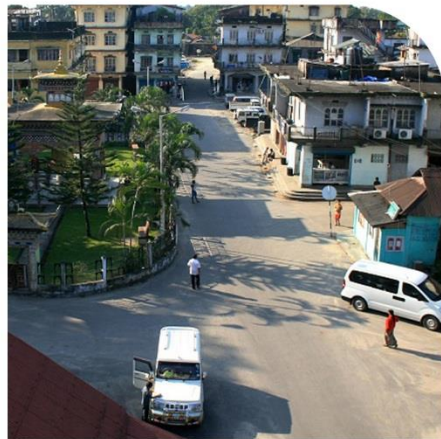


རྒྱལ་ཁབ་ཕྱི་སྲིད་འཛིན་ཁུངས་



# Revenue Collection & Management in Thromdes



May 2018

Performance Audit Report

## **DISCLAIMER NOTE**

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). The review was confined to revenue collection and management in the Thromdes. The audit was based on the audit objectives and criteria determined in the audit plan and programme prepared by the Royal Audit Authority and the findings are based on the information and documents made available by the Thromdes.

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



རྒྱལ་གཞི་རྒྱུ་ལྷན་ཁོ་སྐོལ་འཛིན།  
**ROYAL AUDIT AUTHORITY**  
*Bhutan Integrity House*

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



RAA/DPCA(TAD/PA-RM Thromde)/2017-2018/1493

25<sup>th</sup> May 2018

Dasho Thrompon  
Thromde  
Gelephu, Phuentsholing, Samdrup Jongkhar and Thimphu

**Subject: Performance Audit Report on Revenue Collection and Management in Thromdes**

Sir,

Enclosed herewith please find the **Performance Audit Report on ‘Revenue Collection and Management in Thromdes’** covering the period 01.07.2012 to 30.06.2017. The Royal Audit Authority (RAA) conducted the audit under the mandate bestowed by the Constitution of Kingdom of Bhutan and the Audit Act of Bhutan 2006. The audit is conducted as per the International Standards of Supreme Audit Institutions on performance auditing (ISSAI 3000). The overall objective of the audit was to assess the efficiency and effectiveness of revenue collection and management in the Thromdes.

The report has been prepared based on our reviews of the available documents, analysis of data, and discussion with relevant officials of the Thromdes, Department of Industry (DoI), Department of National Budget (DNB), Department of Public Accounts (DPA), Ministry of Works and Human Settlement (MoWHS) and National Land Commission Secretariat (NLCS). The report contains positive initiatives, shortcomings and deficiencies as well as recommendations aimed at improving the system.

The draft report was issued on 16<sup>th</sup> March 2018 to the respective Thromdes and NLCS for factual confirmation, comments and feedbacks. Responses received have been incorporated as well as appended in the report as appendix. The report also contains a set of recommendations, which are intended to address the shortcomings and deficiencies thereby enhancing efficiency and effectiveness of revenue collection and management in Thromdes.

In line with the directives of the Parliament, the RAA has instituted a system to fix the accountability on the officials responsible to implement recommendations provided in the Performance Audit Reports. Therefore, we would request the Thromdes and other agencies responsible for implementation of each recommendation to submit duly completed and signed Accountability Statement (attached) to the RAA. **In the event of non-submission of the Accountability Statement, the RAA shall fix the responsibility for implementation of the recommendations on the Head of the Agency.** The RAA will follow up implementation

*“Every individual must strive to be principled. And individuals in positions of responsibility must even strive harder.”  
- His Majesty the King Jigme Khesar Namgyel Wangchuck*

of the recommendations based on the Accountability Statement and failure to comply will result in taking appropriate actions which may include suspending audit clearances to the accountable official(s).

**The RAA would therefore appreciate receiving a Management Action Plan Report for implementation of audit recommendations with definite timeframe on or before 30<sup>th</sup> August 2018 along with the signed Accountability Statement.**

We take this opportunity to acknowledge the officials of the Thromdes, MoWHS, NLCS, DoI, DNB, and DPA for rendering necessary support and co-operation extended during the audit.

Yours sincerely,



(Tshering Kezang)

**Auditor General of Bhutan**

**Copy to:**

1. Hon'ble Lyonchhen, Royal Government of Bhutan, Thimphu;
2. Hon'ble Gyalpoi Zimpon, Office of Gyalpoi Zimpon, Thimphu;
3. Hon'ble Speaker, National Assembly of Bhutan, Thimphu;
4. Hon'ble Chairperson, National Council of Bhutan, Thimphu;
5. Hon'ble Opposition Leader, National Assembly of Bhutan, Thimphu;
6. Hon'ble Chairperson, Public Accounts Committee, National Assembly of Bhutan, Thimphu (enclosed five copies);
7. Hon'ble Minister, Ministry of Works and Human Settlement;
8. Hon'ble Minister, Ministry of Finance;
9. Hon'ble Secretary, Ministry of Works and Human Settlement;
10. Hon'ble Secretary, Ministry of Finance;
11. Hon'ble Secretary, National Land Commission Secretariat;
12. Executive Secretary, Gelephu, Phuentsholing, Samdrup Jongkhar and Thimphu Thromde;
13. Office copy; and
14. Guard file.

*"Every individual must strive to be principled. And individuals in positions of responsibility must even strive harder."*  
- His Majesty the King Jigme Khesar Namgyel Wangchuck



## MANAGEMENT ACTION PLAN REPORT

Recon No.	Audit Recommendation in brief	Action Taken or To be Taken	Estimated Implementation Date	Estimated Completion Date	Responsibility Entrusted to:	
					Name & Designation	EID no.
4.1	Thromdes should maintain comprehensive registry of sources of revenue					
4.2	Thromdes should formulate strategies towards financial sustainability					
4.3	Ministry of Finance (MoF) in coordination with Thromdes should prepare grant phase out plan					
4.4	Thromdes should develop revenue enhancement strategy					
4.5	Thromdes should strengthen internal controls					
4.6	MoF and Thromdes should review and improve financial reporting framework					
4.7	Thromdes should strengthen expenditure control mechanisms					
4.8	Thromdes should devise strategies to encourage taxpayers to pay taxes on time					
4.9	Thromdes should consider revision of taxes, fees and charges					
4.10	Thromdes should exercise due diligence and prudence in the management of government land					
4.11	Thromdes should institute mechanism to ensure equality and uniformity in application of taxes, charges, fees, etc.					
4.12	Thromdes should have realistic staffing plan					

4.13	Thromdes concerned should deposit the amount not accounted					
4.14	Thromdes concerned should vigorously follow- up the outstanding revenue					

## ACCOUNTABILITY STATEMENT

### PERFORMANCE AUDIT ON REVENUE COLLECTION AND MANAGEMENT IN THROMDES

No.	Recommendations	Personal Accountability		Supervisory Accountability	
		Name & Desig.	EID No.	Name & Desig.	EID No.
4.1	Thromdes should maintain comprehensive registry of sources of revenue				
4.2	Thromdes should formulate strategies towards financial sustainability				
4.3	Ministry of Finance (MoF) in coordination with Thromdes should prepare grant phase out plan				
4.4	Thromdes should develop revenue enhancement strategy				
4.5	Thromdes should strengthen internal controls				
4.6	MoF and Thromdes should review and improve financial reporting framework				
4.7	Thromdes should strengthen expenditure control mechanisms				
4.8	Thromdes should devise strategies to encourage taxpayers to pay taxes on time				
4.9	Thromdes should consider revision of				

	taxes, fees and charges				
4.10	Thromdes should exercise due diligence and prudence in the management of government land				
4.11	Thromdes should institute mechanism to ensure equality and uniformity in application of taxes, charges, fees, etc.				
4.12	Thromdes should have realistic staffing plan				
4.13	Thromdes concerned should deposit the amount not accounted				
4.14	Thromdes concerned should vigorously follow-up the outstanding revenue				

(s/d)

**Executive Secretary**

## TITLE SHEET

1. Title of the Report	:	Performance Audit of Revenue Collection and Management in Thromdes
2. AIN	:	15086
3. Audited Entities	:	Gelephu Thromde
	:	Phuentsholing Thromde
	:	Samdrup Jongkhar Thromde
	:	Thimphu Thromde
4. Schedule of Audit	:	September 28, 2017 – December 15, 2017
5. Audit Team	:	1. Kinley Zam, Sr. Audit Officer
	:	2. Samdrup Dolma, Audit Officer
	:	3. Dhendup Tshering, Asstt. Audit Officer
	:	4. Dechen Wangmo, Asstt. Audit Officer I
	:	5. Leki Seldon, Auditor II
6. Supervisor	:	Sonam Wangmo, Offtg. Asstt. Auditor General
7. Overall Supervisor	:	Chimi Dorji, Deputy Auditor General



## ACRONYMS AND ABBREVIATIONS

AIN	Audit Identification Number
BUDP	Bhutan Urban Development Project
DCR	Development Control Regulation
DNB	Department of National Budget
DoI	Department of Industry
DPA	Department of Public Accounts
FMM	Financial Management Manual 2016
FY	Financial Year
FYP	Five Year Plan
G2C	Government to Citizen
ISSAI	International Standards of Supreme Audit Institution
LG Act	Local Government Act, 2009
MoEA	Ministry of Economic Affairs
MoF	Ministry of Finance
MoWHS	Ministry of Works and Human Settlement
NICF	National Internal Control Framework
NLCS	National Land Commission Secretariat
RAA	Royal Audit Authority
RAM	Revenue Accounting Manual 2004
RGoB	Royal Government of Bhutan
RMS	Revenue Management System
RSTA	Road Safety and Transport Authority
SOP	Standard operating Procedures
Sq ft	Square foot
Sqm	Square metre
TAT	Turn Around Time
TFP	Thromde Finance Policy 2012
VTI	Vocational Training Institute

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## EXECUTIVE SUMMARY

The Royal Audit Authority (RAA) had conducted the “Performance Audit on Revenue Collection and Management in Thromdes” as mandated by the Constitution of the Kingdom of Bhutan and Audit Act of Bhutan 2006. The audit was conducted following Performance Audit Guidelines, which is in line with the International Standards of Supreme Audit Institutions (ISSAIs). The overall objective of the audit was to assess the efficiency and effectiveness of revenue collection and management. In order to achieve the overall objective, the sub-objectives set are:

- i) To assess risk management, governance and control over the revenue management process; and
- ii) To ascertain the correctness and timeliness in revenue assessment, collection and accountal.

The Performance Audit was conducted in four class A Thromdes namely, Gelephu, Phuentsholing, Samdrup Jongkhar and Thimphu covering the period 01.07.2012 to 30.06.2017. Although the principal agencies were the Thromdes, the audit team had also visited Department of Public Accounts (DPA), Department of National Budget(DNB), Department of Industry (DoI), Kuensel, Ministry of Works and Human Settlement (MoWHS) and National Land Commission Secretariat (NLCS) for additional information.

Article 22 of the Constitution of the Kingdom of Bhutan mandates the Thromdes to “*facilitate direct participation of people in the development and management of their own social, economic and environmental well-being*”. With this, Thromdes have a developmental role in providing infrastructure and basic amenities, and promoting economic and social development thereby improving the quality of life of its residents. To fulfil the constitutional requirement, Thromdes are empowered to levy, collect, and spend the revenues and are provided with additional government grants.

To ensure that the funds received from Royal Government of Bhutan (RGoB) and tax revenues are managed judiciously and prudently, the Royal Audit Authority had decided to carry out the audit of revenue collection and management in Thromdes. Besides, there were repetitive past audit findings that required timely correction for improvement of the system and enhancement of the revenue generation.

During the course of audit, the RAA found positive accomplishments, which included introduction of customer care centers, facilitation of services through Government to Citizen system(G2C), setting toll free numbers in Phuentsholing and Thimphu Thromde, development of revenue application system in Gelephu Thromde and launch of grievance redressal system in Samdrup Jongkhar Thromde.

Notwithstanding the positive accomplishments, the RAA also observed deficiencies and shortcomings, of which some of the significant findings are summarized below:

- i) Thromdes lack complete, accurate and reliable central registry of sources of revenue.

- ii) Weak internal controls in Gelephu, Phuentsholing and Thimphu Thromde had resulted in non-accountal of revenues amounting to Nu. 20.169 million.
- iii) Inadequacy in Thromde land administration had resulted in encroachment of government land, unauthorized land lease, and unconfirmed land holdings leading to revenue leakage amounting to Nu. 27.045 million in Phuentsholing Thromde and Nu. 0.225 million in Thimphu Thromde.
- iv) Irregularities in the levy of vacant land tax, house tax, service charges, service and amenity fees, renovation and extension approval fees, water and sewerage charges, and lease rate had resulted in revenue loss and defeated the principle of equality and fairness.
- v) Thromdes lack strategies to achieve financial sustainability despite the government's policy of Thromde financial sustenance. No agreement was found drawn between Ministry of Finance and individual Thromdes indicating the phase out plan.
- vi) The Taxation Policy 1992 was never revised for last 26 years.
- vii) Thromdes have not acted upon past audit findings and implemented corrective actions.

The weaknesses were largely caused by the lack of strategic direction and drive to achieve financial sustainability, lack of institutional capacity, weak internal controls, and inadequate governance. Consequently, these had resultant non-accountal of revenues and injudicious expenditure leading to huge revenue loss and leakages.

Based on the audit findings, the RAA has provided 14 recommendations aimed at enhancing efficiency and effectiveness in revenue collection and management in the Thromdes. Some of the recommendations require Thromdes to

- a) maintain a comprehensive registry on sources of revenue,
- b) formulate strategy towards financial sustainability and prepare grant phase out plan,
- c) develop revenue enhancement strategy,
- d) propose revision of taxes, fees and charges,
- e) ensure equality and uniformity in application of taxes, charges, fees, etc., and
- f) strengthen internal controls.

The RAA hopes that Thromdes and related stakeholders will enhance efficiency and effectiveness in revenue collection and management considering the fact that revenue is the main source of finance for functioning of the Thromdes, it involves cash and the lapses noted can be corrected easily with commitment from the management.

## CHAPTER 1: ABOUT THE AUDIT

### 1.1. Mandate

The Royal Audit Authority conducted the “Performance Audit on Revenue Collection and Management in Thromdes” as mandated by the Constitution of the Kingdom of Bhutan and Audit Act of Bhutan 2006 under the following article and sections:

Article 25 (1) of the Constitution of the Kingdom of Bhutan and Section 3 of the Audit Act of Bhutan 2006 provide that “*There shall be a Royal Audit Authority to audit and report on the economy, efficiency, and effectiveness in the use of public resources*”; and

Section 38 (b) of the Audit Act of Bhutan 2006, under the ‘functions of the Royal Audit Authority’ stipulates the Authority shall, “*Conduct Performance Audit to ascertain and report on the economy, efficiency and effectiveness of the operations of agencies audited*”.

### 1.2. Audit Standards

This audit was conducted in accordance with the International Standards of Supreme Audit Institutions on performance auditing (ISSAI 3000). The RAA followed audit procedures as prescribed under the RAA’s Performance Audit Guidelines to maintain uniformity and consistencies of approaches in auditing.

### 1.3. Audit Objectives

The audit was conducted with an overall audit objective to assess the efficiency and effectiveness of revenue collection and management. The overall audit objective was bifurcated into the following sub audit objectives.

- i. To assess risk management, governance and control over the revenue management process; and
- ii. To ascertain the correctness and timeliness in revenue assessment, collection and accountal.

### 1.4. Audit Scope

The performance audit of revenue collection and management was carried out for the period covering 01.07.2012 to 30.06.2017 in Gelephu Thromde, Phuentsholing Thromde, Samdrup Jongkhar Thromde and Thimphu Thromde.

### 1.5. Audit Approach Applied

The audit approach applied is a combination of system-oriented audit approach and problem based audit approach.

Through this approach, the audit focused mainly on the assessment of tax/fees for the revenue generation and review of systems in place and documentations throughout the process of revenue collection and management in the Thromdes for system improvement.

These approaches were applied since there were several revenue related lapses reported in the past audits.

## **1.6. Limitations**

The audit was conducted emphasizing on the collection and management of revenue in Thromdes. Although expenditure control is an important aspect of revenue management, this audit did not cover the same because the component had been examined in the financial audits of the Thromdes. Therefore, in this report some of the significant issues reported in the previous financial audits are reflected to show inadequacies in expenditure control in the Thromdes. The audit findings and opinions expressed in this report are limited only to those records and information made available to the RAA and pictorial evidence collected during the field visits to four Thromdes.

## **1.7. Audit Methodology**

The following activities were carried out during the audit execution phase to gather data & information, analyse data and derive conclusions.

- i. Reviewed legislation, rules and regulations, government policies pertaining to revenue collection and management in Thromdes;
- ii. Visited MoWHS to obtain and confirm revenue collection information for the last five years of all four Thromdes and to enquire about revenue manual and revenue management system;
- iii. Visited DPA to obtain details on the non-revenue receipts issued to the Thromdes;
- iv. Visited DNB to collect information on budget proposal, approval and release to understand the budget and subsidy approval processes;
- v. Visited NLCS to cross-verify the Thromdes land holding records;
- vi. Reviewed Standard Operating Procedures (SoP), Human Resource Master Plan (HRMP), Organizational Development exercise report, Tshogde minutes, etc.;
- vii. Conducted walkthroughs, interviews, and document reviews;
- viii. Performed analysis of Segregation of Duties of revenue officials;
- ix. Calculated workload of revenue officials;
- x. Reconstructed electronic form of records on revenue collected based on physically available revenue receipts;
- xi. Physically verified the revenue receipts;
- xii. Carried out reconciliation of revenue receipt recorded in cashbook with physically available revenue receipts using IDEA<sup>1</sup> to ascertain short accountal;
- xiii. Carried out comparative analysis of non-revenue receipts issued by DPA against the recordings of the revenue receipt in the Thromdes using IDEA;

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<sup>1</sup> Interactive Data Extraction and Analysis (IDEA) is an auditing tool used by RAA for data analysis

- xiv. Analysed revenue collected against the expenditure and government subsidy for the last five years;
- xv. Compared inventory of land maintained in Thromde against land maintained in e-sakor system of NLCS;
- xvi. Carried out measurement of encroached government land in Thimphu Thromde with the help of surveyors from NLCS;
- xvii. Gathered pictorial evidences; and
- xviii. Reviewed past audit reports.



## CHAPTER 2: INTRODUCTION

The Royal Government of Bhutan operates as a unitary state with three tiers of government: Central, Dzongkhag/Thromdes and Gewog wherein Dzongkhag Tshogdu, Thromdes Tshogde and Gewog Tshogde function as local governments. The Constitution of the Kingdom of Bhutan established the local governments as elected and accountable bodies to “*represent the interests of local communities in the national sphere of governance*”.

In this way, Thromdes derive their mandate under Article 22 of the Constitution of the Kingdom of Bhutan to “*facilitate direct participation of people in the development and management of their own social, economic and environmental well-being*.” With this constitutional mandate, Thromdes have a developmental role, for which Thromdes partner with representatives of its urban communities to find sustainable means to provide infrastructure and basic amenities. Thus, Thromdes play a crucial role in promoting economic and social development to improve the quality of life of its residents.

Recognising the developmental role of Thromdes, the Constitution of the Kingdom of Bhutan require the RGoB to provide administrative, technical and managerial capacities and structures to support Thromde operations. Moreover, the Constitution stipulates requirements for the RGoB to provide adequate financial resources in the form of annual grants and subsidy to ensure financial sustainability of Thromdes. Thus to fulfil its constitutional responsibility, Thromdes are empowered to collect taxes, fees and charges, and spend the revenues at their discretion to provide infrastructure and basic amenities.

As Thromdes are dependent on subsidies and revenues to meet their expenses, it is important to ensure that the funds received from RGoB and tax revenues and the expenditures are managed judiciously and prudently. Besides, there were repetitive past audit findings that required timely correction for improvement of the system and enhancement of the revenue generation. Therefore, it is important that there is top management commitment and strategic direction, strong sense of responsibility and accountability, strong internal controls system, well defined procedures, and complete documentation and record keeping in the collection and management of revenues.

Thus, recognising the impact of revenues on Thromde operations to deliver social services, improve quality of life and enhance economic prospects of the community, the RAA had decided to carry out the audit of Revenue Collection and Management in Thromdes.

### 2.1. Thromde Overview

Thromdes are classified as either Class A or Class B depending on the population, density of population, total area, revenue generation, and trade and commerce significance. Presently there are four Class A Thromdes in Bhutan namely Gelephu, Phuentsholing, Samdrup Jongkhar and Thimphu.

In Thromdes, Thromde Tshogde is the highest decision making body empowered by the Local Government Act 2009 (LG Act 2009). Thromde Tshogde comprises seven to 10 elected members, headed by a Thrompon. Thromde Tshogde is empowered to formulate

policies related to Thromde operations, administer and manage government land, approve local area plan, facilitate planned growth, frame and enforce rules for health, safety and wellbeing of the residents, and to levy taxes, fees and charges.

Thromdes function administratively through various divisions. Thromde administration is staffed by civil servants and other employees. Thromde administration is headed by the Executive Secretary who is accountable to the Thrompon.

## 2.2. Legal framework

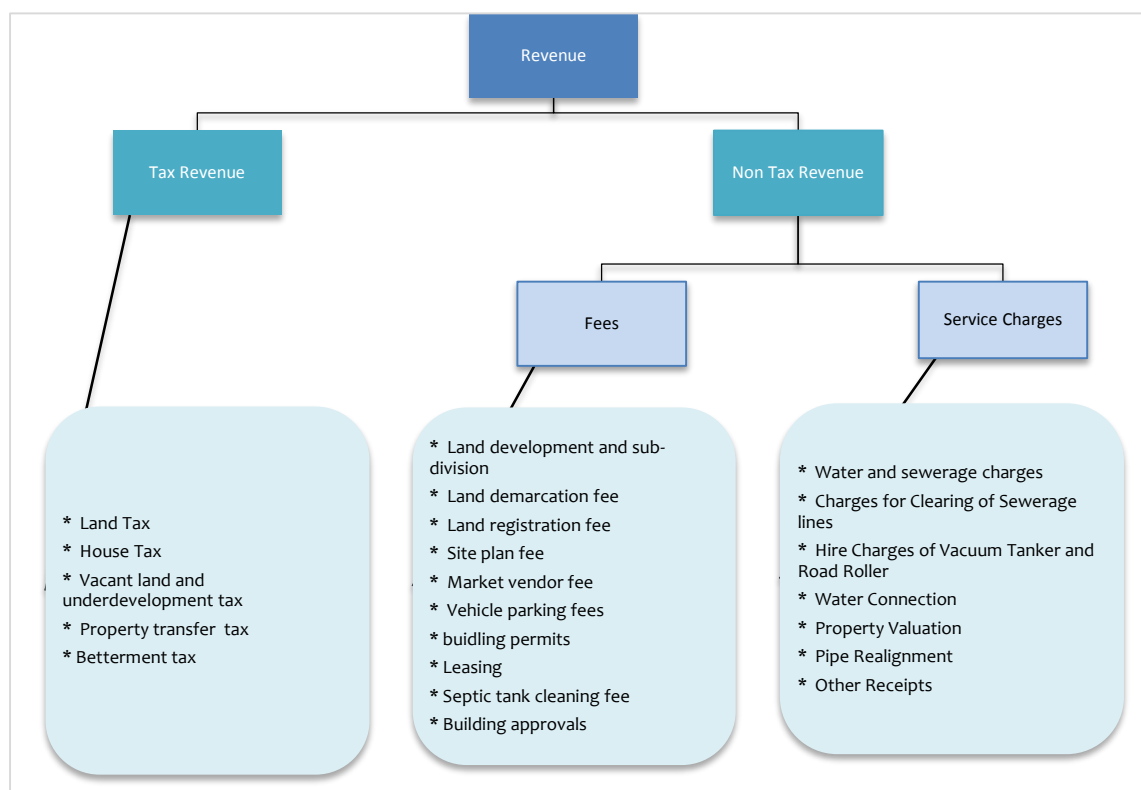
Thromdes derive their mandate from Article 22 of the Constitution of the Kingdom of Bhutan and is “*Entitled to levy, collect, and appropriate taxes, duties, tolls, and fees in accordance with such procedure and subject to limitations as may be provided for by Parliament by law*”.

