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Thimphu Thromde
Building No: 08
Gongdzin lam
Thimphu -11001: Bhutan



TT/IAU-05/2016-17/

1226

20/03/2018

Executive Secretary,
Thimphu Thromde

Sub: Internal Audit Report

Sir,

I have the honor to submit herewith internal audit report on the Property Management of Thimphu Thromde Administration for the last three consecutive years (2015, 2016, and 2017) for your kind necessary actions. Recommendations as deem appropriate are given for remedial measures on the findings. The report is also available in the official e-mails of the concerned officials.

We would like to request the Thromde management to response on all observations given in the report within 9th April 2018.

Yours faithfully,

(Phub Dema)
Asstt. Internal Auditor

CC:

1. Dasho Thrompon, Thimphu Thromde for kind information.
2. Executive Secreary, Thimphu thromde for kind information.
3. Chief Internal Auditor, Central Coordinating Agency, MOF Thimphu.
4. Chief Administrative officer, Thimphu Thromde.
5. Procurement officer, Thimphu Thromde



Thimphu Thromde

Internal Audit Unit

Internal Audit Report on “Property Management of Thimphu Thromde”

Period: 1st July 2014 to 30th June 2017.

Reference:	TT/IAU-6/2017-18/1226
Period of review:	1 st march -19 th march 2018
Date of management response & Action plans:	2 nd April 2018
Date of issue of Report:	20 th march 2018
Name of Auditor:	Phub Dema, Asst. Internal Auditor
Circulation:	1. Dasho Thrompon, Thimphu Thromde 2. Executive Secretary, Thimphu Thromde 3. Chief internal Auditor, Central Coordinating Agency, MOF. 4. Procurement officer, Thimphu Thromde

Glossary Priority ratings have been assigned to issues raised in this report as follows:

Rating scale for individual findings	
Critical	Active management attention required as an extreme priority. Controls are not adequate to address the associated risk.
High	Active management attention required as a high priority. Controls are not adequate to address the associated risk.
Medium	Active management attention required as a moderate priority. Controls are not adequate to address the associated risk.
Low	Active management attention not required on priority. Controls are more or less adequate to address the associated risk.

Rating scale for overall report

Control is inadequate			Control is adequate	
E	H	M	L	CC
Extreme Priority	High Priority	Moderate Priority	Low Priority	Control Critical Test controls regularly

Limitation

All findings/observations reported herein are based on the information provided and review of documents related to property management and risk prioritized. The facts and figures produced in this report are as per the records made available to the internal auditor.

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Abbreviation Used in This Report

AIMS	Asset Inventory Management System
DNP	Department of National Property
FAR	Fixed Asset Register
FY	Financial Year
PMM 2016	Property Management Manual 2016

Background

Thimphu Thromde is an autonomous organization since 1995. It is governed by the Thromde Tshogdu comprising of 8 elected representatives from 6 zones including the chairman as the elected Thrompon. The workings of the municipal office is governed by the City Committee which is the highest decision making body. There are six divisions under Thimphu Thromde viz. Administration and Finance Division, Development Control Division, Environment Division, Infrastructure Division, Urban Planning Division, and Education Division. Thimphu Thromde Administration has 606 employees (Regular 210, Contract 36 and daily wage 360), and the total expenditure incurred for the office equipments including Computers & Peripherals is Nu. 16.32 million For the last three financial years (2014-15, 2015-16, and 2016-17).

The Internal Audit Unit under Thimphu Thromde has conducted the audit on Property Management in accordance to the Approved Internal Audit Work Plan for FY 2017-2018. One of the major spending of the government is on acquisition of various kinds of properties. It represents the tangible assets; an organization utilizes to deliver its services and manages its operations. Therefore, it is important for the government to maintain an updated and accurate inventory of property. The Property Management Manual (PMM) 2016 serves as an internal control over the government property. The manual provides direction for ensuring that properties acquired are accounted for and properly maintained, utilized for rightful purposes and financial records on property are properly maintained.

