17 and 2017-18

### **Issues and Challenges**

Issues and challenges confronting successful implementation of revised Thromde accounting manual are:

- a. As the Thromdes are heavily dependent on the government grants and subsidies, the benefits of accrual accounting system is still unclear;
- b. Extraction of data from existing system, BAS, to preparation financial statement was difficult and existing practices of record keeping was not sufficient to generate the financial statements;
- c. Thromde accounts staff do not have time to prepare the data required for preparation of financial statements as it would require access paper records and other sources of information;
- d. Contentious issues such as ownership of assets of the schools etc could not be resolved among the thromdes and the other agencies prior its (non)incorporation into the Thromdes Fixed Asset Register;
- e. Accounting tool that has the features and functionality, Tally, is not procured so data entry and generation of required reports from single system is not possible; and
- f. In addition to training the users on the generic accounting framework of the Revised Accounting Manual the users also need to be trained on Tally as the new accounting software they would use hereafter.

### **After**

After fourteen months of engagement with Thromdes and several rounds of consultation, clarifications and capacity building activities, accounting practices in Thromdes is changing from existing cash basis to accrual basis. The transformation is not complete yet but there is common understanding and agreement that new paradigm of accounting will enable Thromdes to assess financial health of Thromdes.

- a. Thromde accounts personnel and management are aware of the deficiencies of existing cash basis accounting and benefits of accrual basis accounting;
- b. Chart of Accounts is more comprehensive as compared to earlier and covers enterprise wide account heads. Existing CoA was more from budgeting aspect. Revenue chart of accounts was used for revenue reporting only; and
- c. Financial statements for fiscal year 2016-17 and 2017-18 are available for reference to Thromde accounts personnel and the management.

### **Recommendations and Continuity**

Now that the reforms are initiated, Thromdes are required to allocate adequate resources to ensure continuity of the reforms. Accounts personnel should be provided with requisite training on the fundamentals of accrual accounting concepts so that accounts personnel and Thromde management will be in position to appreciate the value of accrual accounting.

It is equally important that requisite tool is available to manage accounting records. Tally was planned as appropriate tool to start with. Thromdes or the project should purchase and implement the required tool.

Owing to the limited user acquaintance to Tally or any other accrual accounting tool, it will be introduced to them in a phased manner. At its initiation, only the accounting and budget modules of Tally will be introduced. When the users are very comfortable with the above modules, Payroll and Inventory modules may be introduced. Therefore, current systems used will have to be simultaneously maintained until Tally is fully adopted. This will require additional time input by the users at the Thromde.

Using asset inventory created in the ARMS implementation component and the Asset Valuation Guideline, Thromde should generate the asset valuation to incorporate the fixed data in the financial statements.

Review improvised chart of accounts to finalize and adopt the COA and ensure consistency in accounting processes and record keeping.

Prepare data to migrate the opening balance from existing system to new accounting system. Gelephu Thromde has allocated financial resource to prepare data for migration of opening balance.

The accounting manual could be institutionalized through Thromde Tshogde and appropriate directive could be issued by the Thromde management requiring accounts records to be maintained in compliance with the new Accounting Manual. Also, Thromde management and Thromde Tshogde should mandate reporting as per the improvised COA.

Thromdes can assessment on implementation status using the Monitoring and Evaluation Framework developed for Municipal Finance and Management to ensure appropriate actions are taken and the intended benefits are reaped.

## **7.2. Budget Manual**

### **Before**

- a. The Thromdes have been using the prescribed modalities under the RGoB Budget Manual. Only relevant forms from the manual are picked up for calls, preparation, submission, request for supplementary budgets and re-appropriations.
- b. The Budgeting process begins with providing the “shopping list” to the elected representatives of the Thromde for them to discuss and present to the Thromde. The list is also provided to the Heads of the Divisions in the Thromde. Once this shopping list is being received, a consolidation procedure is undertaken by the Finance Division for subsequent presentation to the Executive Secretary for first level scrutiny. Subsequently, the Thromde Tshogde reviews the budget document for submission to the MoF and then to the Parliament.
- c. The extent of public participation in the budgeting process could not be determined. It is however, claimed that consultations are being held with the Thromde residents.
- d. Wherever there are prescribed formulas under the Manual, the Thromdes use them for Budget proposal preparation. Otherwise, best judgements are used.
- e. The Thromdes are not too keen on using scientific models to budget preparation since there has been a trend of unprecedented cuts from the approving authority on most of the budget heads. This has resulted in frequent inter-head re-appropriations of budgets. To this, the consultants remain unopinionated towards the use of scientific budgeting tools.