The overall governing legislation for Thromdes is the LG Act 2009 outlining the establishment, elections of representations, functioning and financial autonomy of Thromdes. Thromde Rules 2011 is the subordinate legislation which prescribes detailed procedure to implement the provisions of LG Act 2009.

## 2.3. Revenue Collection and Management

Thromdes generate revenue from the provision of a wide-range of activities and services. The revenue sources – taxes, fees and charges – which Thromdes are mandated to raise comprise of tax revenue and non-tax revenue and the components under each type of revenue are detailed in Figure 1.

**Figure 1: Sources of revenue in Thromdes**



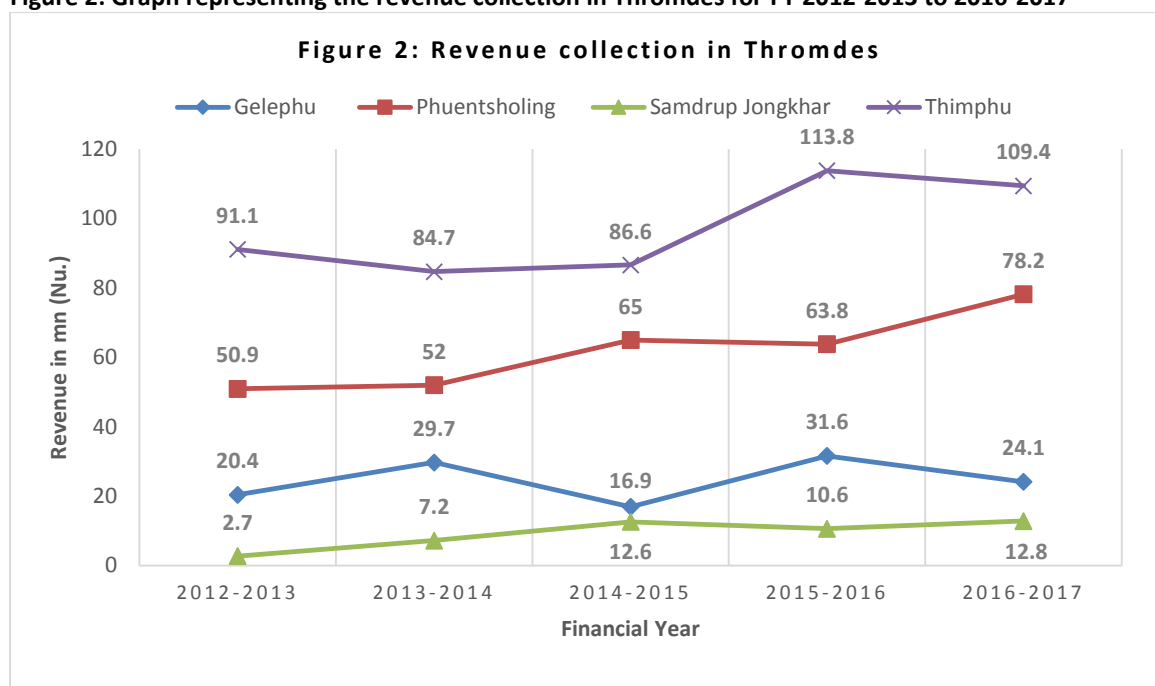
The total revenue collection for financial year 01.07.2012 to 30.06.2017 for the Thromdes is as depicted in Table 1.

**Table 1: Total revenue collections in Thromdes**

Thromde	Amount (Nu.in millions)
Gelephu	122.94
Phuentsholing	310.16
Samdrup Jongkhar	46.23
Thimphu	485.85
<b>Total</b>	<b>965.18</b>

The trend of the revenue collected for financial year (FY) 01.07.2012 to 30.06.2017 is as given in Figure 2.

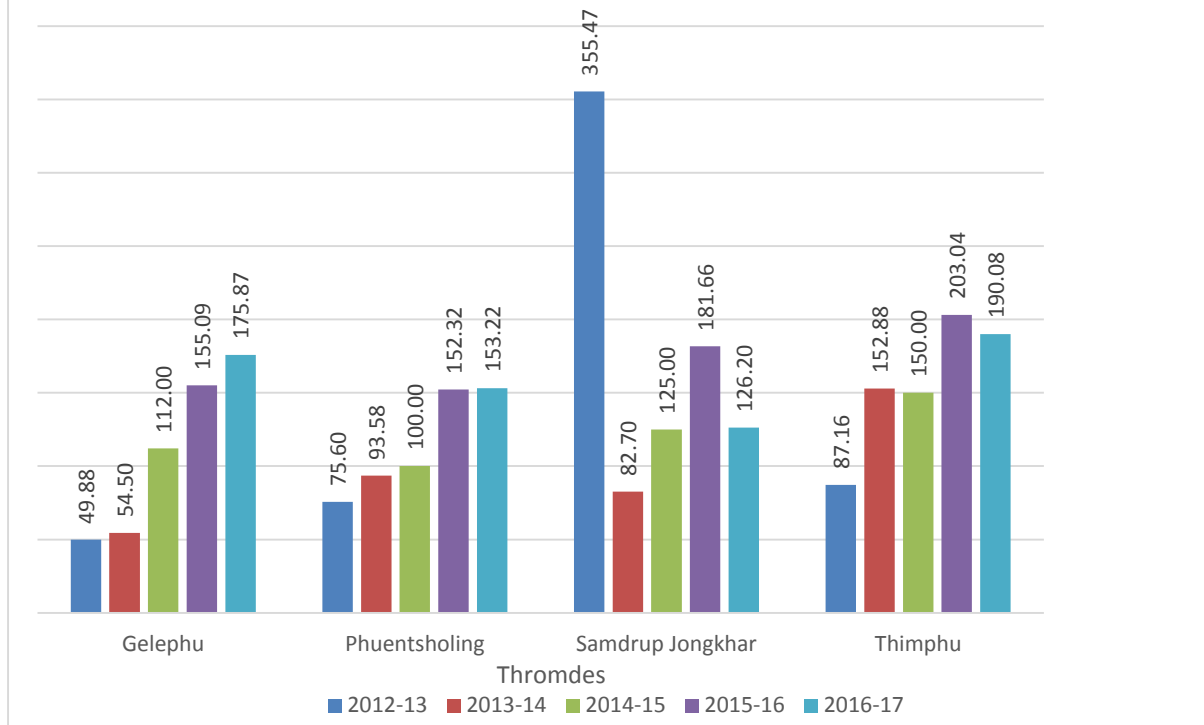
**Figure 2: Graph representing the revenue collection in Thromdes for FY 2012-2013 to 2016-2017**



Unlike other government agencies, Thromdes have the authority over management and utilization of the revenue generated from areas marked under their jurisdiction in pursuant to the LG Act 2009.

Apart from revenue collected by Thromdes, RGoB also provide subsidy to cover the revenue gap to meet increasing expenditure with the expansion of developmental activities. The subsidy granted to four Thromdes for financial year 01.07.2012 to 30.06.2017 is presented in Figure 3.

Figure 3: Subsidy given to Thromdes for FY 2012-13 to 2016-17



## CHAPTER 3: FINDINGS

This chapter is divided into two parts: Part 1 highlights the positive initiatives and Part 2 discusses the shortcomings and deficiencies in revenue collection and management.

### Part 1: Initiatives and Positive Developments

The RAA observed notable good practices and initiatives undertaken by the Thromdes to improve revenue collection and management processes that are worth mentioning in this report. These initiatives and good practices are summarized below:

- a) Thromdes had leveraged on information technology to deliver some of their services through G2C portal;
- b) Thromdes had established customer care centers;
- c) Gelephu, Phuentsholing and Thimphu Thromde have defined standard operating procedures for service delivery;
- d) Phuentsholing and Thimphu Thromde have started implementing Revenue Management System to replace the old practice of excel data and manual work;
- e) Gelephu Thromde have developed an application system for property taxes with in-house capacity to automate the computation of the taxes and accordingly account for the taxes collected;
- f) Gelephu Thromde had developed revenue manual with in-house capacity;
- g) Phuentsholing Thromde had met their recurrent expenditure from revenue collected for FY 2012-2013 to 2015-2016;
- h) Thimphu Thromde had developed smart water billing app with the ability to read and print the bill immediately; and
- i) Samdrup Jongkhar Thromde had developed myCity application system for grievance redressal.

### Part 2: Shortcomings and deficiencies

The RAA's review and analysis of the available documents and information on revenue collection and management in Thromdes for the period 01.07.2012 to 30.06.2017 revealed various areas which require further improvements. These are discussed below:

#### 3.2.1 Revenue Assessment, Collection and Accountal

##### 3.2.1.1. Incomplete central registry of sources of revenue

Property taxes and service charges constitute a substantial portion of Thromdes' revenue and thus, it is only appropriate that Thromdes maintain a registry of taxpayers in order to levy and collect correct property taxes and related service charges as mandated by law. A central taxpayers' registry will enhance visibility of Thromdes' tax/revenue base which will facilitate accurate revenue projections, and ease of tracking and follow-up of outstanding taxes and



charges. Therefore, collection and management of such revenue sources hinges on a registry of taxpayers that Thromdes cannot and should not do without. It is presumed that Thromdes will have a taxpayers' registry along with other relevant details for tax assessments to determine taxes owed.

Accordingly, Thromdes have attempted to maintain a central registry (master database) of taxpayers who are liable to pay land tax, house tax and related service charges but the registry data is not accurate and complete. Further, the quality and fitness of registry data is questionable as the information confidence is low even within officials in all the Thromdes. Inadequate maintenance of property inventory was a cause of concern raised in previous audit reports too (AIN<sup>2</sup> 12608, 14732).

Furthermore, there is a need to update the Thromde land registry with that of one maintained at NLCS. The RAA conducted a data analysis of land registries maintained at individual Thromde and NLCS which showed that there are inconsistencies in the data. As given in Table 2, the records are different as the records are not synchronised.

**Table 2: Total land holdings with National Land Commission Secretariat and with Thromdes**

Thromdes	Total land holdings recorded with NLCS	Total land holdings recorded with Thromde
Gelephu	3,529	3,563
Phuentsholing	2,500	2,352
Samdrup Jongkhar	740	717
Thimphu	6,918	7989

Even though there were some attempts to maintain the registry of taxpayers, Thromdes have not maintained inventory on tax and fee sources such as water meters, sewerage connections, building constructions and renovations, leased properties, etc. Thus, Thromdes had incomplete registry of sources of revenue.

Although efforts were being made to develop and maintain the database through surveys, the responsibility and accountability to maintain a central registry is not clearly identified and there is lack of synchronization within line divisions and with NLCS (for land records) to maintain and update the registry. All of these have led to incomplete and inaccurate tax/revenue information database.

As a result, Thromdes are at risk of potential loss from uncollected revenues due to their inability to carry out tax assessments and track tax payers.

**The NLCS explained that the mismatch of land holdings between NLCS and the Thromdes could be due to the following reasons:**

- differences in date and time of data acquisition;
- pending thram release due to various issues;
- non-receipt of the updated records by the Thromdes from the NLCS;
- land not measured during NCRP due to disputes and court cases; and
- continuous land transactions.

**The NLCS further stated that the land records maintained by the NLCS shall be treated**

<sup>2</sup> Audit Identification Number is a unique identifier assigned to an audit report

**final and binding in case of any discrepancies.**

**The Thimphu Thromde admitted to having poor and inconsistent inventory registry. The Thimphu Thromde provided a list of sources of revenue which is incorporated in the Revenue Management System and assured that the complete inventory will be updated by 31<sup>st</sup> December, 2018.**

While the RAA acknowledges the causes of land record data mismatch, the NLCS and the Thromdes should ensure a single source of information through integration of e-sakor data in the Thromdes' database. Furthermore, the Thromdes should continue their efforts to maintain accurate, comprehensive, reliable and up-to-date central registry.

### 3.2.1.2. Revenue leakage as result of inadequate administration

During the course of auditing, the RAA learnt that there are cases of state land being occupied by individuals without any lease rent being paid by them in two Thromdes, Phuentsholing and Thimphu. Consequently, Thromdes have lost revenues on account of state land being occupied without any rents/fees.

#### a. Encroachment of government land in Phuentsholing and Thimphu Thromde

On review of the minutes of the Land Committee Meeting of the Thromde and related documents, the RAA learnt that there were cases of state land being occupied by the individuals in Phuentsholing and Thimphu Thromde. It was noted that there were 73 such cases in Phuentsholing Thromde and four cases in Thimphu Thromde. The land parcels were used for storage, parking, garage and rented out for commercial purposes.

Section 61 (g) under the *"Powers and Functions of the Thromde Tshogde"* of the LG Act 2009 clearly stipulates that, *"Thromde Tshogde shall administer and manage all government land falling within the jurisdiction of Thromde and register in the name of concerned Thromdes in accordance with the Land Act and approved local area plan"*. However, the Thromdes had neither resolved the matter nor imposed lease rents on the occupied state land.

The RAA had worked out the total revenue forgone on account of lease rents not collected as a result of Thromdes' inaction. Phuentsholing and Thimphu Thromde had lost revenue amounting Nu. 8,396,709.42 and Nu. 225,246.52 respectively as shown in Table 3 when calculated for financial year 2016-2017. The calculation is carried out only for one recent financial year due to non-availability of records on the date of occupation. The details of the working is given in Annexure I and II.

**Table 3: Total revenues forgone on account of lease rent not collected for one year**

Thromdes	Occupied state land (Sq ft)		Applicable Annual Lease Rent (Nu)		Total Rent Foregone(Nu) (A+B)
	Residential	Commercial	Residential (A)	Commercial (B)	
P/ling	283,309.24	166,194.36	1,416,546.22	6,980,163.204	8,396,709.42
Thimphu	9,221.00	8,957.07	46,105.00	179,141.52	225,246.52

**Note:** Lease rents: Residential rate = Nu. 5/Sq ft

Commercial rate= Nu. 42 & 20/ Sq ft for Phuentsholing Thromde & Thimphu Thromde respectively

The lack of prudence exercised by the Thromdes had resulted in loss of revenue for the Thromdes.

**The Phuentsholing Thromde responded that the 338 encroachment cases amounting to Nu. 12,752,818.17 worked out by RAA initially is based on the outdated list before National Cadastral Resurvey Program (NCRP). The Thromde explained that the Thromde had provided the outdated list as the Thromde had not updated the list post-NCRP. The Thromde had then scrutinised the encroachment list in the draft report and clarified that most of the issues were resolved during NCRP. The Thromde had now provided the updated list with 73 cases amounting to Nu. 8,396,709.42 which are presently deemed as encroachment into state land due to established activities and overlapping structures into state land. Phuentsholing Thromde assured that they are in the process of resolving these issues in accordance with the directive issued by the NLCS.**

**Thimphu Thromde had notified the defaulters to demolish the structures as per DCR 2016 on 8<sup>th</sup> May 2018.**

With regard to the cases in Phuentsholing Thromde, the RAA has accordingly updated the observation and the annexure. The Thromdes concerned should resolve the cases highlighted in this report and intimate RAA. Further, the Thromdes should identify and be aware such encroachment cases and take appropriate actions in the future.

#### **b. Land occupied without approval in Phuentsholing Thromde**

The noodle factory popularly known as “Fin factory” in Phuentsholing Thromde has been established in 1974. On review of the related documents, the RAA noted that the land occupied by the manufacturing unit is neither registered nor leased since its occupation in 1974. The taxes/ lease rents were due from the date of occupation. The area occupied by the manufacturing unit is 8150 sq.ft<sup>3</sup> as shown in Figure 4.

**Figure 4: Total area occupied by ‘Fin factory’ in Phuentsholing**



<sup>3</sup> Square feet

From the documents, it was learnt that the owner of the firm claims to have lost the original documents including the Kasho from the Ministry of Economic Affairs (MoEA) erstwhile Ministry of Trade & Industry and Forest during the flood in the year 2000. However, Phuentsholing Thromde does not have a copy of the same Kasho in record. Due to the lack of prudence and consideration for rationality to solve the issue by the relevant agencies, the government has lost revenue to that extent on account of either lease rents or land tax as worked out in Table 4 and 5.

**Table 4: Lease Rent liable for payment from 1974 to 2017 in Phuentsholing Thromde**

Year	Area (Sq ft)	No. of Years	Lease Rate per Sq ft. (Nu.)	Lease Rent (Nu.)	Remarks
1974	8,150	0.833	5	3,395.83	(Mar-Dec)
1995-2017	8,150	23	5	937,250.00	
<b>Total</b>				<b>940,645.83</b>	

**Table 5: Land Tax liable for payment from 1974 to 2017 in Phuentsholing Thromde**

Year	No of years	Area (Sq ft)	Rate (Nu.)	Total Tax (Nu.)
1974-1991	17	8,150	0.1	13,855.00
1992-2017	26	8,150	0.5	105,950.00
<b>Total</b>				<b>119,805.00</b>

If the unit was to levy land tax, the manufacturing unit has the outstanding land tax of Nu. 119,805.00 and if the unit was to charge lease rents, it has the outstanding lease rents amounting to Nu. 940,645.83.

Due to non-levy of land tax/lease rent the Thromde had lost substantial amount of revenue affecting the financial sustainability of the Thromde.

The NLCS vide letter no NLC/ULD (09)/2014/384 dated 04/09/2014 had advised the Thromde to take up the matter as per the provisions of the Land Act of Kingdom of Bhutan 2007 and approved structural plan.

Accordingly, the Thromde had notified the owner to get the lease agreement executed for the area occupied @ Nu. 42/Sq ft. However, as of the date of audit, the lease agreement was not drawn and the Thromde had also not taken any further course of action. Moreover, the operation of the factory is also in contradiction to the land-use reflected in the Thromde Structural Plan because as per the Structural Plan the area where Fin Factory is located is designated for residential buildings.

**The NLCS stated that if the Phuentsholing Thromde and the relevant stakeholder applies for User Right Certificate (URC) or process for leasing the land, the NLCS will process the same as per the Land Act.**

**The Phuentsholing Thromde, in their response, acknowledged that the occupied area is neither on leasehold nor on freehold. The Thromde assured that the issue will be dealt immediately as per the Land Act and other relevant laws.**



The Phuentsholing Thromde should resolve the issue at the earliest, intimate the RAA and recover the applicable land tax or lease rent.

### c. **Unauthorised land lease in Phuentsholing Thromde**

The Road Safety and Transport Authority (RSTA) has been managing and administering the Government Workshop of erstwhile Bhutan Government Transport Service. On review of the related documents, it was observed that the land measuring 99,794 sq.ft has been leased out to M/s Rabten Engineering Workshop by the RSTA since 1991 and further extended in 2012 till 2020.

**Figure 5: Area leased out by RSTA to M/s Rabten Engineering Workshop**



Section 61 (g) under the “*Powers and Functions of the Thromde Tshogde*” of the LG Act 2009 clearly stipulates, “*Thromde Tshogde shall administer and manage all government land falling within the jurisdiction of Thromde and register in the name of concerned Thromdes in accordance with the Land Act and approved local area plan*”.

Further, section 186 of the Land Act 2007, stipulates, “*The Local Authority shall prescribe the rules on leasing the Government land as well as approve leasing of Government land subject to confirmation by the Commission.*”

The Phuentsholing Thromde had written several letters to the RSTA to hand over the leasehold as the Thromde is mandated to administer and manage the state land under its jurisdiction. In response to this, the RSTA had expressed their regrets that the land is required for development of bus terminal for inter-regional bus services to India and Bangladesh, which was also found to be falling under Institutional Precinct as per Phuentsholing Thromde Structural plan, apparently not feasible for the construction of terminal of inter-regional bus services.

Upon confirmation with NLCS, the RAA noted that discussion on this matter was held in the 48<sup>th</sup> National Land Commission Meeting conducted on 3<sup>rd</sup> November 2017. On review of the

minutes of the meeting, it was learnt that the Commission had deferred the approval of the User Right Certificate to the RSTA and asked the RSTA to annul the lease agreement drawn with M/s Rabten Engineering Workshop and hand over the land to Thromde besides recovering lease rent difference of Nu. 17,707,584.00 resulted from wrong application of lease rents worked out as per the approved lease rent of Rules and Regulations for Lease of Government Reserved Forest Land & Government Land 2009.

Consequently, the Phuentsholing Thromde had lost substantial amount of revenue on account of lease rents. Since leasehold is one of the main sources of revenue for Thromde, it would render it difficult for Thromde to sustain financially if every agency leases out and collect lease rents individually while holding the Thromde responsible for development activities in the area.