Objectives of the Review

1. To review/verify whether the inventory of equipment have been properly recorded, updated and maintained as per PMM, and Asset Inventory Management System (AIMS).
2. To determine whether the office equipment and computers are adequately accounted for and safeguarded.
3. To determine that government properties are properly recorded in the Fixed Asset Register and stock Register.
4. Determine the extent to which internal controls over property management are operating effectively.
5. Identify areas that would benefit from increased efficiency.

Scope of Audit

The review focused on test check of Property Management System (Office Equipment and Computer & Peripherals) in place as of 30th June, 2017 on the following areas:

1. Acquisition and procurement of properties.
2. Allotment and issue of properties to the officials.
3. Maintenance of inventory of properties.
4. Maintenance of Fixed Asset Register
5. Obsolete and unserviceable properties and their disposal.

Methodology

The evidence gathering and audit techniques used to meet the audit objectives include;

1. Conducting test checks to determine the completeness of FAR and the accuracy of the asset custodian list with that of the bills.
2. Checking the compliance to rules and regulations as per PMM 2016.
3. Conducting physical verification of assets to ensure its physical presence, accurate specification, its use of rightful purposes and for verifying the updated custodian of the assets.
4. Verifying the relevant document, evidence gathering and interaction with concerned dealing officials.

Audit Observations and Findings

Some of the significant findings are listed and described below:

1. No maintenance of Fixed Asset Register.

One of the elements of good property management system is maintenance of FAR. The maintenance of FAR and updated information are extremely beneficial to track and monitor assets which may prevent the loss of assets and mismatch of specifications. But on enquiry with an Asst. Adm. Officer, it is found that there is no official appointed for the maintenance and recording of the FAR in the agency.

The *Property Management Manual* 2016, chapter 3- Inventory and registration of Property, under clause 3.3, maintenance of Fixed Asset Register, sub clause 3.3.1, 3.3.3, and 3.3.6, requires property officer/concerned official to maintain and record the complete details of all non-expendable properties such cost of acquisition, specifications, depreciation, present location and the DNP's identifications code. Moreover, the entries in the fixed asset shall be made as and when the transactions occur and the property officer/concerned official shall ensure that the property records reflect the updated position at all times.

The lapses had occurred due to lack of personnel responsible for the maintenance and recording of FAR in the agency.

Recommendation

In order to have effective property management system in place in an organization, it is recommended to maintain the Fixed Asset Register.

As per PMM 2016, chapter 1- Government property, under clause 1.3 General principles, sub clause 1.3.1 *states that a head of office, without disowning his own responsibility, may delegate the authority and responsibility for safe custody and utilization of properties to subordinate official, who shall be referred to as "Property Officer"*. Property officer is responsible for the maintenance of FAR therefore; Management should delegate the responsibility for the maintenance and recording of FAR to one official in the agency (procurement section/Adm. Officer).

Although the current practice of maintenance of assets against the individual officials name in the excel sheet is being implemented, nevertheless the information on the inventory list doesn't mention the specification details. It is recommended to continuously maintain the updated individual official list of asset records in the excel sheet with new column adding the 'Specification Details' like service tag for the desktop & laptops and codification code for the office equipments.

Note: There is the record of the FAR pertains to FY2013-14 which is not audited. This indicates there was system of maintaining and recording of FAR in the agency which thereafter stopped.

Management Response:

The report stated the lapses were occurred due to lack of official responsible for the maintenance and recording of FAR in the agency. Further after highlighting the benefits and importance of maintaining FAR, the management had decided to appoint Procurement Officer to act as Property officer who will be responsible for maintaining FAR hereafter. Since there is also misunderstanding in definition of the Fixed Asset, the internal Auditor had clarified that the computer, printers and furniture are also falls under Fixed Asset as per the PMM.