### **Activities**

During the project activities to introduce the new Thromde Budget manual were executed which included:

- a. Review of the Thromde Budget manual and provide comments and suggestions in consideration with the existing accounting practices in Thromdes;
- b. Preparation of functional budget chart of accounts;
- c. Capacity building on the Thromde Budget manual;
- d. Consultation with MoF on using new manual for preparation and submission of budget proposals;
- e. Handholding on budget preparation by accounts personnel of the two Thromdes;
- f. Assist Thromde Accounts staff on Preparation of annual budget;
- g. Condensed guideline provided to the accounts official (Gelephu Thromde) who attempted to prepare budget as per requirement of new budgeting manual; and
- h. Review of budget prepared as per new budget manual.

### **Issues and Challenges**

The principal challenge seen was the disincentive provided by the inadequacies of funds provided through subsidies to meet the projected assignment bundles as well as the operations of the Thromde. Shortfall of funds have been claimed under many budget heads resulting in recurrent re-appropriations. It is also claimed that even if the best /modern forecasting tools were diligently used for proposing the budgets, to only be slashed down substantially at its time of approval, the futility of such exercise is eminent.

The new Budget manual has major issues with unit factors to be used for budget forecasting leading to limited use of the manual.

While ministry of finance provided clarity on use of new budget manual by the Thromdes, the accounts personnel still expect written directive from MoF to avoid any confusion in future. Ministry requires the Thromde to provide adequate reports on the grants and subsidies. Further, fund releases are done through PEMS. PEMS does not implement the requirements of accrual basis of accounting that is creating additional confusion among the Thromdes.

Some activities like budget preparation and endorsement by the Tshogde are not being synchronized and such situations are cited as reasons for inability to endorse the budget proposal before being forwarded to MoF. Instead, Tshogde meeting should have been planned in synchronization with budget cycle.

Budgeting process is mostly focussed on budget proposal for grant and subsidies. Utilization if internal revenue entails totally different process.

### **Main Outputs**

- a. Comments and suggestions on the new Thromde Budget Manual;
- b. Improvised Budget Chart of Accounts;
- c. Guidelines and clarifications on the budgeting using new Thromde Budget Manual; and
- d. Clarifications from Ministry of Finance with regard to using new Budget Manual for preparation and submission of budget to MoF.

### **After**

Thromde management and accounts officials are oriented with processes prescribed in new Thromde Budget manual. Discrepancies and issues are noted and communicated to the Thromdes as well as the project.

Gelephu Thromde prepared budget based on the requirement of new Thromde Budget Manual. Ministry of Finance clarified that Thromdes can prepare and submit budget proposals based on new Thromde Budget manual.

### **Recommendations and Continuity**

Owing to confusions, issues and challenges cited above, Thromdes were not able to satisfactorily implement the new Thromde Budget Manual. As the new manual requires democratic approach to budgeting process and use of scientific techniques to forecasting, it will be highly effective if Thromdes implement the new Budget manual.

- a. Correct the anomalies with regard to the discrepancies in unit factors so that forecasting formula are effective;
- b. Institutionalize the new Thromde Budget manual by formally adopting the manual in Thromde Tshogde and issuance of directives that require prescribed processes to be followed, prescribed formats are used and required reports like variance reports are generated;
- c. Allocate resources to conduct refresher capacity building to those join Thromdes after the manuals are formally adopted and mandated to be followed.

Thromdes can assessment on implementation status using the Monitoring and Evaluation Framework developed for Municipal Finance and Management to ensure appropriate actions are taken and the intended benefits are reaped.