**The NLCS agreed with this observation.**

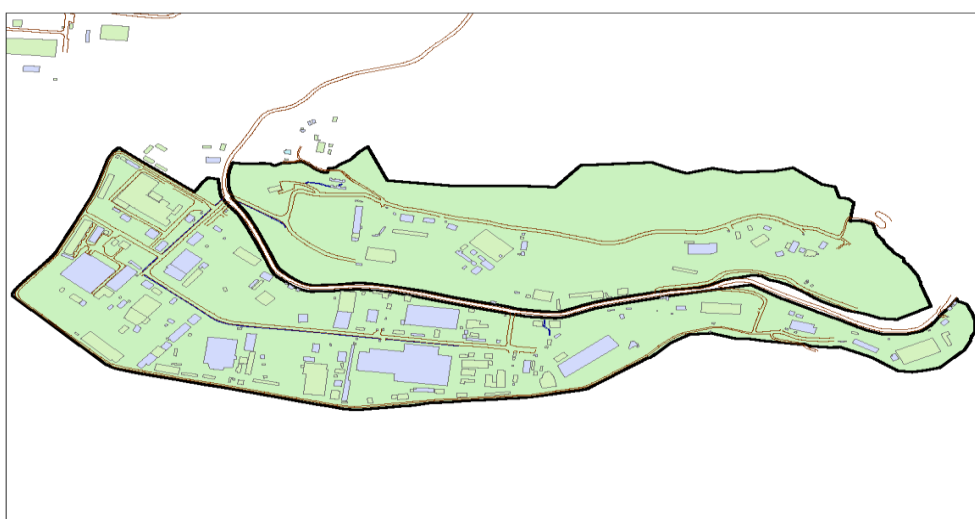
**The Phuentsholing Thromde responded, “RSTA has still not hand over the leasehold of M/s Rabten Engineering workshop to Thromde despite the decision of the 48<sup>th</sup> National Land Commission Meeting held on 3<sup>rd</sup> November 2017.”**

The Phuentsholing Thromde resolve this issue and take over the land from the RSTA and intimate RAA.

#### **d. Unconfirmed land holdings in Phuentsholing Thromde**

According to Phuentsholing Thromde, the total area of the Industrial Estate in Pasakha is measured as 188.18 acres as per the National Cadastral Resurvey Program. The map of the Pasakha Industrial Estate is as shown in Figure 6.

**Figure 6: Map of the Pasakha Industrial Estate in Phuentsholing Thromde**



As per Thromde’s record, the MoEA has registered land size of 70.1 acres in Pasakha Industrial Area while the Lag Thram issued on 15/06/06 with the DoI showed a total area of 103.71 acres registered in MoEA’s name. On review of the documents obtained from DoI, a total area of 113.62 acres was leased out to different industries by MoEA. On verification of

the total area of the land on which the land tax is being levied, the RAA observed that the Thromde had collected Nu. 1,524,817.80 starting from the year 2014 on account of land tax from MoEA for the registered land of 70.1 acres (3,049,635.65 Sq ft @ Nu. 0.50). While MoEA has been collecting lease rents from the industries for 113.62 acres, the Thromde had been levying land tax only on 70.01 acres.

Such variances in records is an indication of lack of coordination amongst relevant agencies and Thromde's inaction to resolve the issue.

**The NLCS stated in their response that the Lag Thram issued in 2006 showing total area of 103.71 acres registered in MoEA's name is invalid as 70.1 acres was measured and updated in the Thram during NSC. The NLCS further stated that during NCRP, the area measured was 188.18 acres and thus, the Thram was kept pending due to the excess land measured.**

**The Phuentsholing Thromde responded that the Thram was not issued to MoEA after the NCRP and the land tax levied is on the registered area of 70.1 acres. The Thromde conveyed that the tax arrears will be collected after the release of the Thram by NLCS. It was expressed that the NLCS had directed the Thromde to correct the area as per ground occupation and the area rectification will be processed after demarcation of the Industrial LAP.**

The Phuentsholing Thromde should expedite the area rectification and as expressed, the Thromde should collect the land tax arrears after the issuance of Lag Thram.

#### **e. Expired short term lease in Thimphu Thromde**

On review of the short term lease in Thimphu Thromde, the RAA learnt that a small portion of state land running parallel in between the houses and road located behind the Sunday market area has been leased out to 14 residents for a term of three years @ Nu. 20 per sq.ft with effect from 14/02/2014 to 14/02/2017. The residents had converted the leased land into parking space as shown in Figure 7 & 8.

**Figure 7 & 8: Conversion of land with expired lease into parking space**



On physical verification, it was noted that the structures are not dismantled by the Thromde as of date, yet Thromde had stopped collecting lease rents after the expiry of the agreement. On enquiry to the dealing official, the RAA was explained that the maximum period for the short term lease is three years and non-renewable thereafter.

While the parking space has benefitted the residents in that area, the Thromde had failed to enforce the legal stipulation of maximum period of the short term lease. In addition, the lease rents are not collected after the expiry of the lease agreement. The Thromde had not taken any further course of action to resolve the matter.

**The Thimphu Thromde in its response stated that the management will recommend to resolve the issue in the forthcoming Thromde Tshogde and intimate RAA.**

### **3.2.1.3. Irregularities in levy of taxes, fees and charges**

The Thromdes are mandated to collect taxes such as land tax, property tax, property transfer tax, betterment charges and vacant land and underdevelopment taxes as per the LG Act 2009 and levy service charges for providing services such as water supply, roads, street lighting, and sewerage and garbage collection as per Taxation Policy 1992.

The RAA verified if these taxes and service charges are levied uniformly to the public and noted the following.

#### **a. Vacant Land Tax**

The Thromdes are mandated to levy vacant land tax as per the LG Act 2009. Although, the rates for the vacant land taxes are not fixed as yet, the vacant land taxes are levied on the basis of land tax at a rate of 25% of the land tax in all the Thromdes.

On review of documents, the RAA observed that Thimphu Thromde had levied vacant land taxes (VLT) on some of the land owners while some were not levied indicating that the vacant land tax was not levied uniformly on the landowners. During the system walk through, the RAA observed that vacant land tax was collected from those who have paid in the preceding year since the tax payers have to produce the money receipt for the taxes paid in the past year during current payment of land and house tax. Upon production of the past year's receipt, if the vacant land tax was levied in the previous year and the same taxes for the present year is levied unless the occupancy certificate is being produced to authenticate the existence of the house while those who have not paid at all in the previous year escapes from paying the vacant land tax.

On analysis of the data extracted from revenue management system database of Thimphu Thromde with the details of taxes and charges collected as of February 2018 pertaining to the year(s) 2016 and 2017, it was noted that a total of 1,692 land holdings without structure/house had been levied vacant land tax amounting to Nu. 2,244,615.94 while a total of 241 land holdings without structure/house had not been levied vacant land tax amounting to Nu.



559,865.85 for two years as highlighted in Table 6. The details of 241 land holdings are shown in the Annexure III.

**Table 6: Numbers of land holding which are levied and not levied vacant land tax in Thimphu Thromde**

Year	No. of land holdings - VLT paid	Amount (Nu.)	No. of land holdings - VLT not paid	Amount (Nu.)
2016	1692	1,122,307.97	241	279,932.93
2017	1692	1,122,307.97	241	279,932.93
<b>Total</b>	<b>3,384</b>	<b>2,244,615.94</b>	<b>482</b>	<b>559,865.85</b>

This has happened due to the lack of comprehensive inventory on the land and house, consequently resulting into short collection of revenue to that extent. It can also be attributed to negligence of the revenue collection officials in Thimphu Thromde.

While Gelephu Thromde levies vacant land tax only in the core area, Phuentsholing Thromde levies in the core area and areas where basic amenities are provided indicating inconsistencies in application of vacant land tax.

**The Thimphu Thromde responded that the Thromde Tshogde during the 9<sup>th</sup> Tshogde decided to exempt 25% vacant land tax in E4 zones and traditional village with effect from 3<sup>rd</sup> January, 2018 as urban facilities were not provided in these areas. However, the Thromde assured that past collections will be verified and submitted to RAA within 30<sup>th</sup> June, 2018.**

As the cases pointed out in this report pertains to 2016 and 2017, the Thromde should verify and collect the applicable vacant land taxes, and intimate RAA by 30<sup>th</sup> June, 2018 as assured.

#### **b. House Tax**

As per the Taxation Policy 1992, the residential urban house and building taxes should be determined based on either minimum size of the apartment (area) or minimum space of apartment (no. of rooms). The commercial house tax should be determined on the use –shop, office or warehouse – and commercial unit should be calculated on a carpet area of 771 sq ft. The house and building taxes should be levied on the number of the units<sup>4</sup> in a house/building.

The RAA noted varying practices in classification of houses and buildings resulting in irregular application of tax. In Gelephu Thromde, all the units of the buildings/houses located in the core area has been classified for the commercial house tax while the all the units in the extended areas are classified for residential building/house tax irrespective of their use. For instance, in the core area, although the ground floor has been used as shops and the floors above are used for residential purposes, yet all the units are classified for commercial house

<sup>4</sup> Unit is defined as either a shop or a dwelling unit

tax. On the other hand, in the extended areas, despite having one or two shops in the ground floor, all the units are classified for residential house taxes.

Similarly, Samdrup Jongkhar Thromde had also classified all the units of the buildings/houses in the core area for commercial house tax and all the units of the buildings/houses in the extended areas for residential house taxes irrespective of their use.

The Phuentsholing Thromde had adopted the system of issuing “Property Ownership Certificate” mentioning the class of the units in a house/building to the house owners during the payment of house/building taxes in 2017. However, the recording of such data onto the system is not completed as of date. Therefore, uniformity pertaining to the house tax levied in Phuentsholing Thromde could not be ascertained.

In Thimphu Thromde, the house taxes are levied based on occupancy certificate which the house owners are required to obtain from the Thromde on an annual basis. Nevertheless, the system of having to obtain the occupancy certificate on an annual basis is not fully enforced by the Thromde. Therefore, those taxpayers turning up to pay the taxes without occupancy certificate are asked about the number of units in the building, number of bedrooms in a unit and if any space is being used for commercial or residential purpose and accordingly levy the taxes. It was solely left at the discretion of the taxpayers for the required information to determine the house/building taxes, without the comprehensive inventory. The practice of levying house tax solely based on taxpayers’ say is inappropriate and Thimphu Thromde should obtain accurate information through surveys.

This happened because of ambiguity in house classification without consideration of the use. Inadequate classification and absence of adequate required data on the houses and buildings, not only increases the risk of wrong application of the tax rates resultant from the wrong classification, the service charges can also be charged wrongly to the taxpayers as service charges are determined based on the classification.

**The Thimphu Thromde stated that the inconsistencies were due to inadequate information and manual collection. The occupancy certificate is generated from Revenue Management System which is directly linked to calculation of UHT and Services charges.**

While acknowledging tagging of occupancy certificate with house tax and service charges by some Thromdes, the Thromdes should adopt a uniform approach in classification of houses and buildings and apply applicable house taxes.

### **c. Service charges**

As per the Taxation Policy 1992, service charges for providing municipal services such as water supply, roads, street lighting and garbage collection should be charged in all urban areas where such services are available according to the class of the building or house. Therefore, service charges should be levied on available structures where services are provided.

On review of the documents and also on analysis of the data extracted from the revenue management system database of Thimphu Thromde as of February 2018 pertaining to the year 2016 and 2017, the RAA noted that although the aforementioned services were available to all the residents of Thimphu, charges were not levied on some houses and buildings. It was seen that while some taxpayers were charged with service charges, some taxpayers had paid only the house and building taxes without service charges. The service charges levied and not levied are as highlighted in Table 7. The details are shown in the Annexure IV.

**Table 7: Total number of buildings on which service charges are not imposed in Thimphu Thromde**

Year	No. of buildings – service charges imposed	No. of buildings – service charges not imposed
2016	2,474	127
2017	2,474	127

This occurred due to inadequacies in data processing in revenue management system wherein the calculation of service charges was not automated. It can also be attributed to lack of adequate attention by the revenue collection officials in Thimphu Thromde.

In the case of Gelephu Thromde and Samdrup Jongkhar Thromde, since the house is classified based on its location (core and extended) irrespective of the use, the service charges consequently has not been levied uniformly as the service charges are charged based on house classification.

The irregularities in levy of service charges had resulted in over and under collection of service charges from the residents.

**The Gelephu Thromde justified that the motive of developing a structural plan and subsequent precinct will be defeated if the charges are to be levied on the use. Therefore, the charges are levied as per the precinct despite the actual use of the buildings.**

**The Thimphu Thromde accepted that this had happened due to bulk upload made by the consultant where there was a check to be made in the input parameter about the structure availability and had subsequently left out some cases resulting in non-levy of service charges. The Thromde assured that the problem was rectified immediately. The Thromde will cross verify and the defaulters will be made to pay as per the actual services provided within December, 2018.**

There is a need to levy the charges uniformly as per the actual use of the units in the houses be it commercial or residential. Further, the Thimphu Thromde should verify and intimate the status to RAA by December 2018 as assured.

#### **d. Service & amenity fee of the new construction approval**

The service and amenity fees of the new construction approval for residential/institutional use and commercial/industrial use are Nu. 30/sqm<sup>5</sup> and Nu. 50/sqm of the built up area

<sup>5</sup> Square meter

respectively, as mentioned in the Development Control Regulations 2016 (DCR) of Thimphu Thromde. Likewise, the service and amenity fee for residential/institutional use is Nu. 10/sqm and for commercial/industrial use is Nu. 20/sqm as per DCR 2014 of Gelephu Thromde.

However, when the RAA randomly verified some of the new construction approvals accorded and service and amenity fees charged in Thromdes, it was observed that the portion of the ground floor used for commercial purpose in the extended areas are charged with the service and amenity fee for residential/institutional use for the whole built up area in Gelephu and Thimphu Thromde.

Gelephu Thromde stated that the service and amenity fee for the construction approval of the commercial building are charged with commercial fee. Despite this, the RAA noted an instance where the construction of hotel was charged with service and amenity fee for residential use @Nu.10/sqm instead of @Nu.20/sqm on the whole built up area of 2203.7 sqm resulting in loss of revenue amounting to Nu. 22,037.00

These occurred due to lack of prudence and non-compliance to the regulation in application of service and amenity fees creating disparities.

**Thimphu Thromde argued that since specific cases were not presented, no concrete reply was furnished, however, Thromde agreed to adhere to the findings while scrutinizing the drawing for proposed construction in future.**

#### **e. Renovation and vertical & horizontal extension approval fee in Thimphu Thromde**

Thimphu Thromde does not charge any fee for approving minor maintenance such as painting of walls, change of pipe fittings, change of flooring, etc. The vertical and horizontal extensions are charged as follows.

- The minimum scrutiny fee for extensions @Nu. 3,000.00 or Nu. 16.14/sqm whichever is more.

On verification of the few randomly selected renovation/extension approvals, the RAA noted a few instances where scrutiny fees were not uniformly applied for the renovation/extensions works of the buildings.

- While some construction of the staircase and emergency fire escape staircase has been accorded without any fees, some were charged Nu. 3,000 for the same.
- Despite the minimum scrutiny fees of Nu. 3,000, construction of few store/garage were approved charging scrutiny fees less than Nu. 3000.
- The service and amenity fees along with the scrutiny fees were found charged on some renovation works while some were charged only scrutiny fees.

A few instances are shown in case study 1.

### Case Study 1: Instances of inconsistencies in application of scrutiny fees

In order to further ascertain the uniformity on the application of the scrutiny fees on the renovation works carried out in Thimphu Thromde, the RAA visited two sites since there was a huge difference in the scrutiny fees charged on them. The scrutiny fees of the renovation of the building in Hongkong market (Figure 9) was charged Nu. 80,479.00, while the building in Changzamtog was charged only Nu. 3,000.00 even though the residential building is being converted into a hotel (Figure 10). The scrutiny fees for the renovation of the building in Hongkong market was worked out on the whole built up area @Nu.16.14/sqm along with service and amenity fees @Nu. 50/sqm while the one in Changzamtog was charged lumpsum amount of Nu. 3,000.00



Figure 9: Hongkong Market



Figure 10: Changzamtog



Figure 11: Core Area

**Horizontal  
Extension of  
the building**

The RAA further noted that, scrutiny fees was not charged for the horizontal extension done for this particular building in the core area indicating huge variation between the fees charged to the different house owners within Thimphu Thromde.



The lack of uniform application of scrutiny and service & amenity fees on the renovation/alteration works can be attributed to lack of clear provision and fee structure for the renovation/alteration works in the DCR. Absence of the clear provision and fee structure on the renovation works provided scope for exercising discretion and judgment by the individual official allowing opportunities for unintentional variances and favouritism leading to unfairness and inequality.

**The Thimphu Thromde agreed to verify the observations and take appropriate actions accordingly within 30<sup>th</sup> June 2018 besides incorporating necessary scrutiny, service and amenities fees in the DCR.**

As agreed, the Thimphu Thromde should ensure uniform application of scrutiny and service & amenity fees by incorporating clear fee structure in the DCR.

#### f. Sewerage charges

Sewerage charges levied on the residents of Phuentsholing Thromde and Thimphu Thromde is 50% of the water charges as a component in water bill. In Phuentsholing Thromde the sewer line connection is confined to only core area, the rest still resorting to conventional septic tank. Also, in Thimphu Thromde there are places such as Taba, Jungshina, Pamtsho, Hejo, Zilukha, Kawajangsa, Changangkha, Upper Motithang, Lower Motithang, YHS area, Babesa and Serbithang still not connected to sewer line.

On review of the water bills charged to residents of Thimphu and Phuentsholing Thromdes, the RAA noted that even those residents whose buildings have no sewer line connections are also charged 50% of the water bill as sewerage charges. Bills depicting instances of sewerage charges levied on the residents who do not have sewer line connection in Phuentsholing and Thimphu are shown in Figures 12 & 13 respectively.

**Figure 12: Sewerage charges without sewer line connection in Phuentsholing Thromde**

ROYAL GOVERNMENT OF BHUTAN  
PHU ENTSHOLING THROMD E  
Post Box # 02, Pe Ikhi Lam

(Water & Sewerage Service Charges Bill)  
Utility Bill for the Month of February 2017

Bill No. : Z900002018  
Bill Date : 01/03/2017  
Consumer No. : Z900014  
Meter No. : 47834  
Category : Domestic  
No of Units : 1  
House : Bldg. CI-III

Payment Status: N  
Due Date : 29/03/2017

Name of Consumer: Mrs. Kelzang Choden  
Address : Peopal Dara, Phuentsholing  
Billing Address : Peopal Dara, Phuentsholing

Meter Status : Connected

Previous Meter Reading		Current Meter Reading		Consumption for the month ( CUM )
Reading	Date	Reading	Date	
3140	24/01/2017	3267	24/02/2017	127

Utility Charges

1. Water Bill for the month	392.00
2. Sewerage Charges	196.00
3. Sewerage Connection	0.00
4. Solid Waste	0.00
<b>Total Bill for the month</b>	<b>594.00</b>
Outstanding	-
2% Penalty	-
<b>Net Amount Payable (Nu)</b>	<b>594.00</b>
Advance Balance	0.00

Note : Complain regarding any Municipal Services, please dial toll free No. 187.

Billing Incharge  
Municipal/City Corporation

Sewerage  
charges without  
sewer line

Levying sewerage charges without sewer connection is not only illogical but also unfair indicating non-uniform application taxes, charges and fees amongst the residents.

Figure 13: Sewerage charges without sewer line connection in Thimphu Thromde

(Water & Sewerage Service Charges Bill)

Bill For : December, 2017 Zone 2A- Meter Status: Metered  
 Bill No: TT/2018/69147 R. Jangsu/Hejo Payment Status: P  
 Bill Date: 01/01/2018 Due Date: 31/01/2018  
 Billing Address: Dratsang, Above Zuluha Fry School Meter No: 452001872  
 -Flat No. 2  
 Account No: Z200022 Category: Institutional(2 Unit(s))

Previous Meter Reading	Current Meter Reading	Consumption for the month (C U/M)
Reading: 7513 Date: 30/11/2017	Reading: 7587 Date: 31/12/2017	74

Utility Charges

1. Water Bill for the month	313.20
2. Sewerage Charges	156.00
Outstanding:	0
Penalty:	0
Net Amount Payable (Nu):	470

Billing Incharge  
Thimphu Thromde

Please pay your bill before due date to avoid 2% penalty. Any discrepancy in the bill amount, please contact Billing Cell at 334423.  
 Note: We have upgraded our water billing system to a new system where informations like owner's informations are requested to update the correct information at the time of bill payment to avoid any future complication.

Charges Name	Fixed Amount	Percentage
Sewerage		50
Meter Rent	0.00	

Category	Minimum	Maximum	Rate
Residential	0.00	20.00	2.900
	21.00	40.00	3.500
	41.00	99999.00	4.350
Commercial	0.00	20.00	2.900
	21.00	40.00	5.800
	41.00	99999.00	11.600
Institutional	0.00	20.00	2.900
	21.00	40.00	5.800
	41.00	99999.00	11.600
Industrial	0.00	20.00	2.900
	21.00	40.00	5.800
	41.00	99999.00	11.600

Payment Status: P--Paid, N--Not Paid

2/28/2018,

It was explained that the sewerage charges are imposed on the residents irrespective of the connection given to them on the condition that the residents can avail sewer tanker services free of cost once a year and additionally, in case of Phuentsholing Thromde, sewerage related service such as clearing of internal blockages are done free of cost by Thromde.

The charges imposed without availing services in order to ascertain another charge is not deemed appropriate and fair on the part of the residents. Further, there could be buildings neither connected to the sewer line nor availing free sewer tanker service from the Thromde every year.

**The Phuentsholing Thromde acknowledged the finding and agreed to sort out the cases of those who were levied sewerage charges unfairly. As an alternative the Thromde will also consult people's representatives and then resolve the issue once and for all.**

**The Thimphu Thromde responded that the reason for levying sewerage charges irrespective of having sewer line connection or conventional septic tank is because the Thromde is responsible to manage and maintain its safety and tidiness, besides providing one-time free vacuum tanker service in a year.**

While acknowledging the responsibility of the Thromde to provide vacuum tanker service, the RAA would like to reaffirm that the residents need to be charged based on the services availed by them.

### g. Water charges

Use of water is charged as per the rates approved by Thromde Tshogde and calculated as per the consumption. On review of the water bills in Thimphu Thromde, it was observed that water bills reflecting no water consumption are also charged at varying amounts as depicted in Figure 14. Non-consumption of water was mainly because of residents having private water source in addition to Thromde water source. Thus, when they have adequate water supply from private water source, they do not use the Thromde's water.