Action

Property Officer to update the record at least for the current financial year (17-18) and maintain the record both in soft copy and in Fixed Asset Register after obtaining codification from DNP, MoF till the Asset Inventory Management System is fully operational.

2. Non-existence of Annual Physical Verification reports on fixed assets.

One of the measures to safeguard the asset in the agency is through the maintenance of accurate, updated information in Fixed Asset register and conducting Annual Physical Verification on the fixed assets. But in the agency till date they have not conducted the annual physical verification and, don't have annual physical verification report. The lack of reporting system on annual physical verification may result in loss or non detection of misappropriations.

The *PMM 2016*, chapter 5- Annual Physical verification & Unserviceable items, under Clause 5.1.1, requires *the Head of Agency to nominate an officer independent of the concerned Property Officer for conducting the physical verification of properties at least once in a financial year*. The requirement to such annual physical verification helps to ensure its physical existence in accordance with its description and will help the agency to safeguard, easily trace and prevention from the misuse of the assets.

The non-performance of such annual physical verification has resulted due to the lack of knowledge on such requirement, and no official appointed/nominated for the task.

Recommendation

Physical examination is a direct means of verifying that an asset actually exists (existence objective), and to a lesser extent whether existing assets are recorded (completeness objective). It is considered one of the most reliable and useful types of audit evidence. This will help to keep the updated assets in the agency's custodian safely, reduces the loss of asset and guide the agency for future needs of acquiring new assets.

Therefore, the Agency is recommended to maintain reports on performance of annual physical verification of all the fixed assets as required by PMM 2016 and should nominate an officer independent of the concerned Property Officer for conducting the physical verification of properties at least once in a financial year.

Further, the missing desktop, laptop and printer noted as a result of physical verification on 16th and 19th march, 2018 (Annexure 2) should be promptly followed up to find out whether it is indeed missing or whether they may have been misplaced in an alternative location.

Management response

Non-performance of such annual physical verification was due to lack of knowledge on such requirement. Here after, to safeguard of the assets and keep tract of the assets the management had decided and appointed ICT official to carry out such activities annually and submit the independent report to internal Audit Unit of Thimphu Thromde.

Action

Further, missing desktops, laptops and Printers which was noted during the sampling verification will be responded by Procurement Officer.

3. Missing of specification details and Folio number of properties while surrendering the properties by Thimphu Thromde to DNP

The importance of reflecting the specification details and folio number in the surrendered list will assist in tracing the actual surrendered properties under DNP and also to confirm the accurate surrendered properties by the individual concerned respectively. Further, such specification and folio number will ensure the reconciliation against the auctioned and remaining non-disposed items. With the implementation of AIMS in Thimphu Thromde, such problems will be taken care, however since the system is in preliminary stage, the need to maintain the specification details in the FAR and folio number of properties in the surrendered list of properties is critical for the internal controls.

While test checking the surrendered list submitted by Thimphu Thromde to DNP, we observed that the specification details and folio number of properties were missing. Reflecting only model and quantity number will not help in tracing which items are surrendered to DNP so there will be lapses in the record during the reconciliation in future.

The exclusion of specification details has happened due to lack of provision to mention the specifications in the form PMM-3 (Report of surplus, obsolete and unserviceable properties). Such items without specifications and folio numbers surrendered to DNP may result in misappropriation of the properties besides posing difficulty in reconciliation of remaining non-deposited items.

Recommendation

Until the implementation of AIMS in Thimphu Thromde, the agency is recommended to maintain a proper specification details and folio number of surrendered items in order to prevent the future occurrence of misappropriations of properties at DNP. Agency should delegate

concerned official for the preparation and maintenances of codification for assets. Codification of assets will help in easy tracing of the asset.

Management Response

Here after, every individuals and Property Officer should be responsible to maintain the detail specification while surrendering obsolete items to the store which later will taken care by Asset Inventory Management System (AIMS) once it is fully operational.