### **7.3. Internal Controls**

#### **Before**

- a. Both Thromdes have an Internal Audit Unit but is remaining unmanned as yet. We have been informed that personnel requisition had long been put up to RCSC and a recruit is awaited.
- b. Apart from the audits conducted by the Royal Audit Authority, no other forms of internal and/or external audits are being conducted.
- c. Formal presentation of reports on physical verification of assets and/or inventories does not exist. It was discussed that since most procurements are undertaken on JIT basis, physical verification exercises are barely undertaken.
- d. BRS is said to be prepared on a monthly basis.
- e. While SJT maintained nominal cash balances for impress use, GT claimed that no impress funds were operated except a sum of Nu. 20,000 provided to the schools for utility bill settlements.
- f. All requisitions/payments are approved by the Executive Secretary. Therefore, all accountability is culminated at the chair of the Executive Secretary.
- g. Procurements are undertaken in compliance with the RGoB Procurement Rules. The items procured are physically verified for compliance to specifications and quantities ordered at the time of delivery of goods by the suppliers.

- h. There are no agency specific Delegation of Financial Authority policies in place at both Thromdes. Financial authority is derived from the provisions of the Local Government Act of Bhutan, 2009.
- i. No breaches or misuse have been reported as yet. However, a policy document for administrative sanctions for breaches does not exist at either Thromdes.
- j. Due to limited staff and narrow competencies, executing a personnel rotation pattern among high risk functions are deemed infeasible.
- k. After due reconciliation, the days collection is deposited into the bank on the following working day.
- l. Pre-printed revenue money receipts are being issued to the taxpayers.
- m. The administration/HR division maintains generic employee records such as attendance, leaves availed and balances, increments, promotions etc. in individual service record book. The same is being used for the purpose of calculations of earned leave encashments, pay fixations, terminal benefits computations, etc.

### **Activities**

Towards establishment of effective internal controls, the consultants provided session to all relevant officials of both the Thromdes. Internal control guidelines prepared during the BUBP II in Thimphu and Phuentsholing Thromdes was used. During the session comparison between current practices and requirement of internal controls guideline was made to provide clarity on the requirement.

### **Outputs**

- a. Recommendations and rectifications requirements provided for easy and effective implementation and institutionalization of the internal controls system

### **Issues and Challenges**

In the absence of a fully operative internal auditor to discharge his auditing responsibilities, furthered by the non-deployment of any other external auditors to make up for the absence of the agency's own internal auditor, the conformance to internal controls best practices and guidelines prescribed cannot be ascertained.

Even after vacancy announcement for recruitment of internal auditor by MoF, the Thromdes are left without internal auditors. Internal auditor is an important requirement for effective implementation of internal controls and ensure effective checks and balances on financial and other transactions.

### **After**

- a. Relevant Thromde staff are aware of the Internal Control Guidelines. The internal control guidelines specify roles and responsibilities of relevant staff.
- b. Issues / comments and recommendations on the internal control guidelines prepared to be institutionalized in Thromdes.

### **Recommendations and Continuity**



- a. Foremost, there is an urgent need for the employment of an Internal Auditor in both the Thromdes who would act independently to oversee the compliance to the guidelines prescribed. The Auditor, by way of discharging his responsibilities would understand the relativity of the degree of compliance to practical operating environment. The purpose of implementation of the internal control mechanisms is, to a large extent, defeated in the absence of an independent Internal Audit Unit.
- b. Security personnel needs to be deployed in spite of the costs at both the Thromdes. Their presence around the office premises are critical to safeguarding measures.
- c. Other preventive mechanisms, such as CCTVs, at high risk areas of the office premises needs to be strengthened, especially at GT.
- d. The HR Divisions of the Thromdes need to develop a comprehensive policy document with regard to duties, responsibilities, accountabilities and delegation of powers. While it was informed that SJT had its HR Handbook ready for publishing, they may still need to review this handbook with reference to the control activities prescribed in the IC Guidelines.
- e. GT maintains fewer cash transactions than SJT. Both Thromdes have been instructed to focus more on the use of banking channels owing to its transparency benefits.
- f. Either Thromdes follow JIT system of procurement, which is a good practice. It however does not discharge the Stores personnel from the responsibility of conducting regular physical inventory check and submit a formal report. The system of physical verification of inventory and a report submission needs to be put in place at both Thromdes.
- g. There were indications of over/under assessment of taxes resulting from chances of over/under valuation of properties. The Thromde officials have been made aware of this risk and that they needed to coordinate with MOWHS and other relevant agencies to draw up unanimously consensual, singular metric of valuation to mitigate such risks.
- h. Owing to use of several IT platforms to record data, daily data backup needs to be undertaken by the users to be subsequently stored at the central office server.
- i. The Stores Section needs to incorporate a lot of the rules prescribed in the guidelines such as use of stamps, registers and records and use of bin cards. While VED classification also needs to be done, the same may be used once the Thromdes do large procurements for projects undertaken by itself.