Figure 14: Water charges for no consumption

(Water & Sewerage Service Charges Bill)			
Bill For : December, 2017		Zone 2B- Yangchenphu Area	Meter Status: Metered
Bill No: TT/2018/67460		Payment Status: N	
Bill Date: 01/01/2018		Due Date: 31/01/2018	
Billing Address: Building/Flat No( 1 ) Sonam Tshering, Co Chakra Wati Rai -Flat No: 1		Meter No: 451006010	
Account No: Z200260		Category: Residential[1 Unit(s)]	
Previous Meter Reading	Current Meter Reading	Consumption for the month (CUM)	
Reading: 38	Date: 30/11/2017	Reading: 38	Date: 31/12/2017
Consumption for the month (CUM): 0			
<b>Utility Charges</b> 1. Water Bill for the month: 23.20 2. Meter Rent: 0.00 3. Sewerage Charges: 11.60 <b>Total Bill for the month: 34.80</b> Outstanding: 34.80 Penalty: 2.00 <b>Net Amount Payable (Nu): 72</b>			
Billing Incharge Thimphu Thromde			

(Water & Sewerage Service Charges Bill)			
Bill For : January, 2018		Zone 3A-RICB Colony	Meter Status: Metered
Bill No: TT/2018/75567		Payment Status: P	
Bill Date: 01/02/2018		Due Date: 28/02/2018	
Billing Address: Building/Flat No( 1 ) Tshering Tobgay, Above RICB Tank -Flat No: 1		Meter No: 3710143	
Account No: Z302338		Category: Residential[1 Unit(s)]	
Previous Meter Reading	Current Meter Reading	Consumption for the month (CUM)	
Reading: 3515	Date: 31/12/2017	Reading: 3515	Date: 31/01/2018
Consumption for the month (CUM): 0			
<b>Utility Charges</b> 1. Water Bill for the month: 1259.00 2. Meter Rent: 0.00 3. Sewerage Charges: 629.50 <b>Total Bill for the month: 1888.50</b> Outstanding: 0 Penalty: 0 <b>Net Amount Payable (Nu): 1889</b>			
Billing Incharge Thimphu Thromde			

Depicting same meter reading

On enquiry, the dealing officials cited that the water charges for no water consumption are levied for the following reasons:

- To levy sewerage charges as sewerage charges is dependent on water charges (50% of the water charges),
- To adjust wrong readings as a result of non-functional or defective water meters, and
- To raise bills even when the meter readers could not access water meters due to the pet dogs in the compound, locked gate, water meters hidden underground, etc.

In addition, Thimphu Thromde had not installed water meters in 102 households in Babesa, Olakha and Lungtenphu area availing Thromde water services resulting in non-levy of water charges and resultant revenue loss of Nu. 20.365 million. Similarly, nine car washing units in Olakha Automobile Workshop area and 34 households in Dechencholing Dangrayna provided with Thromde water was found not levied water charges (AIN: 14732 & 14467)

Further, in Samdrup Jongkhar Thromde water charges were collected from 28 houses having defective water meters based on average of past three month's meter readings. The Thromde has not enforced replacement of defective water meters to obtain actual consumption (AIN: 14641).



Taking forward a practice which is faulty based on the reasons above does not justify the principles of efficiency and fairness. Rather the Thromdes should work out effective ways to address the issue. Levying water charges without water consumption on the stated presumptions have led to unfairness by charging residents differently for the same.

**Thimphu Thromde in their response explained that immediately after the audit observation, the water billing was started in Babesa, Olakha, Lungtenphu, Simtokha and Dechencholing Dangrayna with effect from 1<sup>st</sup> July 2017. Initiative of incorporating requirement of water meter in the checklist during issuance of occupancy certificate has been taken. It was further stated that replacement of defective water meters shall be initiated to rectify, replace and ensure accessibility to meters for actual readings.**

The Thromdes should rectify the defective meters and obtain actual readings so that the residents are charged based on actual consumption.

#### **h. Lease rate**

Upon scrutiny of the lease rates charged to the clients for leased land with that of its purpose of the land, the RAA noted an instance in Thimphu Thromde where Kuensel Corporation Ltd was charged lease rate for social activities which is Nu. 1 per Sq ft, while Telecom Ltd was charged Nu. 20 per Sq ft. The lease rate for commercial activity is Nu. 20 for Thimphu Thromde. As such it had resulted in short collection of revenue for the Thromde amounting to Nu. 14,690,610.00 from the date of signing of the lease till 2017 for the period of five years as shown in Table 8.

**Table 8: Revenue forgone due to non-levying of proposed lease rate in Thimphu Thromde**

Name	Area(Sq ft)	Lease start date	Lease rate applied	Lease rate applicable	Amount paid in 5 years (Nu.) (A)	Amount payable (Nu.) (B)	Difference (B-A) (Nu.)
Kuensel Corporation Ltd.	154,638	11/1/2012	1	20	154,638*1*5=773,190.00	154,638*20*5=15,463,800.00	14,690,610.00

Section 11 under chapter 14 “*Miscellaneous*” of the Land Act of Bhutan 2007 clearly defines commercial land as land used for licensed economic activities including hotels, shops, sawmills, carpentry, automobiles service centers and other business activities primarily deemed as utility service facilities.

The RAA, however, noted that some of the land leased out for the commercial activities are charged industrial rate of Nu. 5 per Sq ft. instead of Nu. 42 per Sq ft. in Gelephu Thromde and Phuentsholing Thromde.

The RAA worked out the total financial implication of Nu. 76,030,936.80 and Nu. 196,068,083.80 in Gelephu and Phuentsholing Thromde respectively over the period 2012 to 2017 on account of short collection of the revenue as a result of wrong application of the lease rate as shown in Annexure V and Annexure VI.

Besides the revenue loss to the Thromdes, the principle of equality and fairness is also defeated due to inconsistent application of fees and charges.

**The Phuentsholing Thromde explained that leaseholds given in Annexure VI were leased by the erstwhile Ministry of Trade and Industry, which were handed over to the Thromde in 2011. Since taking over, the Thromde explained that they had not redrawn the lease agreement and the lease rent was levied based on the terms of the prevailing lease agreement.**

**While acknowledging the lease rate approved by NLCS for commercial purpose at Nu. 42 per Sq ft., the Gelephu Thromde justified that the rate of Nu. 42 per sq. ft. was too high in a place like Gelephu. It was made known that the same issue was raised by the RAA's financial audit which was deliberated in the Parliament and that the Parliament had accepted the justification in order to promote economic development in Gelephu and recommended obtaining retrospective approval from NLCS.**

**Thimphu Thromde in its reply stated that lease rate of Nu. 1 per sq ft. was collected from Kuensel Corporation based on the letter issued to NLCS vide letter no. MoF/PED/02/2012/150 dated 09/04/2012 and government directives issued vide letter no. COM/04/06/975 dated 12/04/2006. It was explained that Thromde had issued a letter to Kuensel Corporation Limited to furnish the exemption letter.**

However, it is to be understood that the retrospective rates will not be applied to new leaseholds which is pointed out in the report for Gelephu Thromde. Thimphu Thromde should furnish the exemption letter. The Thromdes should strictly follow the approved lease rates of GRFL and GL and ensure that up-to-date lease agreements are in place.

#### **3.2.1.4. Weak mechanism to enforce tax payments**

Thromdes are empowered by the Constitution to levy taxes, fees and charges for provision of services. Nevertheless, collection of revenues is entirely dependent on enforcement mechanism in place. Enforcement of Thromde tax laws is an important part of Thromdes' revenue collection procedures and Thromdes should have appropriate enforcement mechanism in place to affect timely collection of tax payments.

The examination revealed that there is adequate legal mechanism and the following enforcement actions are clearly outlined in the legislation.

- a) Notifying due dates of property tax payments through forums such as Thromde websites, news media, Tshogde members, etc.
- b) Imposing 24% penal interest to defaulters (Ministry of Finance (MoF) Circular – MoF/R-Circular/2012-13/2647 dated 1<sup>st</sup> February 2013),
- c) Annuling the thram of land for which land taxes are not paid for three consecutive years (Land Act 2007), and
- d) Discontinuing of services.

Moreover, Thromde Rules 2011 suggests establishment of enforcement committee to penalise defaulters who had not complied with final notices and to implement laws, rules and regulations.

However, the RAA found that the actual enforcement is not supplemented with adequate mechanism to ensure compliances to the aforementioned enforcement actions. While the standing rules provide the course of actions to be taken, the enforcements actions are often not taken and there are no prescribed procedures to annul the thram of those defaulting taxpayers in coordination with NLCS. Consequently, it has led to outstanding land taxes ranging from one year to more than five years. The details of outstanding land taxes are presented in Table 9 and Annexure VII.

**Table 9: Outstanding land taxes**

Thromde	No. of defaulters	Outstanding Duration	Outstanding Amount(Nu)
<b>Gelephu</b>	38	> 3 Years	599,296.33
	62	> 4 Years	1,072,266.43
<b>Phuentsholing</b>	58	> 3 years	281,299.00
	117	> 1 years	276177.90
<b>Thimphu</b>	149	1 year	15,401,945.14
	2044	Not traceable	
<b>Total</b>			<b>17,630,984.80</b>

The Samdrup Jongkhar Thromde had followed up outstanding taxes after the financial audit and after the issuance of the draft report of this audit. In the case of other three Thromdes, the defaulters land is not annulled despite the delay in tax payment for more than three years.

In Gelephu Thromde, there is no case of thram being annulled till date but the Thromde management had sent notifications through media reminding the dues for more than three years and Thromde plans to forward the case to NLCS. While the Phuentsholing Thromde have also served notifications both through media and directly to the defaulters for the land tax due for more than three years, the Thromde has not taken the case to NLCS for thram annulment.

The outstanding taxes are not vigorously followed-up and none of the Thromdes have initiated legal actions for repeated tax defaulters. Another issue is that majority of the taxpayers do not reside in the particular Thromde where their properties are registered.

Enforcement mechanism is lacking in design and operation to ensure regulatory compliance. Further, inaction from Thromdes and non-detection of tax defaulters have led to limited voluntary compliance amongst taxpayers resulting in apathy and unwillingness on their part to pay taxes. Weak enforcement mechanism has led to loss of revenue thereby resulting in inability of Thromdes to deliver its services from its own revenues as required by the Constitution.

**The NLCS agreed to develop a procedure for annulling the Thram of defaulting taxpayers after the completion of nationwide NCRP.**

**The Gelephu Thromde expressed the reason for not annulling the Thram was failure to contact the land owners as there are no rules and regulations to maintain and update land owner information.**

**The Thimphu Thromde replied that the Thromde had initiated to keep the tax collection open year round and a few taxpayers had already paid taxes for 2018. Further, the Thromde stated the following way forward:**

- 1. Alternative payment options are provided for making tax payments through mobile application**
- 2. SMS gateway will be installed for sending alert messages**
- 3. Disconnection of services like water and electricity to be done**
- 4. The list of defaulters is periodically uploaded in our website and announcements in media are served.**

Whilst the RAA commends on the initiatives to be taken by Thimphu Thromde in particular, the Thromdes in general should strengthen enforcements actions and mechanisms, and the Thromdes concerned should vigorously follow-up on the overdue revenue and settle the outstanding revenue at the earliest. The NLCS should take a lead role to collaborate with the Thromdes to develop procedures to annul the Thram and intimate the same to RAA.

### **3.2.1.5. Non-accountal of revenue collections**

As per Finance and Accounting Manual 2016 and Revenue Accounting Manual (RAM) 2004, revenue collected should be classified, corrected and accounted for in the books of accounts. Thromdes should also account for the revenues collected in the revenue cashbook in a timely manner.

From the assessment, the RAA noted that revenue amounting to Nu.20,169,057.43 was not accounted for in the books of accounts indicating non-deposit of the amount to that extent. The breakdown of the total revenue not accounted is given in Table 10 and the detailed in Annexure VIII, IX and X.

**Table 10: Revenue not accounted in the books of account (2012-2017)**

<b>Thromdes</b>	<b>Non-accounted Amount(Nu)</b>	<b>Annexure</b>
Gelephu	181,550.89	Annexure VIII
Phuentsholing	8,433,889.21	Annexure IX
Samdrup Jongkhar	0.00	All accounted
Thimphu	11,553,617.33	Annexure X
<b>Total</b>	<b>20,169,057.43</b>	

As evident from Table 10, of the total amount of revenue not accounted of Nu. 20,169,057.43 Thimphu Thromde has the highest amount of Nu. 11,553,617.33 not accounted followed by Phuntsholing Thromde amounting to Nu. 8,433,889.21. The analysis revealed that Samdrup Jongkhar Thromde had accounted for all the revenues collected in the five financial years.

Further, there were cases wherein the revenue receipts are accounted in the books of account but not produced for physical verification. The details of the accounted but physically missing revenue receipts are shown in Annexure XI.

Retention of revenue collected out of the books of accounts is highly irregular and fraudulent practice. The following are the causes of non-accountal of revenue collected.

- a) There is lack of proper supervision and monitoring: This is evidenced by the fact that the entries in the daily collection statement and cashbook were not signed by the dealing official nor by the appropriate controlling official. The same was pointed out in past audit report (AIN: 10552, 12608)
- b) No periodic reconciliation of collections with that of amount accounted has been carried out. There was no record to show the practice of conducting necessary reconciliation particularly in Thimphu Thromde. Further, there was no defined standard procedure to carry out reconciliation of collections against accountal and deposit.
- c) There is lack of segregation of duties. In all the Thromdes, the lone revenue assistant is responsible for collection, record keeping such as daily collection statement, monthly ledgers and cashbook, deposit of revenue, etc. Lack of strong internal controls in place to oversee revenue collections and accountal. Control activities and proper procedures were inadequate to effect the accountal of revenue collected.

Revenue collection and its accountal in the books of accounts is one of the most primary financial accounting norms. Non-accountal of the collected revenue indicates inadequacies in internal controls including supervisory controls.

If this system is uncorrected, it will result in recurrent and undetected revenue losses leading to Thromdes' continual dependence on the government.

**The Gelephu Thromde, in their response stated that non-accountal of revenue was raised during the last financial audit by RAA and the revenue in-charge had refunded as per financial audit memo. The Thromde expressed that this had occurred due to limited personnel in revenue section and that the Thromde had proposed for additional manpower. Furthermore, the Thromde stated that the revenue section puts up requisition for revenue receipts and the procurement section procures and issues the revenue receipts.**

**The Phuentsholing Thromde replied that the booklet bearing serial number 334101 to 334200 was issued to Accounts Section and not to the Revenue Section and thus, will not be recorded in the books of accounts of the revenue section. Further, the Thromde explained that serial numbers of five booklets and one leaflet was mistakenly entered in the cashbook for FY 2016-17 and hence resulted in non-accountal and so, had provided the rectified serial numbers along with revenue details.**

**The Thimphu Thromde had responded that Nu. 4,460,321.00 has been found accounted and will report the final result once the scrutiny is complete.**

While the RAA acknowledges the limitation of the Thromdes with regard to manpower under revenue section, yet there should have been strong internal controls in place to manage the revenue collection and accountal of the same. The Thromdes should implement and strengthen internal controls and ensure strong monitoring and accountability mechanism to prevent such revenue leakages in the future.

With regard to Phuentsholing Thromde's response that the booklet receipt number 334101 to 334200 being issued to accounts section, the RAA expects that the revenue money receipts will be accounted for in the same cashbook irrespective which section it was issued to. Furthermore, the rectified serial numbers provided by Phuentsholing Thromde for FY 2016-17 could be traced in the cashbook but the deposit of the same could not be confirmed and hence, will be verified during the follow-up review.

Following the Thimphu Thromde's response of finding Nu. 4,460,321.00 accounted out of the Nu. 11,553,617.33, the RAA went to Thimphu Thromde for further confirmation. The Thromde's internal auditor had found Nu.10,962,338.33 deposited and provided the details to RAA. The RAA in turn verified the same and found Nu. 10,948,801.33 was deposited which was agreed to by the internal auditor. However, Nu. 11,553,617.33 reflected in this report stands, as it is still unaccounted in the books of account (not reflected in cashbook) but the recovery will be for Nu.6,04,816.00 as Nu. 10,948,801.33 was traced in the bank statement. The balance of Nu.6,04,816.0 (reflected under Annexure XII) should be further verified and deposited into Audit Recoveries Account.

The Thromdes concerned should verify the non-accountal amount, and settle, deposit and intimate the same to RAA at the earliest.

### **3.2.2 Governance in Revenue Collection and Management**

#### **3.2.2.1 Lack of strategies to achieve financial sustainability**

Thromdes are responsible for managing their finances through internal revenue generation complemented with fiscal transfers in the form of annual grants and subsidy from the RGoB. As per Thromde Finance Policy (TFP) 2012, the annual grants will be provided until Thromdes can function and manage from their own revenues through prudent financial management. In other words, Thromdes will receive annual grants until they achieve financial sustainability. To that effect, the policy stipulates that current grants are provided to bridge the revenue gap which will be phased out as per the timeline agreed between MoF and Thromdes.

In order to ascertain the measures taken by Thromdes to ensure financial viability and sustainability, the RAA reviewed relevant documents and met with relevant officials from Thromdes and DNB. Through this, the RAA noted the following.

- i. There is no agreement drawn between MoF and individual Thromdes specifying the current subsidy arrangements along with timeline indicating the phase out plan. It is unclear how long the Thromdes will be financed through grants.
- ii. Thromdes have not set financial sustainability plan or long-term roadmaps or revenue targets to achieve the government policy of Thromde financial sustenance.
- iii. Thromdes have not assessed the cost of delivery and provision of services in order to levy the correct fees and charges to at least recover the operating and maintenance costs for sustainability. Although a cost assessment study for Thimphu and

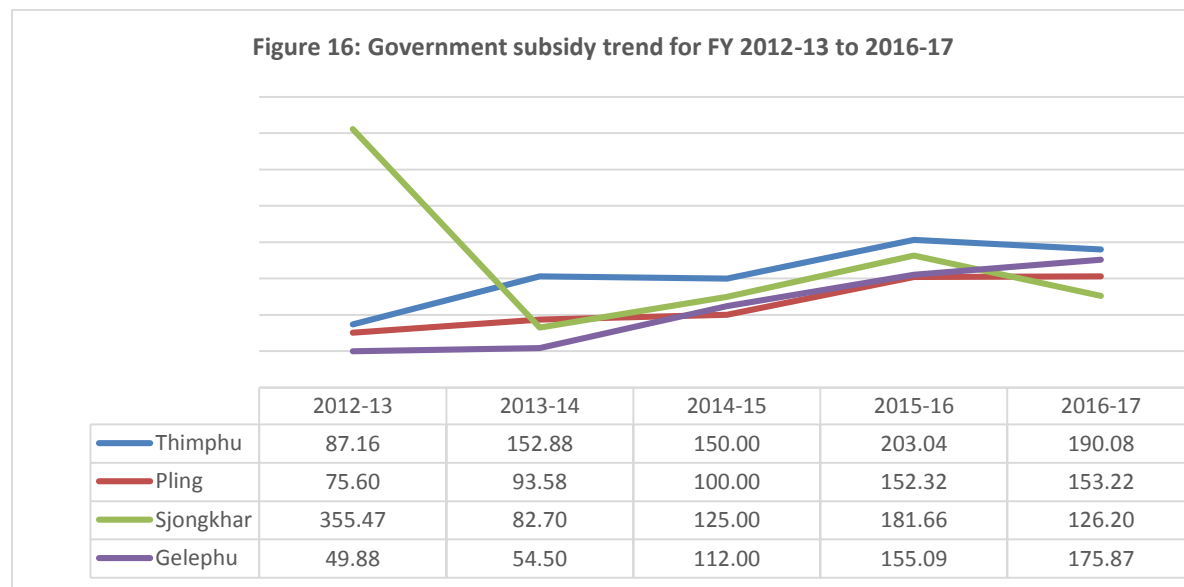
Phuentsholing Thromdes was conducted by Ernst & Young<sup>6</sup> for the Bhutan Urban Development Project II (BUDP II) implemented by MoWHS.

Consequently, the analysis of financial data of the Thromdes for five financial years (2012-13 to 2016-17) revealed a huge deficit and increasing trend of subsidy provided by RGoB as provided in Figure 15 and 16.

**Figure 15: Deficit between total expenditure and revenue collected in Thromdes**

	Deficit	%	Deficit	%	Deficit	%	Deficit	%	Deficit	%
	2013-13		2013-14		2013-15		2015-16		2016-17	
Thimphu	266.44	74.52	157.95	65.08	237.15	73.23	455.58	80.00	581.61	84.16
Sjongkhar	91.29	97.11	57.88	88.81	78.00	86.04	182.38	94.47	156.23	92.38
Pling	134.25	72.49	76.28	59.44	52.59	44.71	153.48	70.61	239.78	75.40
Gelephu	43.50	68.05	56.27	65.38	101.21	85.63	125.34	79.86	250.37	91.21

**Figure 16: Government subsidy trend for FY 2012-13 to 2016-17**



This indicates that the cost of delivery and provision of Thromde services are more than its capacity and ability to earn revenues which is a cause for concern. Moreover, it can be inferred from the table above that Thromde are fully dependent on the government for capital grants and there is a high level of dependence on even current grants with the exception of Phuentsholing Thromde. Furthermore, during the course of audit, the RAA also found that Phuentsholing and Samdrup Jongkhar Thromdes had invested their internal revenues as fixed deposits and earned interests. The fixed deposit is shown in Table 11.

**Table 11 : Fixed deposits details**

Thromde	Amount Deposited (Nu.)	Interest Earned PA (Nu.)	Year/Duration	Deposit Bank
Phuentsholing	38,250,000.00	38,25000.00	5 Years	RICBL
Samdrup Jongkhar	20,000,000.00	12,383,83.56	2016 (1 year)	BDBL

Though the Thromdes have financial autonomy to invest as per section 63 (d) of the LG Act 2009, yet on the other hand, to uphold the government's policy of financial sustainability,

<sup>6</sup> Consultant employed for the Bhutan Urban Development Project II



Thromdes should have used the funds for meeting expenses. The inability of Thromdes to meet their expenses can be attributed to the following;

- a) lack of strategic direction,
- b) limited long term financial plan identifying any challenges with affordability of providing services and ensuring that its financial position is sustainable; although some form of financial planning is being carried out in the five-year plan outlay and annual budget setting, it only sets out plans for Thromdes' activities and does not address sustainability of Thromdes,
- c) less understanding amongst coordinating agencies as to the phase out plans for current subsidy,
- d) treatment of Thromdes similar to other budgetary agencies,
- e) Thromdes provided with subsidy as requested,
- f) Thromde borrowings or debt servicing being taken care of by the government,
- g) TFP 2012 not implemented effectively for prudent financial management, and

As such, the Thromdes may be at risk of becoming dependent on government subsidy and not exercising prudence in financial management.

**Samdrup Jongkhar Thromde expressed that the fixed deposit account was opened to earn interest income on the idle fund that remained after meeting all expenses.**

**Thimphu Thromde expressed that implementation of the BUDP-II have brought in drastic improvements and also increase in revenue generations and collections which is a continuous effort. The Thromde had already indicated that the current expenditure for the 12<sup>th</sup> FYP will be met from their own revenue.**

With the government's plan to phase out the subsidies eventually, Thromdes should strive to close the deficit between total expenditure and revenue collected in Thromdes and achieve financial sustainability to reduce dependence on subsidy.

### **3.2.2.2. Inadequate subsidy provision process for current grants**

Legislation provides for Thromdes to receive annual grants from the government in the form of capital and current grants. Capital grants are used for developmental activities as per the five year plan outlay while current grants are provided to meet Thromdes' current expenditure based on the revenue and expenditure projection submitted by Thromdes. The deficit amount of projected current expenditure and the projected revenue is provided as the current grant/subsidy. Since the basis for subsidy is the projected information, this information should be formulated using appropriate forecasting techniques which should be accurate and complete.