4. Official having both laptops and desktops in their names

As per the individual official list/inventory lists of assets provided to the Internal Audit Unit, there were few cases identified where the officials owned both desktop and laptops. Having both laptops and desktop is considered as a luxury apart from the painful expenses to the government since they serve the same purpose.

The notification issued by Ministry of Finance vide letter no. MOF/R- Circular/2009/4568 dated April 9, 2009, issued reminder and directives to all the government agencies to comply with cost cutting measures. Therefore, the notification highlighting the issue of having both laptop desktop as a luxury purchases, has directed to provide officials with only one computer. In case of both the desktop and laptops, the excess ones should be withdrawn for distribution to those without computer.

We would like to recommend administration department to verify such instances that occurred and rectify the same for instances, let the official surrender either of one computers and put in place internal control to avoid such happenings in future. So that it can be to issue to other official who are not having computer in the office (Annexure 1: list of official having both desktop and laptop in their custodian).

Management Response

The procurement and store officials will work out and update the final actual record of the inventory. Further, an official having both desktops and laptops need to surrender upon conducting through need assessment and proper justification of the requirement record will be updated.

5. Handing/Taking of Assets

While reviewing the inventory list of the agency, we have observed some deficiencies in the handing/Taking. Some official are found with more than one desktop and laptop on their custodian while some don't have computer. and in some cases, the procurement sections are unaware of the properties until the handing/taking note sheet were presented to them. During physical verification on 16th and 19th march, 2018 there were cases where the official has handed the properties to other official without proper handing/taking note. (Annexure 3)

This will lead to lose and misuse of the properties. Only the persons who are superannuating and transfer can hand the proprieties to their relievers other than that all the properties should be handed over to procurement section. Later by looking at the needs; the procurement section will issue the properties to other.

Recommendation

One should not take the responsibilities of accepting the properties on someone's behalf therefore recommend the management to issue the notice to the agency stating the above issues. And also to the party who are involved in handing taking to inform the procurement official on the occurrence of asset transfer. This will safeguard the assets, and helps in reducing the unnecessary purchase of properties in future

Management response

To ensure proper record of the assets, hereafter there won't be any handing/taking within individuals. Office order will be issued immediately that handing/taking to be done only with Procurement/store for future compliance.

Property officer will update the record of Annexure 3 and submit the report.

General Observations

1. Non-update of information in the inventory list in excel sheet.

It is equally important to update in the individual list in excel sheet especially for those officials when the handing/taking and surrender notes of office items are executed, these were not continually updated in the individual list of asset recorded in excel sheet. Updating of fixed assets when such case of handing/taking arises will ensure the updated information on custodian of all fixed assets besides prevention of any missing items at later stage. Although updating records require more time and attention up front, but will eventually prove to be exponentially beneficial to future inventory processes and at the time of recording it in the asset inventory management system (AIMS) at later stages. It is advisable for the concerned official to ensure that property records reflect the updated position at all times and moreover, those official who have properties in their custodian which they don't have physically with them needs to follow up to procurement section for the update/ you will held responsible for the losses and misuse.

2. Acquisition and Procurement of Properties

While reviewing the bidding process and documents for the procurement of computer peripherals and office equipments for FY 2016-17 and 2015-2016 of Thimphu Thromde, we observed that the tender committee has followed the tendering process and executed their task professionally as per the Procurement Manual 2009. Moreover, they are cautious about the cost cutting (Purchase orders are given to lowest bidder meeting all the specification required by the agency). However, we found out that important office correspondence and other office documents are not maintained in the softcopy with updated information because of the current practice of keeping original document in hardcopy. It is advisable for the concerned official to keep the scanned copy of the document as back up because of unforeseen circumstance (misplace of original copy), and documents should be kept for longer period as a record for future reference at least for 5 years as per FRR, 2016.

3. Disposal of fixed asset

As per PMM 2016, chapter 6- disposal and transfer of property, under clause 6.1- disposal of government properties, under sub clause 6.1.1, states the DNP or the agency authorized by the DNP shall be responsible for disposal of government properties.