Some rectifications / clarifications are required in the current version of the IC Guidelines as follows:

- a. Under Parking Fees (Demand Generation): Contract to be awarded to the “highest” bidder and not the lowest.
- b. Under Water Charges (Demand Generation> For new connections), the Thromdes are required to charge an average of the water bills of the previous three months. Considering that the water charges are usually nominal and the cost of a water meter approximating Nu. 5,000, a revenue loss to that extent is anticipated. A “whichever is higher” clause could mitigate this confusion.
- c. Under Tendering rules (Procurement), there is a requirement that there are at least three participating firms under all types of tenders. The RGoB procurement rules have changed and allows for even one participating firm to establish a contractual obligation. Since the Thromdes do not have Procurement Manuals of their own and

are bound by RGoB PRR, this change needs to be considered in the IC Guidelines to provide homogeneity.

Thromdes can make required rectification based on relevant rules and regulations.

Thromde can institutionalize the Internal control system through adoption by Thromde Tshogde and issuance of directive by the Thromde management for compliance. Yearly compliance report can be included in the performance report.

Thromdes can assessment on implementation status using the Monitoring and Evaluation Framework developed for Municipal Finance and Management to ensure appropriate actions are taken and the intended benefits are reaped.

#### **7.4. Performance Reporting System**

##### **Before**

- a. Based on discussions with the key officers and heads of departments/ divisions of selected Thromdes, it has been observed that presently there is no formal performance reporting system available.
- b. Until recently no proper performance reporting mechanism established. Only ad-hoc financial reports were prepared and submitted to seeking institution. With formalization of Annual Performance Agreement (APA), performance reports are prepared and submitted to the parent agency. The Key Performance Indicators in APA are more from the angle of planned activities in the agreement period. Limited indicators are used from the service provision angle in APA.

##### **Activities**

- a. Consultation and orientation on the performance reporting system instituted in Thimphu and Phuentsholing Thromdes. The consultation included deliberations on the indicators and data sources;
- b. Incorporation of Annual Performance Agreement indicators in the Thromde Performance Reporting System;
- c. Preparation of spreadsheet for preparation of performance report. The spreadsheet has the formula used to determine the indicator values and is shared to relevant officials in Google Sheet;
- d. Data collection from different divisions and preparation of Performance Report Set I and Set II;

##### **Outputs**

- a. Data collection sheet shared as Google Sheet with formula for determination of values for indicators; and
- b. Two sets of performance reports

##### **Issues and Challenges**

- a. To adopt the services-based performance reporting system, the main challenge is to determine the data sources and actual data for generation of the performance report.

- Up to date records on level of various services focusing PM indicators are not readily available in the Thromdes which could be used to prepare quarterly performance reports (QPR) by the concerned officers/ departments.
- b. In absence of an appropriate Management Information System (MIS), it is almost impossible to implement a performance measurement system (PMS) in the Thromdes. MIS ensures that important information pertaining to each activity is properly recorded and reported so that a supervisor officer can inspect it, as and when he/ she required
  - c. Current assignment only includes the designing of reports and identification of indicators. No ICT platform for generation of report is included but the expectation of Thromde is ICT base reporting platform for performance reporting.

### **After**

- a. Relevant Thromde staff are aware of the performance reporting system and understand that such reporting mechanisms allow Thromde to assess its own health and determine the areas of focus;
- b. Performance reports are generated for reference that can be used in future to prepare similar reports; and
- c. Thromdes understand the importance of service delivery data and how to use the data to continuously improve the service delivery mechanism.

### **Recommendations and Continuity**

Thromde can institutionalize the performance reporting system through adoption by Thromde Tshogde and issuance of directive by the Thromde management for compliance. Yearly compliance report can be included in the performance report.

Thromdes can assessment on implementation status using the Monitoring and Evaluation Framework developed for Municipal Finance and Management to ensure appropriate actions are taken and the intended benefits are reaped.

Institute mechanism and information systems that are capable for generating the data required for generation of Thromde performance report.

Use Thromde performance report to identify investment and priority areas of development which in turn can be included in the budget proposals. The performance report will provide evidence and baseline data required to justify planned activities and budgetary outlay.