However, the existing practice of granting current subsidy revealed that DNB does not verify the completeness and accurateness of the projected information. Instead the deficit amount is calculated and the current subsidy is provided based on the resource envelope approved by the Lhengye Zhungtshog for the financial year.



This is due to the absence of formal assessment mechanism in place to ascertain the reliability of the projected information, assessment of the Thromdes' revenue generating capability and study of Thromdes' historical revenues and expenditures data.

### 3.2.2.3. Lack of revenue enhancement strategy

Thromdes source the finance for their current expenditure from internal revenues and the gap between internal revenue and expenditure is provided for through current subsidy by RGoB. Revenue generation is therefore very important for Thromdes to meet their current expenditure and to reduce the gap or dependence on RGoB to meet the objectives of TFP 2012. Similarly, the 11<sup>th</sup> FYP<sup>7</sup> stipulate that Thromdes should accord high priority to initiatives that will enhance revenues. Even the Thromde Annual Performance Agreement affirms the enhancement of revenue generation.

Recognising this, Thromdes have taken some initiatives to raise revenues and also planned for future revenue sources as given below.

- a) Samdrup Jongkhar had recently endorsed and started charging for occupancy certificate.
- b) Gelephu Thromde has recently started collecting ground rent for stalls during its annual Tsechu.
- c) Thimphu and Phuentsholing Thromdes have plans to earn revenue from the multi-level parking facility.
- d) Phuentsholing Thromde has plans to generate revenue from the upcoming vegetable market.
- e) Samdrup Jongkhar Thromde Tshogde has approved the charges for disposal of bulk waste, construction and demolition wastes and the collection of parking fees in the core areas and is yet to implement the same.

Looking at the potential revenue sources and the initiatives taken, Thromdes have much to learn from each other and there is a need to coordinate and inform one another of any new initiatives taken to enhance revenue generation. For instance, Phuentsholing Thromde may initiate collection of fees for occupancy/property ownership certificate just like the other three Thromdes.

Despite the initiatives and plans, Thromdes lack overall strategy/plan to enhance revenue generation. The initiatives taken thus far are on ad-hoc basis and without proper study considering cost benefit analysis.

Without overall strategy or plan, Thromdes will not be in a position to identify potential revenue streams and might lose opportunity to implement the most viable and cost-effective services.

**Phuentsholing Thromde pointed out some more additional sources of revenue identified during various sessions of Thromde Tshogde which include**

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<sup>7</sup> Five Year Plan

1. solid waste disposal,
2. charges for cattle impoundment,
3. hiring out Thromde's water tanker,
4. registration fees for property conveyance,
5. fees for lien noting,
6. nominal fees for issuance of Occupancy Certificate, and
7. hiring out of Thromde Service Vehicles.

The Thimphu Thromde stated that the Thromde does not have a specific revenue enhancement strategy, but is currently carrying out the following initiatives:

1. Comprehensive building survey to update the building database which have a long run impact in effectively collecting property taxes and which can be used for revenue forecasting, making analysis for various services including waste collection and water consumptions.
2. GIS-based asset management system to manage and maintain all the assets on timely manner thereby reducing the cost.
3. Parking fees collection in the places of Olakha, Changzamtok, Motithang and Kawazangsa are looked into.
4. Constructing vegetable sheds and meat shops in various location
5. Replacing all the high energy consuming halogen streetlights bulbs to energy efficient LED bulbs thereby reducing the electricity consumption bills

The RAA applauds the Thromdes' efforts and urges all the Thromdes to continue with the initiatives to enhance revenues but with proper revenue management strategy in place.

#### **3.2.2.4. Lack of strategies to encourage taxpayers to pay voluntarily**

Thromde processes and procedures for providing services should be made efficient through optimisation so that taxpayers experience good services. This will increase taxpayers' willingness to pay which will lead to realising revenue sooner. Thromdes should develop a strategy with different programmes such as providing multiple payment options, convenient payment plans, enabling visibility of taxes owed by the taxpayer, awareness programmes, efficient compliant handling, strong enforcement actions, etc. Such programmes should ultimately ease tax payments.

In line with this, Thromdes have initiated the following.

- a) Introduced customer care center in all the Thromdes;
- b) Facilitated services online through G2C portal;
- c) Introduced toll free number in Phuentsholing and Thimphu Thromde;
- d) Launched grievance redressal system (myCity application) in Samdrup Jongkhar Thromde;

Despite these initiatives, Thromdes are lacking an overall strategy to encourage taxpayers to pay voluntary. Further customer satisfaction surveys were not conducted to obtain feedback on their service delivery. A poll was initiated in Samdrup Jongkhar Thromde to obtain feedback on the water supply but the interaction was minimal as shown in Figure 17.

**Figure 17: Poll conducted by Samdrup Jongkhar Thromde**

Although Thromdes had made good progress and efforts to facilitate efficient service delivery, lack of strategic direction has led to fragmented initiatives. The absence of an overall strategy linking all the initiatives and programmes has resulted in loss of trust in Thromdes and created limited compliance to pay taxes.

The Thimphu Thromde stated that the taxpayers are notified for the tax payment through media and had now kept the tax payment dates open throughout the year. The Thromde has also implemented online payment of property taxes and water bills through mobile application. Further, the Thromde stated that residents need not produce documents to pay water bills and property taxes as water account number for water bill payments and a CID number for property tax payment would suffice. Further, the integration with mBoB and mPAY will be made available.

### 3.2.2.5. Lack of outsourcing policy

An outsourcing policy should be in place for any outsourcing decisions. Similarly, Thromdes should also have an outsourcing policy as Thromdes have started outsourcing a few of its services in the recent years. Thromdes should base their outsourcing decisions on a cost-benefit analysis and should assess the revenue estimates before inviting tenders.

Currently, all three Thromdes except for Samdrup Jongkhar Thromde had outsourced some of their services and the outsourcing details are given in Table 12.

**Table 12: Services outsourced by Thromdes**

Revenue Sources	Gelephu Thromde	Phuentsholing Thromde	Thimphu Thromde
Waste collection	✓		✓
Parking fees		✓	✓
Vegetable market rent	✓		
Cleaning of core area	✓		

The review of outsourcing of revenue collection revealed that none of the Thromdes has an outsourcing policy in place. There is no evidence to indicate that the Thromdes concerned have carried out cost-benefit analysis to assess if it is profitable to outsource or to provide the services by the Thromdes.

For example, in Gelephu Thromde, the environment section was collecting the vegetable market rental till June 2013, thereafter, the rental collection was outsourced following competitive bidding. On comparison of the revenue earned from the vegetable market allotment, it was observed that the revenue earned was Nu. 513,219.10 during the FY 2012-2013 when operated by the Thromde and it was only Nu. 83,300 during FY 2013-2014 when outsourced. Gelephu Thromde had lost revenue amounting to Nu. 429,991.10 as a result of not carrying out cost-benefit analysis and not exercising prudence in outsourcing services.

**The Gelephu Thromde responded that outsourcing has benefited the Thromde in terms of savings and operations.**

**Thimphu Thromde had acknowledged the fact that the Thromde currently does not have an outsourcing policy in place and would be requesting MoWHS for their support.**

The Thromdes should draft an outsourcing policy and carry out cost-benefit analysis before outsourcing any service in the future.

### **3.2.2.6. Non-revision of taxes in the last 26 years**

The review of Thromdes' financial statement indicated that Thromdes are spending more than their ability to raise revenue thwarting the goal of attaining financial sustainability.

Nevertheless, the Thromde have been using the same tax rates for the past 26 years. Thromde taxes, fees and charges are assessed based on the Revised Taxation Policy of 1992.

The Revised Taxation Policy 1992 is a *unit based tax* which is perceived to be regressive as it is uniformly applied based on units irrespective of the economic prospects (income quantum and ability to pay) of the property adding burden to low income taxpayers. These tax and fee rates developed in 1992 does not reflect the true cost of providing and running services in the current context.

Further, the RAA came to know that a taskforce<sup>8</sup> was formed to revise the taxes in 2014 and the proposal was submitted to the Cabinet in 2015 but it was not endorsed. Similarly, in 2016 another taskforce was formed to rework on the initial proposal and even this is not yet endorsed and was not submitted to the Parliament for approval. The proposed taxation is based on *ad-valorem* taxes which are computed as a percentage of the assessed value of the property being taxed and are in-line with the principle of ability to pay and equity.

It is noted that although Thromdes have the authority to levy taxes, fee and charges, the revision of the same is not determined by Thromdes; it is subject to government endorsement and parliament approval. While it is good to keep the taxes affordable to taxpayers, it has also become increasingly difficult for Thromdes to even meet its current expenses with the changing environment in which services are provided. It is clear from the discussions with Thromde officials that Thromdes will not become sustainable based on the tax rate of 1992.

Moreover, the enactment of LG Act came later than Revised Taxation Policy 1992 (urban taxes) and there is need to align the policy with the Act. For example, LG Act identifies vacant land tax as one of the revenue heads while there is no mention of it in the taxation policy of 1992 (discussed in para 3.2.2.12). Similarly, Thromde Rules 2011 stipulates the assessment for land and house tax be based on value of the property whereas the policy has prescribed rates to be calculated based on the land usage (commercial and residential) and class of the buildings/house as indicated in Figure 18.

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<sup>8</sup> Comprising of members from four Thromdes, National Land Commission Secretariat and Ministry of Works and Human Settlement

**Figure 18: Application of land and house tax as per Taxation Policy 1992**

Town	LAND TAX		BUILDING & HOUSE TAX			
	Commercial	Residential	Class 1	Class 2	Class 3	Class 4
A	50ch/sq.ft	25ch/sq.ft	Nu.100/unit p.a	Nu.75/unit p.a	Nu.30/unit p.a	Nu.20/unit p.a
B	40ch/sq.fth	20ch/sq.fth	Nu.75/unit p.a	Nu.50/unit p.a	Nu.25/unit p.a	Nu.15/unit p.a
C	30ch/sq.fth	15ch/sq.fth	Nu.50/unit p.a	Nu.40/unit p.a	Nu.20/unit p.a	Nu.10/unit p.a
D	20ch/sq.fth	10ch/sq.fth	Nu.25/unit p.a	Nu.20/unit p.a	Nu.10/unit p.a	Nu.5/unit p.a
		House	Nu. 500/unit p.a	Nu.300/unit p.a	Nu.200/ unit p.a	Nu.100/unit p.a

Source: Thromde land and property tax 2016, Working Paper (WP-LPT2016, DRC, MoF)

Thromdes apparently forgoes huge revenue which otherwise would have collected if taxes and rates were revised in a timely manner. This raises the concern of whether Thromdes will ever be able to enhance revenue generation and achieve financial sustainability.

**NLCS responded that Thimphu Thromde had actually revised land tax rates in 2011 but agreed to the observation that land and property taxes have not been revised since 1992.**

**Gelephu Thromde, in their response, stated that the Thromde does not have authority to revise taxes but have proposed for revision with MoWHS.**

**Similarly, Thimphu Thromde stated that the Thromde has no authority but have proposed the revision of taxes twice which was not approved by the Parliament.**

The RAA is aware that revision of taxes is under the purview of the parliament but the Thromdes should persist and continue proposing for revision of taxes.

### 3.2.2.7. Lack of overall internal control framework

According to the Financial Management Manual (FMM) 2016, agencies should be responsible to define workflows and institute a proper system of internal control. Likewise, TFP 2012 stipulates that Thromdes should ensure that “*clearly defined and effective policies, systems and procedures for internal control are adopted*”. Thromdes should establish an overall internal control framework to mitigate the inherent risks associated with collection of taxes and other revenues.

On the contrary, the RAA observed that Thromdes have not designed and implemented efficient and effective practices and procedures to handle collection and management of revenues. Thromdes have not established an environment that would prevent misuse of taxpayers’ money, prevent revenue leakages and enhance revenue generation and collections. More specifically, the following were observed.

- a) Lack of culture of accountability in Thromdes: Senior management do not track plans/budgets against actual performance/expenditures nor do they seek explanations for any variances. Annual reports comprising of financial and performance reports are not prepared and submitted to Thrompon and Thromde Tshogde who are in turn accountable to its urban residents;

- b) Lack of documented procedures for efficient and effective revenue collection and management (this is also required by the National Internal Control Framework<sup>9</sup> (NICF) and this could in the form of a revenue manual): For example, reconciliation procedures are not defined due to which Bank Reconciliation Statements are not maintained in all Thromdes except for Samdrup Jongkhar Thromde;
- c) Weak record-keeping to ensure complete and accurate information is accessible and available to support financial and performance reports: This is evidenced by the poor quality of financial reports, inability to provide the current status of revenues earned, and non-maintenance of performance reports;
- d) Limited monitoring to ensure compliance to legislation by senior management;
- e) Non-assessment of risks and non-review of control weaknesses by Thromdes: Thromdes do not have a risk management process in place to adequately assess and manage risks to achieve revenue objective;
- f) Important positions left vacant: For instance, there were no internal auditors except for Thimphu Thromde to review the operations of Thromdes. The presence of internal auditor is a best practice as per the NICF;
- g) Inadequate IT controls: The taxpayers' registry master data extracted from Revenue Management System exhibited illogical processing of data wherein land tax was shown as '*not paid*' but the vacant land tax was shown as '*paid*' (The vacant land tax is calculated @25% of the land tax). Another instance noted is where the structure was entered as '*existing*' and the vacant land tax was shown as '*paid*';
- h) Lack of reconciliation of services provided by respective divisions and its subsequent revenues collected: For instance, Thromdes have never reconciled the total number of building construction approvals with that of revenue earned as scrutiny fees for a particular period; and
- i) Weak accountability and consequence management for poor performance and transgressions.

Such weaknesses and lack of internal control framework can be attributed to i) inaction of Thromdes to implement corrective actions highlighted by RAA, ii) a general indifference amongst Thromde officials, particularly in Thimphu Thromde, towards establishing control procedures to protect revenue collections and its management and iii) lack of adequate revenue collection staff resulting lack of segregation of duties.

Consequently, Thromdes are not in a position to provide current revenue status, cost-effective and efficient services, and effective monitoring on the expenses. Subsequently, Thromdes would be susceptible to misuse of revenues and funds.

**The Thimphu Thromde agreed to improve their internal controls hereafter by developing separate ToR for relevant revenue handling officials specifying their job responsibilities. Further, implementation of 10 online G2C services systems, 3 mobile applications, RMS, DAR, BPR, Performance Reporting mechanisms and integration of**

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<sup>9</sup> National Internal Control Framework, MoF <http://www.mof.gov.bt/wp-content/uploads/2014/07/InternalControlFramework.pdf>



**these systems wherever possible is expected to handle 90% of internal controls mechanism. Furthermore, the Thromde assured that Thromde Tshogde and the Thromde Management will put the internal control mechanisms in place.**

A strong internal control framework would prevent revenue misuse and revenue leakages, and enhance revenue collection. Thus, the Thromdes should strengthen the internal controls to mitigate the inherent risks associated with collection of revenue and enhance revenue generation.

### **3.2.2.8. Non-development of Revenue Manual**

Revenue Manual is an important revenue management tool containing instructions on how to carry out all administrative and procedural matters such as how to collect taxes and fees or charges levied by the Thromdes and manage them. In other words, it contains vital information to help them do their jobs in collection and management of the revenue. Therefore, revenue being central to the functioning of the Thromdes, it is more crucial than ever to have a revenue manual to guide through day to day working in revenue collection and management.

Nonetheless, the Thromdes except for Gelephu Thromde has not developed any guideline or manual in respect to the revenue collection and management.

During the course of the auditing, the RAA learnt that the MoWHS has recently developed revenue manual for the Thromdes which is in the draft form. On enquiry to the Phuentsholing Thromde and Thimphu Thromde about the manual, the Thromdes were not aware of it. However, the sensitization workshop on the manual were carried out at Gelephu Thromde and Samdrup Jongkhar Thromde.

Prior consultations on the development of the revenue manual were not done with the Thromdes indicating that there is a silo mentality amongst the collaborating agencies and lack of co-ordination within themselves.

Non-development of revenue manual can be attributed to lack of initiatives taken by the management to develop the manual. Thus, in absence of the revenue manual, it has led to poor knowledge on the revenue collection and management procedures ultimately resulting in huge revenue leakages.

**The Thimphu Thromde responded that it has developed revenue administration manual which is in draft form. Even Thromde Accounting Manual and Thromde Budgeting Manuals are developed and submitted to MoF for their official endorsement. Once these manuals are endorsed, the Thromde has assured that it will strictly implement it.**

The Thromdes should make use of the manuals developed by MoWHS once it is officially endorsed.

### 3.2.2.9. Inadequate financial reporting framework

As per FMM 2016, financial reports should communicate the budget and financial position, and financial performance of the agency. Moreover, FMM 2016 stipulates that financial reports should be prepared using standard and uniform formats, and frequency of submission of such reports should be defined.

Thromdes are required by legislation to prepare and submit financial reports to Thromde Tshogde to facilitate informed decision on how to utilise Thromdes' scarce resources economically and efficiently to deliver sustainable services.

While some form of reporting is maintained in Thromdes, the following inadequacies were observed.

#### a. Cash basis accounting in Thromdes

Currently Thromdes use cash basis accounting system like other government agencies. Nevertheless, using cash basis accounting in Thromdes does not reflect the true nature of their operations because Receipts and Payment Statement does include amount receivables and payables.

Consequently, the financial statements may not depict true and fair view of Thromdes' financial position and performance and will not in a position to determine the cost of providing their services.

**The Thimphu Thromde stated that it is awaiting the official endorsement of Thromde Accounting manual and Thromde Budgeting Manuals following which the Thromde accountants can be trained to use accrual basis of accounting. Thereafter, all the financial statements will be periodically generated for various decision making purposes.**

As the current reporting framework does not reflect the financial position of the Thromdes, the Thromdes may consider adopting accrual accounting and implement the manuals when it is endorsed.

#### b. Revenue projections are not forecasted using forecasting techniques or models

The Thromde Rules 2011 stipulates that the draft annual budget should include estimated expenditure including capital expenditure and projections of revenues for the year, including taxation revenues and non-taxation revenues generated from its resources. Revenue forecasting and expenditures estimate is an integral part of budgeting process to enable Thromdes to prioritise its plans and programmes for the next financial year.

During the course of audit, the RAA enquired about the methodology used for revenue projections and learnt that projections are calculated by making an increment on past revenues collected on assumption. The revenues are forecasted by applying a 2% increase on the revenues collected during the previous year with no rationale as to why the 2% was applied. The only reason being that this was how it was done in the past. This indicates that



Thromdes do not use a scientific forecasting technique or model based on the revenues collected in the recent years and sources of revenue.

Revenues are projected just for submission to the Tshogde and to DNB as it is a prerequisite to receive subsidy. Further, proper forecasting is not carried out as there is incomplete registry of sources of revenue. This had resulted in unrealistic budget proposals leading to several re-appropriations.

**The Gelephu Thromde responded that scientific methods to project revenues can be utilised only in corporations and is not practical for Thromdes; this would also result in receiving lesser subsidy fund, which will affect the functioning of the Thromde.**

**The Thimphu Thromde indicated the lack of central registry of sources of revenue as the reason for not projecting revenues realistically and would do so once the central registry is in place. The Thromde also specified that the revenue generation is inconsistent every year as the major source of revenue, 5% property transaction service, is unpredictable.**

The Thromdes should forecast revenues as realistically as possible based on the sources of revenue and based on the past trend of revenues collected so that the subsidy is provided based on realistic projections and need.

### c. Inadequate financial reports

According to RAM 2004, agencies should maintain cash collection statement and deposit statement, revenue cashbook, ledger book and bank reconciliation statement, which are duly signed by controlling authority. Similarly, as Thromdes are revenue-collecting agencies with financial autonomy to spend, Thromdes should be vigilant in ensuring that revenues collected are recorded in standard and uniform financial reports.

However, the RAA noted inadequacies in maintaining the accounting records.

- ☒ Even though cashbooks are maintained, the formats are inconsistent from one year to the other particularly in Thimphu Thromde. As shown in Figure 19, the cashbooks of 2012-2013, 2013-2014 and 2014-2015 were of different formats in Thimphu Thromde.

**Figure 19: Cashbooks of different formats in Thimphu Thromde**

Book NO	RECEIPT	DATE	NAME	FOLIO	Cheque no	Cash	Cheque	AMOUNT	HEADING	Reference no
oo1	00001	01.01.2013		1		1,696.00	-	1,696.00	0001	Changl
	00001	01.01.2013		1		34.00	-	34.00	0004	
	00002	01.01.2013		1		1,168.00	-	1,168.00	0001	Kawanzl/670

**Cashbook 2012-2013**

MR. no	Collection dt.	Name	Collections (Receipts)				Deposits (Payments)				Amount Difference No. (A-B)
			Cash	Cheque	Cheque No. & dt.	Total Amount - No. (A)	BS Deposit dt.	Cash	Cheque	Total Amount No. (B)	
02502	01.08.13		1,200.00			1,200.00					
02503	01.08.13		150.00			150.00					
02504	01.08.13		1,000.00			1,000.00					

**Cashbook 2013-2014**

Date	Name	Receipt No	Land Tax	Urban house Tax	Service charges	Under development Fees	Fine & Penalty	Excess land	House rent	Ground rent & Lease rent	Document fees	Parking fee	Library Fees	Road Cutting	Property transfer fees	Building Plan Fees	Site Plan Fees	Centena Farmer market
1.5.2015		58586	1000	800	1440		254											
1.5.2015		58587																100
1.5.2015		58588													120000			

- ☒ Bank reconciliation statement is an essential part of monthly accounts<sup>10</sup>, yet none of the Thromdes except for Samdrup Jongkhar Thromde had maintained the same.
- ☒ Incomplete cashbooks were maintained by revenue section. This was found in Phuentsholing and Thimphu Thromde. The cashbook for July and August 2014 were missing in Thimphu Thromde and the revenue officials were not even aware of the whereabouts of the missing cashbook. In the case of Phuentsholing Thromde, the cashbook was missing for February and March 2013.
- ☒ Complete information was not recorded impeding audit trail. For example, in Gelephu Thromde, the cheque number was recorded under bill number and the corresponding receipt number was not recorded as shown in Figure 20.