Thimphu Thromde holds the public auctions with authorization from the DNP to dispose the government properties. And in some cases, the unserviceable properties are surrender to DNP and DNP holds the public auction.

After detail scrutiny of disposal of fixed asset we found out that, Thimphu Thromde has a good practice of disposing the fixed asset by forming the disposal committee, only after verification done by the committee member with the authorization by Thimphu Thrompon than they go for disposal as per PMM 2016.

The amounts generated are deposited in the Thromde revenue account. But the lists of assets surrendered are not submitted to accounts section for the update on property, plant and equipment.

Failure to record disposals and update equipment no longer used in the business can significantly affect the financial statements (assets are overstated). So it is advisable to send the list of assets surrendered or auctioned for update in property, plant and equipment in the books of accounts.

Summary of the overall findings based on the rating scale provided in the Glossary

Sl. No	Findings	Priority/Impact level
1	No maintenance of Fixed Asset Register.	High
2	Non existence of Annual Physical Verification reports on fixed assets.	High
3	Missing of specification details and Folio number of properties while surrendering the properties by Thimphu Thromde to DNP	Medium
4	Official having both laptops and desktops in their names	High
5	Handing/Taking of Assets	High

Conclusion

Internal control system related to the property management is put in place in Thimphu Thromde but the control is moderate because of inadequacies in implementing the PMM 2016. We highlighted some issues relating to maintenance and recording of Assets in FAR, importance of conducting annual physical verification, updating the inventory list with specification details, missing of specification details and Folio number of properties while surrendering the properties, issues of having both desktop and laptop with the officials. Maintaining the inventory list and stock ledger is not sufficient for the safeguarding the assets and moreover the importance of having property officer in the agency, we recommended the need for such system in our report.

References

1. Property Management Manual 2016
2. Individual list of asset maintained in excel sheet.
3. Sub-ledger of office equipment, and computer & peripheral.
4. Stock ledger and vouchers (DV).
5. Evaluation report for the supply of computer peripherals and office equipment FY 2016-2017.
6. Procurement Rules and Regulations 2009.
7. Revised budget/expenditure statement for the last 3 FYs. (2014-15, 2015-16, and 2016-17)
8. Finance and Accounts manual 2016.

Annexure 1: Officials having both computer and laptops in their custodian

Sl.no	Name
1	Passang Dorji (Executive Secretary)
2	Karma Jamtsho, CE,(Infra. Division)
3	Luv Kumar, Executive Engineer (Engg. Division)
4	Jangchuk Choden, Dy.Executive Engineer (Engg. Division)
5	Ugyen Lhamo, AE (Engg. Division)
6	Dawa Penjor,Enggr. W/Supply
7	Tshering Dorji, Enggr. Engg. Division
8	Ugyen Wangmo, AE, Engg. Division
9	Rinchen Wangdi, AE, Engg. Division
10	Oma Devi, AE, Engg. Division
11	Nawang Tashi, Engineer, Engg. Division
12	Geley Norbu, Chief (Land/Planning Section.)(Handed over to Thinley Norbu,)
13	Dhendup Lhamo, Engr. Engineering Division.
14	Kesang Dorji,Urban Planner(UPD)
15	Kinley Penjor, Project Manager, ADB
16	Tashi Dorji, Engr. ADB
17	Dorji Phuba, Asstt. Adm. Officer
18	Karma Dorji, A/Planning Officer (Taken over by Yeshey Dorji, AMCO)
19	Udesh Chhetri, Sr. FO, Acctts.
20	Yeshey Choden, Environment Division