## **7.5. Service Costing**

### **Before**

- a. Based on discussions with the officials concerned from GT and SJT and scrutiny of available records, it has been observed that presently there were no system to assess the cost of various services provided by the GT and SJT. Records are not being maintained by the Thromdes to examine the cost determination factors in various services or even to analyse the receipts and expenditure under each of the service head;

- b. Since in the existing environment, it was not possible to work out the cost of any service, user charges are being fixed without any economic and financial considerations;
- c. In absence of guidelines or pricing policy for tariff fixing or user charges of municipal services provided by them, an attempt was made to suggest guidelines and templates to work out the cost of various municipal services for Thimphu and Phuentsholing Thromdes as one of the components of BUDP-II; and
- d. Currently, budgetary decisions are not made using the service costing data.

### **Activities**

- a. Identification of services for cost assessment – 10 services were identified;
- b. Assess availability of data required for assessment of current service costing. Data is not recorded based on services and activities related to services. It was extremely difficult to collect and collate required data;
- c. Development of service costing framework that can be used to assess service costing; and
- d. Capacity development to Thromde officials on the service costing framework so that officials can use the framework.

### **Outputs**

- a. Service costing framework that defines different cost components – direct cost and indirect cost. The framework provides approaches to allocate indirect cost.

### **Issues and Challenges**

- a. Even it is possible to estimate cost through allocation of direct and indirect cost, it is difficult to complete the exercise due to lack of proper data that is required to estimate the service cost.
- b. There is a fear among the Thromdes that if service fees are levied based on the service costing then the service fee may be too high for residents to pay.

### **After**

- a. Thromdes can determine different cost components and apply indirect cost allocation to determine cost of providing services; and
- b. Thromdes can use the cost information to justify the service delivery charges.

### **Recommendations and Continuity**

Thromde can institutionalize the performance reporting system through adoption by Thromde Tshogde and issuance of directive by the Thromde management for compliance. Yearly compliance report can be included in the performance report.

Thromdes can assessment on implementation status using the Monitoring and Evaluation Framework developed for Municipal Finance and Management to ensure appropriate actions are taken and the intended benefits are reaped.

Thromdes can start maintaining the data as per services to enable cost assessment and then achieve the following based on assessment of service cost:

- a. Improve cost management by reducing redundancy and unnecessary costs; and
- b. Determine service charges and fees based on the cost of providing services.

## **7.6. IT Controls**

### **Before**

- a. All four Thromdes have ICT infrastructure in place comprising of the following components
  - i. Network equipment like routers, switches, firewalls / UTMs, Wireless Access Points
  - ii. Computing Equipment and Storage equipment like Servers, and file storage and sharing
  - iii. Client Devices like desktops, laptops, and tablets
- b. All the components are connected either using structured cabling or wireless Network
- c. The network has internet connectivity and strong Local Area Network (LAN)
- d. All Thromdes have software applications (backend systems and citizen service systems).
  - i. All Thromdes have launched G2C service systems
  - ii. Thimphu and Phuentsholing Thromde are using web-based Revenue Management System and Digitized Asset Register along with Tally ERP 9 hosted in LAN setup
  - iii. Gelephu Thromde has MS Access base taxpayer and properties database and Utility Billing system for water billing
  - iv. Samdrup Jongkhar Thromde has MyCity web app used for crowd sourcing of information related to waste management and Utility Billing system for water billing
- e. None of the Thromdes written policy on ICT covering infrastructure access, device usage, software system usage, accountability, etc. Mostly verbal awareness and sometimes incident specific written instructions are used.
- f. ICT infrastructure access in Thimphu, Phuentsholing and Gelephu is purely based on access credentials like user name / security key and password. Samdrup Jongkhar Thromde is piloting certificate management approach to provision ICT infrastructure.
- g. Cluster initiative is implemented by DITT making Thromdes (Phuentsholing, Gelephu and Samdrup Jongkhar) making Thromdes the resource (connectivity, human resources and infrastructure) centre for IT.

### **Activities**

- a. Assessment of state of computerization in Thromdes – Hardware, software, security, policies, etc;

- b. Develop ICT controls and implementation requirement considering current computerization initiatives and planned initiatives.