Figure 20: Showing cashbook with incomplete information in Gelephu Thromde

Date	Particular	Payee	Cash	Bank	Total Amt	Rt #	Bill #	Date	Amt
1/5/2016	Excess Land Payment	land owners	84,772.00			27201-27300			
			323,812.50		323,812.50			1/5/2016	323,812.50
1/8/2016	L/Tax	RSTA		5,476.00			341566, 31/12/15		
1/8/2016	B/Tax	Bhutan Telecom		1,960.00			568532, 31/12/15		
1/8/2016	W/Bill	RBP(Nov15)		18,130.00		27957, 5/1/16	343208, 4/1/16		
1/8/2016	L/Tax	GLSS		183,138.57			342523, 31/12/15		
1/8/2016	Penalty	GLSS		66,404.61			342523, 31/12/15		
1/8/2016	Demarcation & Feno	AWP		7,717.00			343763, 6/1/16		
1/8/2016	Demarcation & Feno	AWP		2,556.00			343763, 6/1/16		
1/8/2016	L/Tax	Bhutan Telecom		20,088.60			565387, 30/12/15		
1/8/2016	W/Bill	RBA		10,716.00		28056, 8/1/16	339699, 8/1/16		

Cashbook 2016-2017

Receipt number not recorded

- ☒ Financial reports were seldom signed by the accounts officer.
- ☒ Financial reports are maintained haphazardly.

Due to poor accounting records, the information provided was unreliable and the RAA had to re-record all the revenue receipt details in electronic format from the physically available receipt books for analysis, which was cumbersome and time-consuming.

**The Thimphu Thromde stated that the cashbooks were maintained in excel sheets and now with the implementation of RMS, it will be taken care of. Moreover, the Thromde stated that the financial reports will be generated after the implementation of accrual accounting.**

The Thromdes should maintain standard and uniform accounting records for easy reference, tracking audit trail, and accurate reporting of revenue collections and management.

#### d. Unclear line of reporting

Senior management should institute reporting mechanisms<sup>11</sup> to track financial performance, know the financial position, detect any irregularities, and monitor expenditures in order to ensure financial viability. The reporting mechanism should specify the reporting frequency<sup>12</sup> with clear line of reporting.

In this regard, the RAA observed the following:

<sup>10</sup> FAM 2016

<sup>11</sup> National Internal Control Framework, MoF

<sup>12</sup> FMM 2016

- ☒ Draft annual budget is presented to the Tshogde annually during the time of budget preparation as required by LG Act 2009. The system of periodic financial reporting to the Thromde Tshogde to track the financial progress has not been instituted.
- ☒ There is unclear line of reporting and Thromdes had varying practices. In the case of Samdrup Jongkhar and Phuentsholing Thromde, the financial reports are prepared by the revenue assistant, verified by the accounts officer which is then substantiated by Executive Secretary and Thrompon. On the other hand, the RAA noted that this was particularly weak in Thimphu Thromde wherein the revenue statements are not submitted to the management for review nor was it asked for by the management indicating weak financial reporting framework in Thimphu Thromde. While in Gelephu Thromde, financial statements are submitted to the accounts officer, the same is not reported to Executive Secretary and Thrompon.
- ☒ The timeliness and frequency for reporting is not specified, in some cases and at times the financial reports are submitted sporadically. For example, although Gelephu Thromde prepares and submits financial statements for scrutiny, it is submitted sporadically.

Clear line of reporting is thus important to enhance accountability and quality of decision making.

The Thromde Tshogde, Thrompon and Executive Secretary are collectively responsible for overall financial viability of the Thromde. They should exercise their accountability through careful review of any variances in the revenue generation. However, the current practice of financial reporting indicates inadequate monitoring and supervision over the operations of the Thromde concerning revenue management. In absence of periodic monitoring and reporting mechanism in place, it is likely that Thromdes will not be able to detect fraud cases in a timely manner leading to huge revenue leakages.

### **3.2.2.10. Inadequate management of revenue receipts**

Revenue receipt is an instrument used to collect and acknowledge receipt of revenue from any taxpayer<sup>13</sup> and so, it is crucial to follow a due process in the management of revenue receipts from printing, stock keeping and issuance to usage.

The practice in Thromdes is that they receive Non-Revenue Money Receipts from DPA as and when they put up a requisition and also there are instances where the money receipts are printed by the Thromdes themselves.

On review of the process involved in the revenue receipts management including requisition from DPA and printing by themselves, the RAA noted the following inadequacies.

#### **a. Printing of revenue receipts**

The approval for printing of revenue receipts should be through a committee or a competent authority. The numbering system is crucial in the printing of receipt books and the serials of

<sup>13</sup> Revenue Accounting Manual (RAM) 2004

the last book number and receipt number should be maintained in a register<sup>14</sup>. The next printing of receipts should start after the last receipt number printed to maintain serial so that the numbers of books printed and their accountal can be easily traced.

On review, the following were noted.

- ☒ The printing of revenue receipts was done by the procurement section on the basis of requisition made by the revenue section without approval/involvement of the management. Moreover, there was no assessment carried out on the actual requirement.
- ☒ 100 receipts books were found printed with same numbers in Thimphu Thromde. The details of receipts books bearing duplicate/same numbers are given in Annexure XIII and an instance is shown in Figure 21.

Figure 21: Showing revenue receipt with the same book number and receipt number

The Thimphu Thromde clarified that the use of manual receipts would reduce drastically after the operationalization of RMS. The Thromde stated that a stock register for receipt books is now being maintained. Moreover, the Thromde indicated that the RMS will have a feature to enter manual receipts by 30<sup>th</sup> August, 2018.

#### b. Stock keeping and usage

As per the RAM 2004, it is mandatory for the agencies to maintain a separate register for revenue receipts recording the details of revenue receipts received, printed and issued. Further, the receipt books should be serially used on the authorization of the supervisor and the same indicated in the stock register. However, the RAA noted the following lapses in regard to revenue receipts stock keeping and usage.

- ☒ In Gelephu and Thimphu Thromde, the information maintained on the number of revenue receipts printed, issued and used were incomplete and haphazard. As a result the RAA was not able to ascertain the exact number of receipts printed or requisitioned for these Thromdes.

<sup>14</sup> RAM 2004

- ☒ There was no stock register maintained to record the number of revenue receipts printed or requisitioned and the receipts issued in Thimphu Thromde.
- ☒ On cross checking the details of the non-revenue money receipts issued by DPA with the records maintained by Thromdes, discrepancies were noted in number of receipts issued and received. The discrepancies were due to incomplete records maintained in the Thromdes as well as at DPA. The differences in records are as shown in Table 13.

**Table 13: Non-accountal of receipt book issued by DPA**

Thromdes	No. of receipt books issued as per DPA's records (A)	No. of receipt books received as per Thromde's record (B)	Variance (A-B)	Remarks
Gelephu	170	104 recorded out of 170	66	66 receipt booklets less recorded by Thromde
Phuentsholing	520	458 recorded out of 520	62	62 receipt booklets less recorded by the Thromde
Samdrup Jongkhar	221	134 recorded out of 221	87	87 receipt booklets less recorded by the Thromde
Thimphu	76	0 recorded out of 76	76	No records maintained by the Thromde

- ☒ The revenue receipts were not used serially rather it was used in a random and haphazard manner making the audit trail cumbersome.
- ☒ On comparison of the receipt books recorded including both received from DPA and the ones printed by themselves as against physically available, discrepancies were noted in Phuentsholing, Samdrup Jongkhar and Thimphu Thromde as shown in Table 14.

**Table 14: Differences in number of receipt books recorded and physically available**

Thromdes	No. of receipt booklets recorded by Thromdes (including DPA issued and their own stock)	No. of receipt books physically available at Thromdes	Differences (in No. of books)	Remarks
Phuentsholing	636	625	11	11 receipt books missing
Samdrup Jongkhar	195	228	33	33 not recorded
Thimphu	0	1,429	1,429	No record maintained but receipts found physically available

As mentioned above revenue receipt is the primary instrument used by the Thromdes to collect and acknowledge receipt of any form of revenue. Defining procedures and internal controls and maintaining records are crucial in the management of revenue receipts. Thromdes however did not exhibit prudence and accord due importance. Consequently, exposing the revenue system to risk of fraud, theft, manipulation and misappropriation.

### 3.2.2.11. Inadequacies in expenditure control

Expenditure control is an important element of budget execution. Through effective expenditure control system, the agencies will not only be able to maintain high level of fiscal discipline but will also be able to implement planned activities within the approved appropriations. Expenditure control includes elements such as administrative and financial sanctions, ascertaining availability of budgets, recording and processing controls including delegation and segregation, proper recording and processing, verification and certification, and finally approving and disbursing the payments (FRMAI<sup>15</sup>).

Although expenditure control is an important aspect of revenue management, this audit did not cover the same because the component had been examined in the financial audits of the Thromdes. Therefore, in this report some of the significant issues reported in the previous financial audits are reflected to show inadequacies in expenditure control in the Thromdes.

A review of the past audit reports revealed issues of recurring nature, which had resulted in uncontrolled expenditures. The most common issues pointed out by RAA are i) excess payments, ii) over payments, iii) inadmissible payment, iv) irregularities in procurement, v) diversion of funds, vi) non-prioritisation of expenditures, etc. Some significant instances from the financial year 2016-17 are presented in case studies 2, 3, 4 and 5.

#### Case Study 2: Gelephu Thromde

- a) Gelephu Thromde had released payment of Nu. 9.159 million on account of construction of road network and other services in Industrial Service Center when the work was not carried as per Bhutan Building and Road Works 2013 including use of GSB layer without proper grading, cracks along the cross drainage RRM wall and execution of works not specified in approved drawings (AIN: 14615).
- b) The Gelephu Thromde had made an overpayment of Nu.0.326 million on account of construction of road under LAP-I & II for works not executed (AIN: 14615).
- c) The Gelephu Thromde had unsettled advances of Nu.5.976 million paid to Bhutan Power Corporation, Gelephu for realignment of electrical infrastructure in LAP-II. The Thromde had failed to settle the advance despite the fact that the work had been completed (AIN: 14615).

#### Case Study 3: Phuentsholing Thromde

- a) Phuentsholing Thromde had some damaged permanent structures aggregating to Nu. 6.379 million in construction of 'slope stabilization and mitigation works' at Rinchending under National Adaptation Programme of Action (NAPA-II) project which was not rectified (AIN: 15001).
- b) Financial Statement of Phuentsholing Thromde showed an excess deposit of provident fund contribution amounting to Nu.0.034 million. (AIN: 14427).

#### Case Study 4: Thimphu Thromde

- a) Thimphu Thromde had incurred a loss of Nu. 5.492 million which was siphoned-off by a hacker based in Hong Kong on account of purchase of three incinerators from M/s Benjamin Heating System Co. Ltd. in Thailand (AIN: 14467).

<sup>15</sup> Financial Resources Management Accountability Index, <http://www.bhutanaudit.gov.bt/frmai/>



- b) Thimphu Thromde made payment of Nu. 0.268 million for special stainless tray for electric cremators that was not specified in the quotation which was not compatible with the incinerators (AIN: 14467).
- c) Thimphu Thromde had constructed two houses for low income group with approval from Thromde Tshogde in contravention to the Local Government Act 2009 (AIN: 14467).
- d) Thimphu Thromde had made inadmissible advance payments aggregating to Nu.15.641 million to Greener Way for procurement of waste collecting vehicles (AIN: 14467).
- e) Thimphu Thromde had made excess payments aggregating Nu.0.351 million to M/s Dungkar Construction for riverbank protection works (AIN: 14467).
- f) Thimphu Thromde had made an excess payment of Nu.0.110 million to M/s Theunlam Construction for intermediate wall and slope stabilization works at Youth Development premises (AIN: 14467).
- g) Thimphu Thromde had made excess payments aggregating to Nu.0.120 million to M/s NITT Construction on account of construction of Storm Water Drain at Yangchenphu Higher Secondary School & City Drain, Taba (AIN: 14467).
- h) Thimphu Thromde had made an excess payment of Nu.0.102 million to M/s Phurba Construction on account of Sewer line works (AIN: 14467).
- i) Thimphu Thromde had made an excess payment of Nu.7.459 million in construction of bridges in Hejo and Dechencholing to Construction Development Corporation Limited (CDCL) (AIN: 14891).

There were also cases of damages caused to Thromdes' infrastructure by third parties where compensation and recovery of the damage was not collected. For instance, in Phuentsholing Thromde, there were damages on major portion of the road along NPPF Housing Colony valuing Nu.0.777 million (AIN: 14427) and in Thimphu Thromde, huge pipes at 3 different locations costing Nu.0.300 million were completely destroyed due to construction of private buildings (AIN: 14467). Furthermore, there were also several instances where the works initiated are not completed with materials lying idle on roads and public area causing inconveniences and cost overrun especially in Thimphu Thromde.

The lapses and deficiencies had occurred because of lack of monitoring and supervision at site, acceptance of defective works, acceptance of items/works not specified, lack of recording and processing control, and lack of control approving and disbursing payments. Such lapses demonstrate lack of concern for achieving value for money in the use of scarce public resources/revenues and the goal of financial sustainability.

### 3.2.2.12. Inadequacies in Human Resources Management

Manpower is proportional to productivity. The lack of productivity translates into reduction in revenue. As such, it is very important that revenue section is also manned with competent and adequate employees to enhance revenue collection and establish good client relationship as well. The workforce composition of the revenue section in Thromdes are as given in Table 15.

**Table 15: Number of staff engaged in revenue collection and management in Thromdes**

Name of the Thromde	Accounts Assistants	No. of VTI graduates/ Water technicians	Muster roll	Total	Remarks
Gelephu Thromde	1	-	1	2	Muster roll staff is being used only
Phuentsholing Thromde	1	-	1	2	



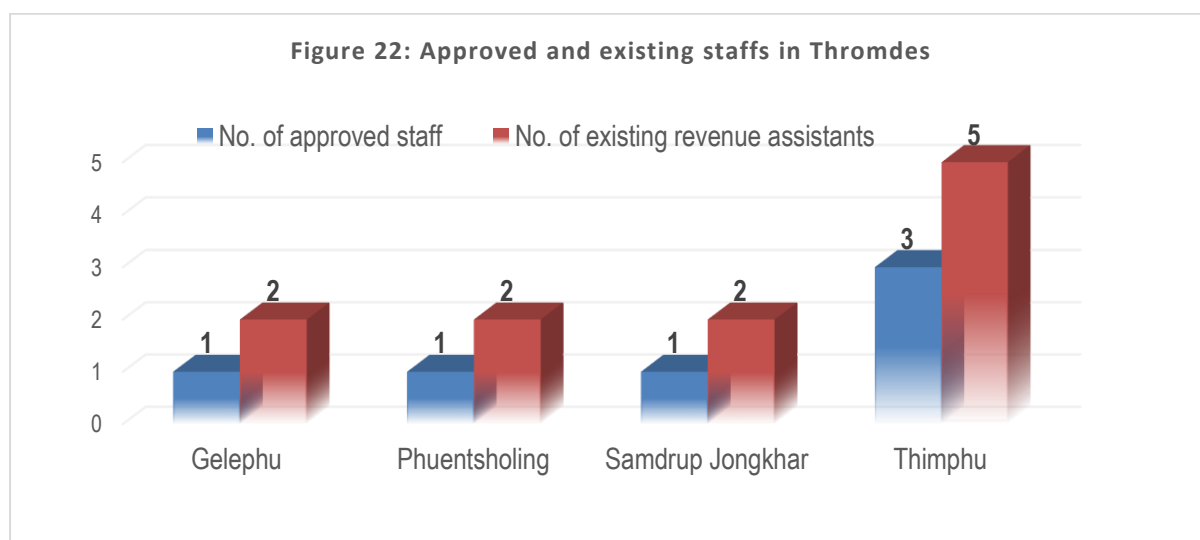
Samdrup Jongkhar Thromde	1	1	-	2	during the taxation season (Oct-Dec)
Thimphu Thromde	3	2	2	7	

On review of the human resources related documents and composition of the man power in the revenue section of the Thromdes, the following inadequacies were noted.

**a. Unrealistic approved staffing plan of the revenue section**

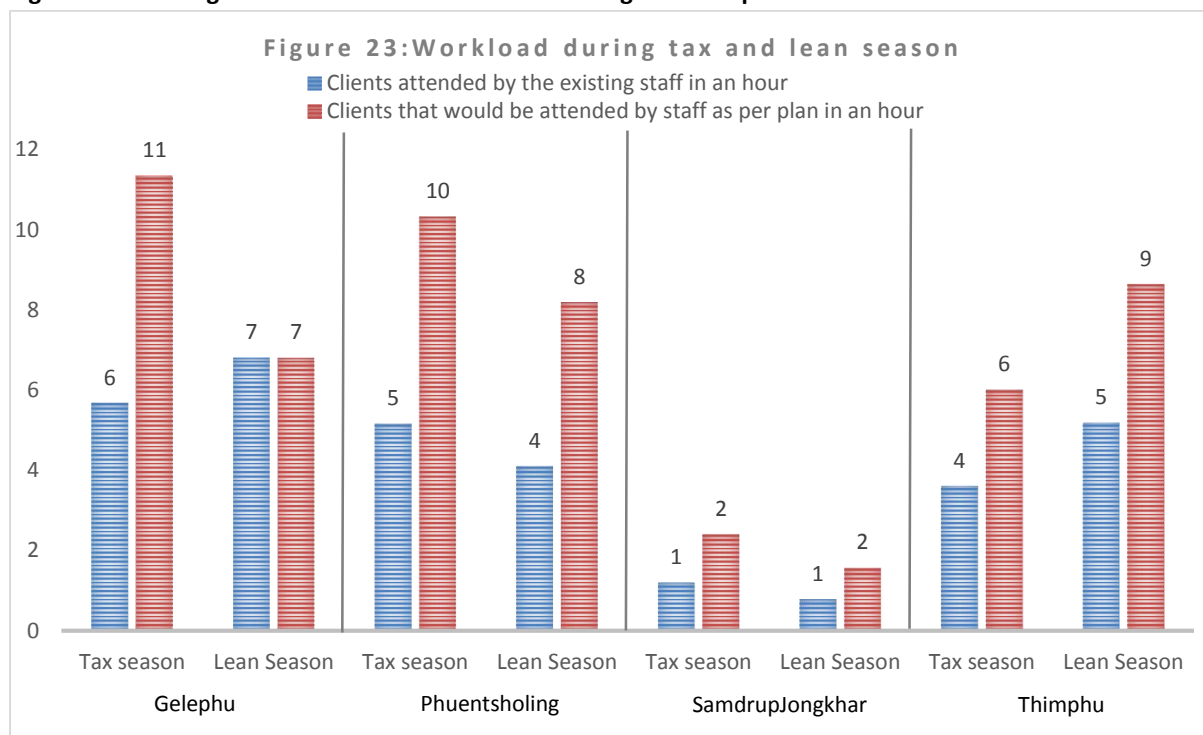
Staffing plan should be prepared to assess the future manpower requirement for the next five years by analysing the organisation's future plan and activities. Thus, the staffing plan should be realistic as the implementation of organisation's plans and programmes depends on the available manpower.

Comparison of the existing number of the employees working in the revenue section with that of the approved number of revenue assistants' strength in the approved plan revealed that the Thromdes have deputed additional employees which is represented in detail in Figure 22.



As evident from the figure, Gelephu, Phuentsholing, Samdrup Jongkhar and Thimphu Thromde have deputed employees in excess as compared to the approved strength of the revenue assistants indicating that the approved staff strength is unrealistic. It had resulted from lack of detailed study conducted on the actual requirement of the workforce and wrong assumptions and estimates made in the course of planning. It could also be attributed to absence of HRMP in all Thromdes.

It was indicated by the Thromdes that the additional employees were deputed because of the workload in the revenue section. Accordingly, the RAA carried out an analysis to assess the workload of revenue personnel. A comparative analysis was made to determine the number of clients attended by each revenue assistant in an hour by the existing workforce as against the clients that would have been attended as per approved staff strength for both peak/tax (October, November and December) and lean (April, May and June) season. The result of the analysis is shown in Figure 23.

**Figure 23: Showing workload of the revenue staff during lean and peak seasons**

It can be inferred from the Figure 23 that the workload of revenue assistants in Thromdes is comfortable with the additional pooled employee as compared to the workload as per approved staff strength. In other words, had the Thromdes been functioning as per the approved staffing plan, the service delivery will be slow as each of them would have more clients to attend to. For example, Gelephu Thromde deutes the additional employee during tax season and the workload of the revenue assistant is manageable as the revenue assistant has to attend to only 6 clients as compared to 11 clients to be attended if additional personnel were not provided.

In the case of Phuentsholing Thromde, the workload of the revenue assistant is eased with the recruitment of an additional staff. The highest number of clients that would be attended in an hour would have been 10 in Phuentsholing Thromde during the tax season which works out to 6 minutes for every client, if the Thromde did not hire an additional employee. Assuming time taken for each client is 10 minutes, the lone revenue assistant in Phuentsholing Thromde would be burdened with workload during the tax season. Thimphu Thromde is also observed to be comfortable with the existing workforce.

As such, it indicates that the approved staff strength as per plan is not realistic considering the workload of the revenue assistants and also the vulnerable nature of the cash handling without segregation of duties.

The resultant poor human resource planning has an immediate and long-term impact on organizational functioning, employee recruitment and ultimately revenue generation. In absence of the realistic approved staff strength, it has led to temporary pooling of employees

during the tax season, recruitment of employees in muster roll and water technicians for the revenue section who are not trained accountants as detailed in the subsequent para.

The RAA was informed that, the water technician is being deputed only during the taxation season (October- December) in case of Gelephu Thromde. Similarly, the deputation of one employee on muster roll in Phuentsholing Thromde was also told to be temporary. Although, the fact remains that there is no alternative than to depute a substitute while the lone Accounts assistant is on leave or is overburdened during the taxation season, temporary pooling of man power may make it difficult to identify specific cash handlers and fix accountability in case of lost or stolen cash receipts and incorrect recording of transactions.

#### **b. Deputation of muster roll staff and water technicians in the revenue section**

The revenue section of government revenue agencies are deputed with Revenue Officer with Post Graduate Diploma in Financial Management and Accounts Assistants with Diploma in Financial Management. Similarly, the Thromdes are also provided with accounts assistants from the Ministry of Finance to look after their financial affairs. Also, ideally, employees working with revenue section should be trained accountant with the accounting background.

However, the RAA noted that all the Thromdes have deputed additional employees either on muster roll or water technicians besides having Accounts Assistants due to its inadequacy. The details of number of water technicians and muster roll employees deputed in the Thromdes are shown in the Table 16.

**Table 16: Number of water technicians and muster roll deputed in revenue section**

<b>Name of Thromde</b>	<b>No. of water technicians</b>	<b>No. of muster roll employees</b>	<b>Total</b>
Gelephu	1		1
Phuentsholing		1	1
Samdrup Jongkhar	1		1
Thimphu	2		2

Book keeping along with the cash handling by someone without training and accounting experience may result in inaccurate record keeping and financial reporting. Since financial statements must remain true and accurate, to help end users in making their decision, inaccurate records and financial statements deter the decision making process, especially financing and expansion or improvement of services.