21	Yeshey Wangdi, Dy.EE (Envn. Division)
22	Sobha Sharma, HR Asstt.
23	Jigmi Wangmo, Land Section
24	Damanti Mokten, Architecture
25	Dorji Zangmo, IT
26	Kinley Zam, Water Supply. (Dechencholing)
27	Pekar Rabgay, Engg. Division
28	Shashi Kala, W/Bank(Room & furniture using by Census Section)
29	Tashi Kencho, Engr. Environment Division.
30	Samten Lhendup, Engr. W/Supply
31	Pema Pokto, Vehicle Section
32	Dorji Namgyel, Land Section (Study leave) transfer to Rinchen Dorji, Syr. Officer.)
33	Tashi Tshering, MTO
34	Kinzang Choden, Land Section
35	Kinzang Chopel, CSD
36	Govinda Sharma, UPD
37	Sonam Tshering, DCTEO(Edn.)
38	Deki Rabgay, Edn. Sector
39	Tshering Zam, Edn. Sector
40	J.B. Subba, Survey Officer
41	Rinchen Dorji, Survey Section
42	Sonam Rinzin, Procurement Officer

43	Tashi Tobgay, UPD
44	Omapati Luitel, IT Officer
45	Samten Dhendup, Dy.CLR
46	Karma Singye, Urban Planner
47	Dorji Wangdi, Land Section
48	Yeshey Jamtsho, W/Supply(Motithang)
49	Sonam Namgay, P/ Enggr. Engg. Division
50	Robin Rimal, Enggr

Annexure 2: List of missing assets

Sl.no	Name	Assets	Remarks
1	Dawa penjor, Enggr. w/supply	Desktop computer	Missing, trace it and record the specification code. (inventory records lacks the specification details)
2	Nawang Tashi, Engineer, Enggr. Division	Printer (HP401DN)	Missing.
3	Land section	Laptop i7	Missing (it was purchased on 22.7.16. trace it)
4	Customer service office	Computer desktop 2 nos.	Computer issued to customer care office, trace it.
5	Engineer Division	Photocopy Machine (RICOH)	Trace it
6	Tshering Dorji, Enggr. Enggr. Division	Desktop computer	2 desktop computer Missing (1 handed by Kumar subba) and other, which were acquired on 28.1.14.
7	Udesh Chhetri, Sr. FO, Acctts.	Laptop set acquired on 28.9.15 of 60900 value	Missing (On inquire with Udesh Chetri, Sr. FO, Acctts. It was not issued to him. He wants procurement section to cross check) anyway trace it.

8	Tashi Tobgay, UPD	Laptop set	Missing (handed by Suk Kumar), trace it
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Note: Procurement section to safeguard the assets please conduct physical verification in the agency for all the properties since the internal audit, used sampling for the physical check.

Annexure 3: Handing/Taking

Sl. No	Name	Assets	Remarks
1	Nawang Tashi, Engineer, Enggr. Division	Desktop computer	Handed to Pavitra, enggr. division (No Handing/Taking Note)
2	Engg. Division	Photocopy Machine (Konica Milton 215)	Found in dispatch Section but again no Handing/Taking Note
3	Bhim Bhadur Pradhan, Accts. Section	Computer Desktop Revolving Chair Pedestal (Art-131) Printer Heater Stand Fan Extension cord 4 way socket Steel Trunk (40"x24"x24") Panel Heater	Handed to Tshering Dema, one Window, bill payment counter. (update the properties in her name)
4	Yeshey Wangdi, Dy. EE (Envn. Division)	Desktop Computer Fax Machine Desktop Computer (360)	Found with Ugyen Yangzom (No Handing/Taking Note) Handed to Sonam Tshewang (No Handing/Taking Note)
5	Jigme Wangmo, land Section	Desktop Computer (360) Desktop Computer (set)	Handed to Dorji Wangdi, Land section (No Handing/Taking Note) Handed to Thinley Norbu, UP. (No Handing/Taking Note)

6	Kinzang, Land Section	Desktop Computer (380)	Handed to Dechen, Land section without proper handing/Taking Note
		Desktop Computer (3020)	Handed to Sonam, Land Section (No Handing/Taking Note)