### **Output**

- a. ICT controls and implementation requirement

### **Issues and Challenges**

- a. With substantial growth of ICT infrastructure and application ecosystem, it becomes difficult to manage ICT resources in absence of well written and adopted ICT policy. Unauthorized access to system and accountability issues arise which may lead to data and resource theft;
- b. The ICT policy and controls should be adequately adopted by authorized forum and ICT office should ensure compliance without bias;
- c. Thromdes are becoming ICT resource centre through implementation of cluster initiative. Thromdes will be connected to several other offices opening doors for unauthorized access, etc.

### **After**

- a. ICT control policies, if implemented properly, will ensure IT resource security, Data security and efficient Thromde operation;
- b. Institutional memory of internal and external ICT controls

### **Recommendations and Continuity**

Thromde can institutionalize the ICT Controls system through adoption by Thromde Tshogde and issuance of directive by the Thromde management for compliance. Yearly compliance report can be included in the performance report using data like unauthorized accesses, data leakage, etc.

Thromdes can assessment on implementation status using the Monitoring and Evaluation Framework developed for Municipal Finance and Management to ensure appropriate actions are taken and the intended benefits are reaped.

Maintain required logs and inventories included in ICT control guidelines. Ensure that mandatory controls are complied within one year of adoption of IT controls and recommended controls are compiled within 3 years of adoption.

As ICT environment is dynamic, Thromdes should periodically review and update the controls to ensure the controls are updated to effectively combat new issues and challenges resulting from adoption of new technologies.

## **7.7. Revenue Administration Manual Implementation**

### **Before**

- a. Acts, Rules and Regulations, policy documents that have provision granting authority to Thromde for collection of taxes, service fees and charges, fines and

penalties are the only documents guiding the Thromdes for revenue collection. Such documents are interpreted straight away to levy charges for services, and taxation on properties which poses great challenge in revenue forecasting

- b. The procedures for collection of revenue are mostly established verbally and is transferred from one employee to another verbally. In some cases, revenue realization including assessment (of tax, fees and charges) is dependent of the officials' own interpretation of rules and regulations.
- c. Properly documented institutional memory almost nil with regard to revenue administration.
- d. New sources of revenue are hardly explored even if there are options for Thromdes to invest to generate revenue. As grant recipient, there is fear that investment activities may invite criticism.

### **Activities**

- a. Review of identified revenue sources and the processes practiced towards revenue realization;
- b. Assessment and review communication channels and approaches used to communicate with the taxpayers and residents;
- c. Study revenue administration manual developed for Thimphu and Phuentsholing Thromdes and other similar documents;
- d. Customization of revenue administration manual that fits the state-of-affairs in Gelephu and Samdrup Jongkhar Thromdes.

### **Outputs**

- a. Revenue Administration manual that fits the operational requirement and practices of Gelephu and Samdrup Jongkhar Thromdes;
- b. The revenue administration manual processes are implemented in the revenue management modules of Asset and Revenue Management System.

### **Issues and Challenges**

- a. After the development and implementation of revenue administration manual, the manual would require formal endorsement / adoption. Once endorsed Thromde staff will have to be adequately oriented to follow the uniform revenue realization procedures. The challenge is identification of relevant authority that can endorse the manual. For instance, to formalize new revenue sources it is unclear regarding the authority to endorse.
- b. The revenue administration manual and the prescribed procedure may require additional resource (could be in the form of human resource or investment in technology) which may require time to materialize.
- c. Implementation of manual should create win-win situation for the tax payers as well as the Thromde administration. If such situation cannot be achieved then there can be resistance from some or all stakeholders.

### **After**

- a. Institutional memory of revenue administration manual which specifies processes for different revenue sources, revenue office, revenue staff, etc.

- b. The revenue administration processes are implemented in Asset and Revenue Management System

### **Recommendations and Continuity**

- a. Thromde can institutionalize the Revenue Administration Manual through adoption by Thromde Tshogde and issuance of directive by the Thromde management for compliance.
- b. Thromdes can assessment on implementation status using the Monitoring and Evaluation Framework developed for Municipal Finance and Management to ensure appropriate actions are taken and the intended benefits are reaped.
- c. Thromdes should ensure that the revenue administration manual is updated as and when new revenue sources are formalized.