**The Thimphu Thromde responded that relevant administrative assistants will be recruited in the Complaints counter in the 12th FYP. Furthermore, the Thromde had redeployed muster roll staff to other Divisions.**

#### **3.2.2.13. Lack of segregation of incompatible duties**

The FMM 2016 stipulates that different people should handle different stages of a transaction. In addition, the NICF maintains that as far as possible, a single employee should not control all phases of a transaction.

The function of cash handling should be separate from that of record keeping. Cash receipts duties should not be assigned to employees who are also responsible for cash disbursement functions. In addition, the preparation and approval of bank account reconciliations should be segregated from all other cash receipt and disbursement functions. Similarly, Thromdes should have different employees performing tasks such as collecting revenue, maintaining records, and preparing bank account reconciliations ensuring an effective segregation of incompatible duties.

During the system walk through, the RAA noted that one employee is involved in several of these functions. This employee receives the cash, maintains the safe to store daily receipts, maintains records they maintain (the records they maintain are not complete), deposits the cash collected and prepares bank reconciliation. Even if Thromdes have more than one revenue collecting staff, a revenue assistant for collecting taxes and others, and the staff in muster roll for collecting water and sewerage charges, the revenue assistant does all the other tasks in addition to revenue collection. The lone revenue assistant in the most Thromdes was observed to be collecting revenue, depositing, making entries and reconciling.

Though it is understandable that there is only one to two persons working in the revenue section of the Thromdes and also that it is not practical and cost-effective to segregate duties for small Thromdes, yet, compensating controls should be implemented by the management. For instance, finance staff could be deployed for short instances to monitor and the responsibility to prepare bank account reconciliation should be entrusted to the head of the revenue section. Even compensating controls such as periodic monitoring and internal audits were found lacking.

Lack of segregation of duties may result in intentional misuse of revenue and inadvertent error resulting in revenue leakages as pointed out in several past audit reports. Opportunities to commit fraud are likely to occur in a critical situation such as lack of segregation of duties for cash has the greatest potential for theft if a system of internal controls are not in place and functioning effectively.

**The Thimphu Thromde responded a ToR will be developed for revenue personnel wherein collection, deposit and reconciliation are segregated.**

While appreciating the efforts of Thimphu Thromde, the Thromdes should segregate incompatible duties with a clear line of reporting to the supervisors and Thromde Management with accountability.

### **3.2.2.14. Unclear vacant land tax**

The Thromdes are mandated by the LG Act 2009 to levy Vacant Land Tax & Under-development Tax.

However, Vacant Land Tax and Under-Development Tax were not defined in both the Taxation Policy 1992 and LG Act 2009. Due to the lack of definitions of the two

aforementioned taxes, it has created confusion in the Thromdes and was found to be used interchangeably.

Further, only underdevelopment tax rate is specified while the tax rate for vacant land is not and vacant land tax is not mentioned anywhere in the Taxation Policy 1992. As per clause 2, chapter V of the Taxation Policy 1992, “*An underdevelopment land tax shall be levied in addition to the land tax @ 25% of the land tax applicable on owners holding on to land without constructed house approved by the Municipal Corporation*”. As such, the Thromdes had collected Vacant Land Tax for Under-Development Tax @25% of the land tax on all the vacant land as it is interchangeably used.

Consequently, the vacant land taxes are levied wrongly; there is thus need for clarity on the rate for vacant land tax.

**The Thimphu Thromde agreed to seek clarification from Ministry of Finance about underdevelopment tax and vacant land tax within 30th of May, 2018.**

As agreed, clarification should be sought so that the taxes are levied correctly.

### 3.2.2.15. Revenue Management System and Digitised Asset Register System

MoWHS had undertaken the development of Revenue Management System (RMS) and Digitized Asset Register (DAR) to strengthen revenue administration with financial support from World Bank under the municipal finance and management component of BUDP-II. RMS covers all applicable sources of revenue comprising of taxpayer and property database, which will ease revenue collection, and generate accurate and timely revenue information to make informed decisions.

The system analysis and design were carried out in 2010 by Deloitte India consulting firm in partnership with a local IT consulting firm, iTechnologies that took over the development aspect of the system and the implementation, starting from 2013 onwards in Thimphu and Phuentsholing Thromdes. Both RMS and DAR are also being implemented in Gelephu and Samdrup Jongkhar Thromdes from November 2017. The cost for development and implementation of RMS and DAR is Nu. 24,957,070.13 as given in Table 17.

**Table 17: Cost of development and implementation of RMS and DRA**

Sl. No	Description	Firm	Cost (in Nu.)
1	Analysis, Design, Development and Implementation in Thimphu and Phuentsholing Thromdes (2012-2016)	iTechnologies	3,900,390.00
		Deloitte	13,568,680.13
2	Maintenance Support Contract for Thimphu and Phuentsholing Thromdes (2016-2017)	iTechnologies	1,200,000.00
3	Maintenance Support Contract for Thimphu and Phuentsholing Thromdes (2017-2018)	iTechnologies	1,288,000.00
4	Implementation in Gelephu and Samdrup Jongkhar Thromdes (2017-2018)	iTechnologies	5,000,000.00
<b>Total</b>			<b>24,957,070.13</b>

Source: PPD, MoWHS

Despite incurring such huge expenditure and even after four years of development, the systems are not yet fully operationalised in Phuentsholing and Thimphu Thromdes. Until 2015, the implementation of the system in the two Thromdes saw no progress at all. This indicates laxity on the part of MoWHS and the Thromdes concerned to implement and embrace the systems. The system was not properly operationalised due to lack of registry data on taxpayers and properties in both the Thromdes.

### **3.2.2.16. Lack of performance tracking and reporting for Thromde services**

The Thromde Rules 2011 stipulates that senior management should monitor and supervise all divisional activities including divisional performance against planned activities and standards. The NICF also suggests performance measures and indicators should be established and reviewed in agencies.

Likewise, Thromdes should set targets in terms of revenue increment and expense reduction to ultimately achieve the goal of financial sustainability and the same should be constantly monitored to track progresses. However, in Thromdes no targets are set and no monitoring and performance evaluation are carried out for revenue enhancement and reduction of expenditure.

Similarly, Thromdes provide various services for which revenues are collected and revenue generation depends on efficiency of services delivered. In order to enhance efficiency in the service delivery, Thromdes must have defined performance measures such as Turn Around Time (TAT).

Upon review, it was noted that except for Samdrup Jongkhar Thromde, all other Thromdes have clearly defined TAT for most commonly availed Thromde services. However, even with defined performance measures, Thromdes have never scrutinised the performance of its services; the actual performance was not measured against defined TAT. Further, it is evident that since there is no progress tracking, there will be no performance reporting and Thromdes do not have performance reporting.

In order to ascertain the efficiency of the service delivery, the RAA carried out the analysis of the TAT for some of the services for which data was available. The workings are presented in Table 18.

Table 18: TAT for service delivery

Services	Thimphu				P/ling				Gelephu				Samdrup Jongkhar		
	TAT (in days)	Actual time taken (in days)			TAT (in days)	Actual time taken (in days)			TAT (in days)	Actual time taken (in days)			Actual time taken (in days)		
		MAX	AVG	MIN		MAX	AVG	MIN		MAX	AVG	MIN	MAX	AVG	MIN
Drawing Approval	23	343	104	1	15	186	19-20	2	15	356	79	1	124	40	10
Long term lease	60-90	329	154	32	10	8	8	8	60	NA	NA	NA	320	192	79
Short term lease	2-7	NA	NA	NA	5	301	43	8	3	NA	NA	NA	220	43	1
Site plan	3-7	NA	NA	NA	3-7	206	11	1	4	NA	NA	NA	343	76	1
Water meter connection	3-7	211	24-25	1	7	NA	NA	NA	4	27	5-6	1	57	3	1
Sewerage services	1-7	NA	NA	NA	1-14	15	3-4	1	4	1	1	1			
Environment clearance	2	19	3	1	NA	NA	NA	NA	1	NA	NA	NA	31	17	1

**Note:** 1. NA = Not available

2. The source of TAT for Thimphu Thromde is SoP, for Phuentsholing is QMS and for Gelephu is SDS. The TAT for Samdrup Jongkhar is not given in the table as it is not defined.
3. Following services were also checked for TAT but the required information, such as application date and approval date were not made available to the RAA team and could not draw if the services were delivered within the defined TAT.
  - a) Lagthram Issue
  - b) Demarcation
  - c) Property Transfer and
  - d) Site plan

From the data provided, the RAA found that, for services like sewerage, water meter connection and environment clearance, the time taken from application to approval is not very different from the defined TAT. It was noted that the provision of services through G2C had led to improved service delivery.

For approval of drawings, the maximum time taken is close to a year in Gelephu and Thimphu Thromde, more than six months in Phuentsholing Thromde and four months in Samdrup Jongkhar Thromde. On the other hand, the minimum time taken is just one day in both Gelephu and Thimphu Thromdes. While on average, Phuentsholing Thromde is approving drawings faster than the rest of the Thromdes.



However, for services requiring supporting documents such as land lease and drawing approval, it takes longer because complete set of documents are not submitted while some submitted documents require revision. It is also hindered due to dependency on different sections within the Thromde and on other agencies such as NLCS, Bhutan Power Corporation Limited, MoWHS, etc. While at times, it is caused due to shortage of human resource.

The delay in providing services not only shows the inefficiency but also hinders revenue generation. This happened due to inadequate top management commitment to assess the efficiency of Thromde services. Consequently, Thromdes will not be able to discern problem areas with its services, and improve operations and service delivery, which in turn leads to delayed revenues realisation.

**The Thimphu Thromde will review the performance indicators and institute a performance reporting mechanism by 31<sup>st</sup> December 2018.**

### **3.2.2.17. Inaction of the management on past audit findings and recommendations**

As per the NICF of MoF, the senior management should review audit reports and ensure that past audit findings are resolved and corrective actions are taken to prevent circumstances which give rise to lapses. Correspondingly, Thromde management should ensure that corrective actions are implemented in a timely manner to correct the system.

Over the years, the RAA through its audit reports have pointed out several weaknesses and corrective actions that require management action. A common issue among Thromdes was the discrepancies in the collections and deposits, and the root cause was the failure to reconcile the collection and deposits of revenues periodically. Yet discrepancies and non-reconciliation still persist in Thromdes.

Another issue is the timely collection of revenues and hence, there are several memos on outstanding taxes. The RAA had recommended instituting supervisory and monitoring mechanisms, conducting vigorous follow-ups, maintaining registry for properties under the Thromde, and improving tax enforcement procedures (fines and penalties) among others to affect timely collection of revenues. However, a record number of outstanding taxes still exist.

These indicate that Thromdes have not implemented the key controls and processes to address previously identified deficiencies indicating lack of proper attention to correct system flaws and strengthen internal controls.

## CHAPTER 4: RECOMMENDATIONS

Based on the issues pointed out under Part 2 in chapter 3, the RAA has formulated 14 recommendations aimed at enhancing efficiency and effectiveness in revenue collection and management in the Thromdes. The recommendations are as discussed below:

### **4.1. Thromdes should maintain comprehensive registry of sources of revenue**

At present, Thromdes lack a comprehensive central registry of taxpayers and other sources of revenue. Considering the importance of central registry of revenue sources for revenue projections assessments and enhancement and expenses related to revenue generation, it is imperative that Thromdes maintain accurate, comprehensive, reliable and up-to-date central registry. More importantly, since the registry is used as a basis for revenue collections, Thromdes should take initiatives to update the current registry and maintain complete registry. While doing so Thromdes should capture e-Sakor land inventory data of NLCS in their revenue registry in order to have conformity in the information owned by both the agencies.

### **4.2. Thromdes should formulate strategies towards financial sustainability**

Lack of strategies for financial sustainability in Thromdes is a cause of concern with the government's plan to phase out the subsidies eventually and Thromdes' continual dependence on grants. Therefore, Thromdes should formulate strategies towards financial sustainability. More specifically, Thromdes should give effect to Thromde Finance Policy 2012 for prudent financial management and to uphold the government's policy of financial sustainability. Thromdes should also prepare a long-term financial plan in order to attain financial viability and reduce dependence on annual grants.

### **4.3. Ministry of Finance (MoF) in coordination with Thromdes should prepare grant phase out plan**

There was no agreement drawn between MoF and Thromdes with regard to annual grants and the phase out plans. The MoF and Thromdes should work closely to assess the financial position of the Thromdes, the viability, ability and capacity of Thromdes to generate revenues and formulate a grant phase out plan for each Thromde along with timelines.

Moreover, MoF should establish a formal assessment mechanism to obtain accurate and reliable projected revenues and estimated expenditure submitted for annual budget and accordingly approve the subsidy.

### **4.4. Thromdes should develop revenue management strategy**

Although initiatives were taken to enhance revenue generations, Thromdes did not have an overall revenue management strategy with revenue targets set. Given that Thromdes are

spending more than their revenues and dependent on grants, Thromdes should develop a holistic and practical revenue management strategy to meet the set target. Thromdes should examine the existing taxes, fees and charges, identify new charges, assess the cost of providing services and revenue collection capacity, study existing revenue administration, etc., to provide a strategic framework of resolving the deep seated financial challenges that they are facing currently.

Further, Thromdes could examine the possibilities of generating revenues from revenue streams services which are currently provided for free of cost. For instance, Thromdes provide the property mortgage noting services for financial institutions providing loans based on those properties registered under Thromdes which are not currently charged. Likewise, Thromdes could propose hotel occupancy taxes and explore introducing charges for recreational and sports facilities.

Exploring new revenue streams will enhance Thromdes' revenue generation ability and work towards financial sustainability. Therefore, Thromdes should set revenue targets to be achieved and develop a holistic and implementable revenue management strategy.

#### **4.5. Thromdes should strengthen internal controls**

With the devolution of power and financial autonomy given to Thromdes, it is imperative that Thromdes establish a strong internal control framework for revenue collection and management. In particular, Thromdes should

- implement corrective actions pointed out in the past audit reports to streamline the revenue collection and accountal process,
- develop a comprehensive revenue manual,
- segregate incompatible duties for revenue section,
- establish clear roles and responsibilities of all the relevant employees including the management,
- institute monitoring and reporting mechanisms to track financial performance and divisional performance, establish a system to carry out reconciliation of services with that of corresponding revenues earned, revenue receipts with revenue cashbook, and revenue collected with bank deposits,
- establish appropriate internal controls in revenue receipt management such as 1. printing of revenue receipts authorised by competent authority and documented, 2. stock register strictly maintained for new revenue receipts, 3. used and left over revenue receipts properly accounted and documented, 4. Proper record keeping space identified for revenue receipts and
- systematize the revenue collection and management process.

Although every employee plays a role in strengthening the organization's internal control system, the responsibility for establishing and maintaining the control environment rests with the management.

#### **4.6. MoF and Thromdes should review and improve financial reporting framework**

Existing financial reporting framework does not reflect the true nature of the operations of the Thromdes. The MoF and the Thromdes should review the relevance and appropriateness of existing financial reporting which is cash basis accounting in the view of its operations. The government may consider adopting accrual accounting for Thromdes in a phased and systematic manner.

In addition, the Thromdes should implement key controls and processes needed for prudent financial management such as 1. revenue projections based on thorough study of revenues collected in the past years and sources of revenue, 2. standard and uniform formats for financial reports, 3. preparation of required financial reports, 4. Proper maintenance of supporting documents, 5. verification of financial reports, 6. defined lines of reporting

#### **4.7. Thromdes should strengthen expenditure control mechanisms**

Expenditure control is an important element of budget execution. Through effective expenditure control system, the agencies will not only be able to maintain high level of fiscal discipline but will also be able to implement planned activities within the approved appropriations. However, several inadequacies in expenditure control are noted in the Thromdes.

Therefore, as a part of financial sustainability drive, Thromdes should review and carry out detailed analysis of their expenditure and identify areas where cost reduction and cost control measures can be possible. Few of the focus areas to control expenditure in Thromdes:

- Expenditure of discretionary nature and those which can be avoided or minimized should be controlled.
- Construction and maintenance activities should be planned and synchronized to avoid delays, overlapping, inconveniences and cost overruns.
- Hasty implementation of activities should be avoided.
- Compensation should be collected for damages to structures caused by other parties.
- Outsourcing policy has to be developed.
- Cost benefit analysis for outsourcing decision should be carried out.
- Supervisory control should be strengthen for disbursing payments.

#### **4.8. Thromdes should devise strategies to encourage taxpayers to pay taxes on time**

Of several factors, optimum revenue generation for a particular period is dependent on the willingness of taxpayers to pay taxes on time. Thus Thromdes should devise strategies to encourage voluntary compliance by taxpayers by creating awareness and easing tax payments. Therefore Thromdes should:

- conduct awareness and sensitisation on the role of Thromdes, importance of tax to the Thromdes, responsibility to pay tax, cost of providing services, service process and procedures, enforcement actions in case of non-compliance, etc.,
- design and implement strong enforcement mechanism for non-compliance,
- provide multiple modes of payments such as Point of sale at revenue counter, mBOB, e-payments, etc.,
- improve the existing customer care center to clarify queries, handle complaints, etc. to enhance taxpayers' interaction experience,
- leverage the existing G2C services to improve service delivery to ensure that taxpayers experience good service,
- strengthen the Thromde services app currently used in Thimphu Thromde and replicate the same in other Thromdes, and
- improve visibility of taxes owed by individual taxpayers through various medium.

#### **4.9. Thromdes should consider revision of taxes, fees and charges**

The RAA observed that the basis for tax assessments, i.e., the Taxation Policy 1992 was not revised in the last 26 years and does not reflect the true cost of providing and running services in the present environment. There is also a need to align the policy with the LG Act 2009 and Thromde Rules 2011 which came into effect later. Specifically, there is a need to define and differentiate vacant land tax and under development tax.

Bearing this in mind, Thromdes should continue proposing revision of the taxes which was initiated from 2014. Further, Thromdes in coordination with MoF and MoWHS should also consider revising fees and charges which are long due for revision.

#### **4.10. Thromdes should exercise due diligence and prudence in the management of government land**

Although Thromdes are empowered with the administration and management of government land within its jurisdiction, the RAA noted several cases of imprudence and negligence resulting in revenue forgone. Thus, Thromdes should revisit these cases and also identify similar cases and take action as per the Land Act 2007.

#### **4.11. Thromdes should institute mechanism to ensure equality and uniformity in application of taxes, charges, fees, etc.**

RAA observed several instances of non-levy of taxes and charges uniformly to the residents of the Thromdes defeating the principle of equity and fairness to the public. Thromdes should review the regulations where there are ambiguities, for example, house classification, scrutiny fees for renovation, charging of sewerage services dependent on water charges, etc.

Therefore, Thromdes should develop robust procedures for application of taxes, fees and charges addressing the observations in para 3.2.1.3 and educate those involved in assessment and collection of revenues on the same to achieve equity and uniformity in levy of taxes, charges and fees.

#### 4.12. Thromdes should have realistic staffing plan

Un-realistic staffing plan of revenue section in Thromdes had resulted in deployment of additional staff who are not qualified to handle revenue collection and management. Therefore, Thromdes should appropriately plan and deploy employees with the required skills and qualifications and based on the workload of the revenue section.

#### 4.13. Thromdes concerned should deposit the amount not accounted

Revenues collected should be accounted for in the books of accounts and deposited into bank. However, the RAA noted revenue amounting to Nu. 20,169,057.43 was not accounted for in the books of accounts out of which Nu. 9,220,256.10 might not be deposited. Therefore, the Thromdes concerned should verify the non-accountal worked out by the RAA, fix accountability, recover and deposit the amount into Audit Recoveries Account (ARA). The amount to be recovered by the Thromdes concerned is given in Table 19.

**Table 19: Amount to be recovered by individual Thromdes**

Thromdes	Non-accounted Amount(Nu)	Annexure
Gelephu	181,550.89	Annexure VIII
Phuentsholing	8,433,889.21	Annexure IX
Thimphu	6,04,816.00	Annexure XII
<b>Total</b>	<b>9,220,256.10</b>	

#### 4.14. Thromdes concerned should vigorously follow-up the outstanding revenue

There is adequate legal mechanism with clear enforcement actions supported by penalties to collect taxes on time. However, on ground the actual enforcement is not supplemented with adequate mechanism to ensure compliances. While the standing rules provide course of actions to be taken, the enforcements actions are often not taken and there are no prescribed procedures to annul the thram of those defaulting taxpayers in coordination with the NLCS. Consequently, it has led to outstanding land taxes ranging from one year to more than five years amounting to Nu. 17.631 million.

The Thromdes concerned should vigorously follow-up on the overdue revenue and settle the outstanding revenue at the earliest.

## CHAPTER 5: CONCLUSION

Efficient and effective revenue collection and management framework in Thromdes has the potential to not only improve the quality of life of urban communities but also contribute towards reducing a significant burden on the Royal Government of Bhutan.

There are strong legal frameworks governing Thromdes with the authority to levy, appropriate and collect taxes, fees and charges. Thromdes also have financial autonomy to spend the collected revenues at their own discretion.

Despite the strong legal frameworks, the RAA observed several shortcomings and deficiencies which require further improvements. The lapses were largely caused by lack of overall strategy to achieve financial sustainability which translated into absence of defined working and control procedure system in the field of revenue collection and management with resultant inefficient and ineffective revenue management. Thromdes did not identify potential revenue streams to enhance revenues nor did they comply strictly with legislation or have enforcement mechanisms in place. Thromdes face numerous challenges that impeded effective service delivery and its subsequent revenue collection and management. The most common challenges faced by all Thromdes are lack of strategic direction, lack of institutional capacity, weak internal controls, and inadequate governance. All of these had resulted in non-accountal of revenues and other forms of revenue leakages in the system resulting in huge revenue losses.

Therefore, Thromdes should primarily strive to work towards the government policy of achieving financial sustainability. The RAA recommends that the Thromdes' management should seriously address the shortcomings and implement corrective actions immediately. The RAA hopes that Thromdes and related stakeholders will enhance efficiency and effectiveness in revenue collection and management considering the fact that revenue is the main source of finance for functioning of the Thromdes, it involves cash and the lapses noted can be corrected easily with commitment from the management.





## APPENDICES

Reponses from National Land Commission Secretariat, Gelephu Thromde, Phuentsholing Thromde, Samdrup Jongkhar Thromde and Thimphu Thromde.



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ས་འཇུག་དང་ས་འཕྲུལ་བརྒྱུ་སྤྱོད་ལྟར་།



Royal Government of Bhutan  
National Land Commission  
Department of Survey and Mapping  
Thimphu

NLCS/DSM(C)/06/2017-18/ 00 8997

Dated: 29/03/2018

Mr. Chimi Dorji,  
Deputy Auditor General,  
Department of Performance and Commercial Audits,  
Royal Audit Authority,  
Thimphu.