## **7.8. Business Process Re-engineering**

### **Before**

- a. The revenue business processes are mostly manual and different processes are used for different revenue sources. In absence, stable back office systems the processes require tax payers/Thromde officials to maintain paper records leading to redundant activities.
- b. The available backend systems, and / or service delivery systems are not robust enough for taxpayer to use without having to visit Thromde counters for payment of taxes, tariffs, fees or charges. This also provides room for business processes with redundancy.
- c. Several initiatives are being implemented like G2C systems, and revenue management system which will require re-thinking of business processes. Preliminary discussion with the Thromde officials indicates that redundancies prevail in the current system.
- d. While business process re-engineering brings about efficiency, it also requires substantial investment in latest technologies. Thromdes are heavily dependent on the grants from the central Government the roadmaps will have to be prepared judiciously.

### **Activities**

- a. Assessment of current business processes and technology implemented for revenue collection, service delivery and Backoffice operation;
- b. Consultation on the issues and challenges faced by Thromde as a result of current processes and technology solutions;
- c. Gap analysis, process optimization and derive TO-BE processes
- d. Derive technology roadmap, implementation plan and investment required to implement identified technology solutions.

### **Output**

- a. Business Process re-engineering report that comprises of current issues and challenges, technology options, roadmap and investment required.



## **Issues and Challenges**

Being grant dependent operations, any roadmap will face hurdles with regard to funding the implementation of re-engineered processes and the technology platform required to implement the re-engineered processes. Such uncertainty may lead to non-optimized business processes and delayed investment in technology or investment in obsolete technology platform.

### **After**

- a. Institutional memory of business process re-engineering report that comprises of business processes, technology roadmap and investment.

## **Recommendations Continuity**

- a. Thromde can institutionalize the Business Process Re-engineering report through adoption by Thromde Tshogde and issuance of directive by the Thromde management for compliance;
- b. Thromdes can assessment on implementation status using the Monitoring and Evaluation Framework developed for Municipal Finance and Management to ensure appropriate actions are taken and the intended benefits are reaped;
- c. Thromdes should ensure that the business re-engineering report is updated as and when new technology solutions are implemented;
- d. Thromdes should allocate required resources based on the technology roadmap to ensure required solutions are implemented on time.

## **7.9. Asset Management and Valuation**

### **Before**

- a. Asset Management is based on the RGoB Property Management Manual. Reporting as required by Department of National Properties is prepared manually and provided. Recently DNP has implemented Asset Inventory system.
- b. Record keeping is mostly done in MS Excel, MS Word and related packages where data is stored in highly unstructured manners. Files and registers are maintained which poses huge challenges in data searching and asset history tracing. There is no proper classification of asset.
- c. Asset value is not available as calculation of depreciation is not practiced.
- d. Asset information is fragmented and is available in different divisions and sections. For example, movable asset information is managed by procurement / store whereas roads information is managed by Urban road section.
- e. The RGoB Property Management Manual (PMM) does not cover municipal infrastructure assets. Hence, very limited information is available on the municipal infrastructure assets. With new asset management and valuation guidelines in place it is unclear how much of existing infrastructure asset information can be gathered.
- f. For the generation of financial statements, it is very important to value the assets. Due lack of information (mainly of infrastructure assets) it is going to take time to reflect actual asset value in the financial statements.
- g. Absence of system to manage asset information centrally, it is always going to be challenging to have consolidated report on municipal assets.

### **Activities**

- a. Development of draft asset management and valuation guideline;
- b. Consultation with Ministry and Thromdes and update the draft asset management and valuation of municipal assets.

### **Output**

- a. Asset management and valuation guideline
- b. Samples to generate asset value for asset included in Digitized Asset Register

### **Issues and Challenges**

- a. It will be challenging to value assets as financial information of majority of the assets is not available.
- b. The guideline will require endorsement, user orientation and continuity plan. Strong directive will be required to have all the asset managers on board to abide by the new asset management guideline.

### **After**

- a. Institutional memory of asset management and valuation guideline
- b. Value of municipal infrastructure assets owned by the respective Thromdes

### **Recommendations Continuity Approach**

- a. Thromde can institutionalize the Asset Management and Valuation through adoption by Thromde Tshogde and issuance of directive by the Thromde management for compliance;
- b. Thromdes can assessment on implementation status using the Monitoring and Evaluation Framework developed for Municipal Finance and Management to ensure appropriate actions are taken and the intended benefits are reaped;
- c. Thromdes should ensure that the values of all asset owned by the Thromdes are generated and included in the Thromde Financial Statements.