**Subject: Comments to the Performance Audit Report on Revenue Collections and Management in Thromdes**

**Ref: RAA/DPCA(TAD/PA-RM Thromde).2017-2018/760 dated March 16, 2018**

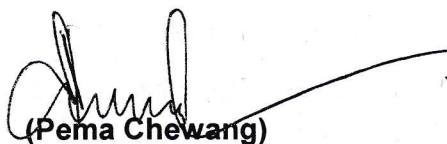
Sir,

The NLCS would like to thank the RAA for sharing the Performance Audit Report on Revenue Collections and Management in Thromdes. Although revenue collection and management of Thromdes are not the responsibility of NLCS we do have some stake, since NLCS is the custodian of the Land Act.

The NLCS is hereby pleased to submit its opinions and comments to the audit findings and recommendations (attached).

Thanking you for your continued support.

Yours Sincerely,

  
(Pema Chewang)

Secretary

Copy to:

1. Auditor General, Royal Audit Authority.
2. Office copy.

Royal Audit Authority  
Thimphu : Bhutan  
Dairy No... 60384  
Date... 30/3/2018

~~DPCA~~  
AAU, TAD  
For u.a.  
BFA  
4/4/18

ACG

## **NLCS's opinion and comments on RAA's Draft Performance Audit Report titled "Revenue Collection & Management in Thromdes"**

Ref: 1. RAA/DPCA(TAD/PA-RM Thromde)/2017-2018/02/ 760 dated March 16, 2018  
2. AIN : 15086  
3. Audit period: 01.07.2012 to 30.06.2017

### **3.2.1.1**

The RAA has "presumed that Thromdes will have a taxpayers' registry." However, NLCS is not aware of the existence of taxpayers' registry with the Thromdes. Except for land records, we are also not sure of whether they maintain a "central registry (master database)" of taxpayers who are liable to pay house tax and related service charges. Same is the case with asset and/or property inventory, registry of sources of revenue, water meters, sewerage connections and building constructions. Nevertheless, as the custodian of Land Act, NLCS do provide them with the registry of land records from time to time which contain vital information related to the land owner.

The RAA's observation on the mismatch of land holdings between the NLCS and the Thromdes could be because of following reasons:

- The different date and time of data acquisition by the RAA
- Pending thram release due to various issues
- Non receipt of the updated records by the Thromdes from the NLCS
- Land not measured during NCRP due to disputes and court cases
- Continues land transactions etc

If the RAA could provide us the details of the extra land holdings indicated in table 1, we would be in a better position to pin point and furnish appropriate and correct clarification.

In any case, if there is any discrepancy, the land records maintained by the NLCS should be treated as final and binding.



#### **3.2.1.2 (a)**

The NLCS has no comment on revenue leakage as a result of Thromde's inadequate administration other than to mention that things may improve if qualified, capable, and motivated civil servants are posted there by the RCSC and other relevant central agencies. An assessment of the human resource capacity may throw more light into the causes of inefficiencies in the Thromdes.

#### **3.2.1.2 (b)**

The NLCS has no comment on the "Fin Factory" issue since the responsibilities seem to fall with the MoEA and the Thromde. Moreover, the case dates back to 1974 and the owner had claimed that he had a kasho from the erstwhile Ministry of Trade and Industry and Forest. However, if the Thromde and the relevant stakeholder process for URC or leasing the land, the NLCS will do the needful, as per the Land Act.

#### **3.2.1.2 (c)**

The 48<sup>th</sup> National Land Commission Meeting conducted on 3<sup>rd</sup> November 2017 had already made/conveyed the decision. The RSTA was to annul the lease agreement drawn with M/s. Rabten Engineering Workshop and hand over the land to Thromde after recovering lease rent difference of Nu. 17,707,584/-.

However NLCS agree with RAA's observation that "since leasehold is one of the main sources of revenue for Thromde, it would render it difficult for Thromde to sustain if every agency lease out and collect lease rents individually" while holding the Thromde responsible for development activities.

#### **3.2.1.2 (d)**

The old Lag Thram of total area 103.71 acres issued in 2006 is invalid after the completion of NSC and NCRP. During NSC, an overall area of 70.1 acres was measured and updated in the Thram. In year 2013, due to change in administrative boundary, the Thram was transferred to Urban with total area of 70.1 acres. However, during NCRP, the plots were measured with total area of 188.18 acres and because of this excess issue, the Thram was kept pending.

#### **3.2.1.4**

The NLCS agree and thank the RAA for making the observation that there is a need to develop a procedure for annulling the thram of those defaulting taxpayers. This same will reviewed upon completion/closure of the nationwide NCRP.

#### **3.2.2.6**

The statements that the "Thromde have been using the same tax rates for the past 26 years" and that "taxes and charges are assessed based on the Revised Taxation Policy of 1992" may not hold true in the case of Thimphu Thromde. This is because the Thimphu Thromde took the initiative of revising the land tax rates in 2011. In spite of numerous challenges the Thimphu Thromde Tshogde took a bold step of increasing the land tax in 2011.

However, NLCS agree that land and property taxes in all the other Thromdes, including Dzongkhags, have not been revised since 1992. Therefore, it is opines that since the Thromdes are implementing agencies, the task of revising and/or increasing the tax may not rest with the them.

#### **4.1**

While agreeing with RAA's recommendation on the Thromde's need to capture e-Sakor data the NLCS feels that the Thromde may need technical backstopping and support from the relevant central agencies like the MoF and MoWHS, especially with regard to establishing a comprehensive registry of sources of revenue, assets and properties.

#### **4.9**

With regard to the need for revision of taxes, fees and charges by the Thromdes the comments from the NLCS is as stated in 3.2.2.6 above.

#### **4.10**

The NLCS has no comment on this other than to agree with the RAA's recommendation that Thromdes should exercise due diligence and prudence in the management of government land.



#### **4.13**

The NLCS has no comment on this also since we agree that the Thromdes should vigorously follow-up on the overdue revenue and settle the outstanding revenue at the earliest.



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ROYAL GOVERNMENT OF BHUTAN  
GELEPHU THROMDE



GT/Accts/06/5064

17/04/2018

To,

Assistant Auditor General,  
Office of the Assistant Auditor General,  
Tsirang,

**Sub: Justification for the audit observation.**

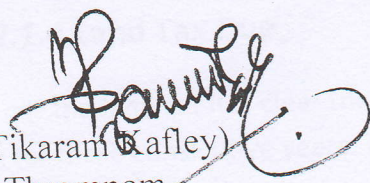
Dasho

Please kindly find enclosed herewith the justification for the performance audit report. Thormde Administration would appreciate for the the recommendation which will enhance efficiency and effectiveness in revenue collection and management in the Thormde.

Thormde Administration would like to request to consider our justification for the audit observation .

Thanking you,

Yours sincerely,

  
(Tikaram Kafley)  
Thrompom





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## ROYAL GOVERNMENT OF BHUTAN GELEPHU THROMDE



### 3.2.1.3 (c) Services Charges

The land use within the Thromde Area is defined by the Structure plan and the land owner needs to construct the buildings and houses accordingly. For example, core town of gelephu Thromde is classified as UC (Urban Core), where the buildings or houses has to be used for commercial purpose and not for the residential. During the approval of building and house drawing, it is approved accordingly. However, during the uses of building or houses it will be observed that some units are being used for residential rather than commercial. If we levy charges as per the buildings and houses used by the owners than the very motive of developing structure plan and subsequent precept will be defeated. Therefore, to discourage the people to use the buildings and houses against the precept the charges are levied as per the precept despite of the actual buildings and used.

### 3.2.1.3 (h) Lease rent

As per the lease rate approved by the NLCS for commercial purpose it has to be charged Nu. 42 per sq.ft and we respect the decision of the NLCS. But if we consider the current environment at gelephu thromde it has a different scenario. If we charge Nu. 42 per sq.ft at place like gelephu than we might not be in the position to collect even what we have collected till now. The same issue was raised during the financial audit and the issue even reached parliament for under charging. During that time we gave the same justification and in order to promote business at gelephu thromde they accepted the justification however, they recommended for retrospective approval, which gelephu thromde has obtained from NLCS. The plots in ISC are leased out @4 per square per annum.

### 3.2.1.4 Land Tax Due

As per the land act it is clear that the thram needs to be annulled if the owners doesn't pay land tax for three consecutive years. The land that were due for more than several years as pointed by RAA couldn't be annulled due to non-availability of land owner details and failure to contact the land owner. We felt without informing the land owner and making them aware of the land act provision it will be unfair as there was no standard rules and regulation to maintain the upto date information of the land owners. However, during the time of owners turn up we collect tax with penal interest and make them aware that if they fail to pay taxes within three years than it shall result into cancellation of their thram.





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## ROYAL GOVERNMENT OF BHUTAN GELEPHU THROMDE



### ***3.2.1.5 Non-accountal of Revenue Collections***

Due to limited number of personnel under revenue section the issue has occurred. During the last financial audit it was observed and the revenue incharge had refunded as per the audit observation. In order not to happen in the future we have proposed additional main power requirement to RCSC.

Regarding the revenue receipt book printing, DPA has issued circular that the department will not issue receipt and Gelephu Thromde accordingly sought approval for receipt printing from MoF. Now we have made independent procedure where revenue section will put up the requisition and procurement section will print and issue the receipt. This was done as per the recommendation of Financial Audit.

### ***3.2.2.5 Lack of out-sourcing policy***

The outsourcing at gelephu thromde is a integrated project. Previously, town cleaning was carried out by gelephu thromde and the monthly expenses was approximatly, Nu. 400,000.00 and it was very difficult for the management. The thromde intiaded town cleaning to be outsourced and during the first year of initiative Gelephu Thromde was in the position to safe Nu. 600,000.00 annually. During the course Thromde Administration was getting complains regarding the misuse of power by the vegetable rent collector and in order to make the system public freindly we have clubed it with the town cleaning. Though we might have lost in revenue collection from vegetable market but we have saved from town cleaning and now we are in the better position to manage the town. In this regards, thromde has benefited both qualitatively and quantatively.

### ***3.2.2.6 Non- revision of taxes***

It is not in our authority to reveise any kind of taxes and the authority lies only with the parlaiment as per the constitution of our country. We have done which is within our authority and under the initiative of MoWHS we have proposed for revision to the cabinet but we didnt get any indication as of date.





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ROYAL GOVERNMENT OF BHUTAN  
GELEPHU THROMDE



### 3.2.2.8 Revenue Projection

There are many scientific tools to project the revenue collection but that can be utilized only in the scenario where an agency has full autonomy like our corporations. It was not practical to apply to Thromdes because we are functioning under subsidy fund from government. Our revenue projection has implication on the subsidy fund from the central government. More the revenue projection lesser the subsidy fund. Projection is an estimated collection with the favorable environment and environment is not in our control and if we apply the projection tool then there will be a scenario where thromdes will be in a situation where we are not in the position to pay even the personal emoluments. Given the adequate authority to revise the taxes and charges then we will be in the position to use the tools as figured out by the RAA



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ROYAL GOVERNMENT OF BHUTAN  
PHUENTSHOLING THROMDE

Pelkhil Lam, Post Box No. 02



PT/PPS-general/2017-2018/ 8097

Date: 23/04/2018

The  
Deputy Auditor General  
Department of Performance and Commercial Audits  
Royal Audit Authority, Thimphu

**Subject: Submission of comments, responses on Draft Performance Audit Report**

Dear Sir,

We are pleased to submit few comments and responses on Draft Performance Audit Report. As such the issues and findings pertaining to the Land Record Section has been forwarded to your good office. The current response is basically related to Non-Accountal of Revenue in the cash books. We are forwarding the soft copy of Revenue Statement for your ready reference. Furthermore, we acknowledge the findings of Performance Auditing and we shall commit to work on some of the recommendations pointed out by the same. We are optimistic that this report shall help Thromde in its pursuit towards achieving financial sustainability.

Looking forward to your continued supports and cooperation

With warm regards

**Wangchuk Thayey**  
Executive Secretary

Cc to:

1. Dasho Thrompon, Phuentsholing Thromde for kind information
2. Concerned Officials
3. Office copy



## **Draft Report on Performance Auditing:**

### **Chapter 3: Findings**

#### **3.2.1.3 Irregularities in levy of taxes, fees and charges:**

##### **F. Sewerage Charges:**

In the internal meeting held within Thromde Management, Thromde acknowledged the findings pertaining to levy of sewerage charges; 50% of water bill irrespective of whether household is connected to mainstream sewer network or not. In addition, Thromde also acknowledged the rationale as noted by the RAA as to why such arrangements were carried out. After Discussion at length it was discussed that Thromde will sort out the cases of those who were levied sewerage charges unfairly. As an alternative it was discussed that Thromde will put the matter in Thromde Tshogde, consult people's representatives and then resolve the issue once and for all.

##### **3.2.1.5 Non-accountal of revenue collections**

Thromde discussed on non accountal of Nu.8, 433,889.21 in the books of accounts and shared the grave concern. On enquiry Accounts officer informed that the booklet bearing serial number 334101 to 334200 was issued to Accounts Section and not to the Revenue Section, and was justified that it will never come into Revenue Section's accountal record. Thromde is pleased to submit the rectified serial number for fiscal year 2016-2017 for your ready reference. **(Serial numbers: 457941-458000, 459001-459100, 459101-459200, 459201-459238, 460601-460643, 472519)**

##### **3.2.2.3 Lack of Revenue enhancement Strategy**

We would like to point out some of the additional sources of revenue being explored by Thromde in addition to the ones pointed out by RAA. Following are some additional sources being explored:

##### **# 3<sup>rd</sup> session of 2<sup>nd</sup> Thromde Tshogde**

1. Proposal for Solid Waste Disposal
2. Charges for cattle Impoundment
3. Charges for hiring out Thromde's water tanker

##### **# 4<sup>th</sup> Session of 2<sup>nd</sup> Thromde Tshogde**

1. Registration fees for property conveyance
2. Fees for lien noting



3. Nominal fees for issuance of Occupancy Certificate
4. Hiring out of Thromde Service Vehicles

While it may appear as though Thromde is going to hire out service vehicles, it is indeed otherwise. Thromde Tshogde approved the rate little higher than market rate in order to discourage public from hiring Thromde's service vehicles. However, should they agree to the rate endorsed by Tshodge, Thromde shall earn some additional revenue.



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ROYAL GOVERNMENT OF BHUTAN  
PHUENTSHOLING THROMDE

POST BOX NO.02

PELKHIL LAM



PT/Land Record (10) /2017-18/ 7901

13/04/2018

The Deputy Auditor General  
DPCA, RAA  
Thimphu

**Subject: Reply to the Audit Findings**

Sir,

This has reference to your letter dated RAA/DPCA (TAD/PA-RM Thromde)/2017-2018/759 dated 16<sup>th</sup> March 2018 seeking response to the Audit Findings from the Performance Auditing conducted in Phuentsholing Thromde. Response on specified paragraph is given below:

3.2.1.2 (a)

The National Cadastral Resurvey Program (NCRP) was carried out in the core area from November 2015 to April 2016. Excess lands (encroachment) were carved out during the exercise as per the circular issued by the National Land Commission Secretariat. Most of the land issues were resolved during the NCRP. However, there are few land owners who are still utilizing the carved out state land due to the established activities and overlapping structures. Thromde is in process of resolving issue pertinent to the excess land occupied by the permanent structure in accordance with directive issued by the National Land Commission Secretariat.

3.2.1.2 (b)

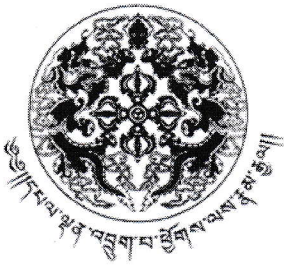
The area occupied by the noodle factory is neither on leasehold nor on freehold. Area has to be registered as per the section 118 of the Land Act to impose land tax. Moreover, no lease agreement has been drawn in the past to rightfully levy the lease rent. However, Thromde will immediately deal the issue as per the Land Act and other relevant laws.

3.2.1.2 (c)

RSTA has still not hand over the leasehold of M/s Rabten Engineering workshop to Thromde despite the decision of the 48<sup>th</sup> National Land Commission Meeting held on 3<sup>rd</sup> November 2017.

3.2.1.2 (d)

The Ministry of Economic Affairs is not issued the Thram of the industrial estate after the NCRP. Land tax levied as of now for the industrial estate is based on the registered area captured in the thram database during the NCRP in 2013. Tax arrears for area variation can be collected after release of the thram by NLCS. NLCS has directed to correct the area as per ground occupation of the estate. Hence, area rectification will be processed after demarcation of the Industrial LAP.



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**ROYAL GOVERNMENT OF BHUTAN**  
**PHUENTSHOLING THROMDE**  
**POST BOX NO.02**  
**PELKHIL LAM**



3.2.1.3 (h)

Leaseholds reflected in the annexure VIII at Phuentsholing Industrial Estate were leased out by erstwhile Ministry of Trade and Industry. The leased area was handed over to Thromde in 2011. No lease agreement has been redrawn with lessees after taking over the leased area. Lease rent levy for activities in the annexure VIII is in respect to the term enshrined in the prevailing lease agreement.

Thanking you.

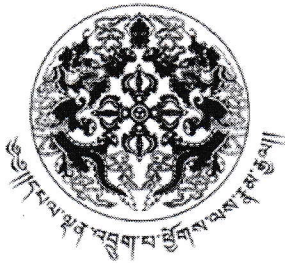
Yours Sincerely,

  
(Wangchuk Thayey)  
**Executive Secretary**

Copy To:

1. Thrompon, for kind information
2. Plot file





དཔལ་ལྷན་འབྲུག་གཞུང་། ཕུན་ཚོགས་གླིང་ཐྲོམ་དེ།

ROYAL GOVERNMENT OF BHUTAN  
PHUENTSHOLING THROMDE

POST BOX NO.02

PELKHIL LAM



PT/Land Record (10) /2017-18/ 7888

12/04/2018

The Deputy Auditor General  
DPCA, RAA  
Thimphu

**Subject: Encroachment List**

Sir,

This has reference to your letter no. RAA/DPCA (TAD/PA-RM Thromde)/2017-2018/759 dated 16<sup>th</sup> March 2018 seeking factual confirmation of the audit findings by the RAA team after conducting the performance auditing in Phuentsholing Thromde.

In this regard, the land section was instructed to review the section 3.2.1.2 (a) pertinent to encroachment as the finding was based on the report prepared before the National Cadastral Resurvey Program (NCRP). The exercise was carried out in the core area from November 2015 to April 2016. Excess lands (encroachment) were carved out during the NCRP as per the circular issued by the National Land Commission Secretariat. Most of the land issues were resolved during the NCRP. However, there are still few land owners who continue to utilize the carved out state land. The new list has been prepared after reviewing both the NCRP and Planned maps. It includes only those land owners who are still using the state land due the established activity and overlapping structures on it.

Therefore, we would like to request RAA to use the shared information (Annexure I) for final reporting to the parliament and other relevant stakeholders.

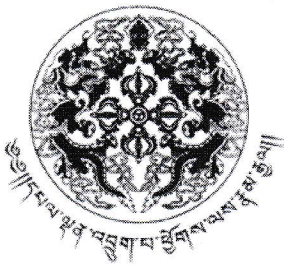
Thanking you.

Yours Sincerely,

(Wangchuk Thayey)  
**Executive Secretary**

Copy To:

1. Thrompon, for kind information
2. Head, DRD, for necessary action
3. Head(s), UPD & Survey, for information
4. Plot file



དཔལ་ལྷན་འབྲུག་གཞུང་། ལུང་རྫོགས་གླིང་ཁྲོམ་གྱི།

ROYAL GOVERNMENT OF BHUTAN  
PHUENTSHOLING THROMDE  
POST BOX NO.02  
PELKHIL LAM



PT/Land Record (10) /2017-18/ 8064

23/04/2018

The Deputy Auditor General  
DPCA, RAA  
Thimphu

Sir,

This is in continuation to our letter no PT/Land Record (10)/2017-18/7888 dated 12/04/2018 on resubmission of the encroachment list to RAA after necessary review by Phuentsholing Thromde.

In this regard, RAA has verbally sought justification for a change in the resubmitted list. Hence, we would like to clarify that data shared during the Performance Auditing was the one prepared before the National Cadastral Resurvey Program (NCRP). No updated report was maintained after conducting the NCRP in the core area from November 2015 to April 2016. Therefore, the management being alarmed by finding in the draft report has instructed the land section to review issue post-NCRP to furnish actual and comprehensive information. It is clear in the NCRP data that no excess land was regularized. Excess lands reflected in the old report were curved out in accordance with directive '**Rules and Regulations for resolving Excess/Deficit land in the thromdes 2015**' issued by the National Land Commission Secretariat. The plot boundary was demarcated and formalized without excess land. Thus, NCRP resolved many excess land issues. However, there are still cases where contiguous state lands to some private plots are being utilized despite carving out excess lands. These encroachments have prevailed as a private structure was partially built into state land and activities (workshop, parking, lawn, semi-permanent structures and stockyard) already established in contiguous state land.

The new list includes all such plots which are presently deemed as encroachment into state land. We are working as per directive of the National Land Commission Secretariat to resolve structure overlapping into state land and will come up with a measure to resolve encroachment by established activities in state land. Therefore, we would like to request RAA to consider the new list in the final report as information is more relevant.

Thanking you.

Yours Sincerely,

(Wangchuk Thayey)  
Executive Secretary

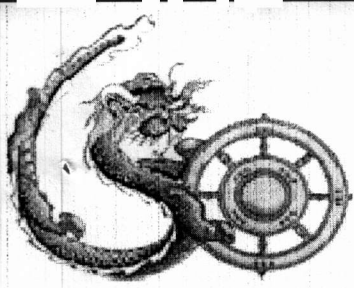
Copy To:

1. Thrompon, for kind information
2. Plot file

Sl.No	Name of Holder	Plot NO.	Registered area (sqft)	Occupied Area (SqFt)	Excess (Sq Ft)	Purpose
1	Ani Wangmo	PGT-1226	800	1438	638	commercial
2	Aum Lemo	PGT-879	2050	4005	1955	commercial
3	Aum Yeshey Om, Tshering Om Tshewang Lhamo	PGT-420	1200	1765	565	commercial
4	Dasho Dorji Norbu	PGT-926	2378	3065	687	commercial
5	Kinley Gyeltshen	PGT-1592	1400	2299	899	Commercial
6	Late Bomzang Dukpa	PGT-520	1160	2389	1229	Commercial
7	Late Dasho Prithiman Ghalley	PGT-2627	2275	3992	1717	commercial
8	late Dasho Ugen Dorji	PGT-2364	25845	31225	5380	Commercial
9	late Dasho Ugen Dorji	PGT-2755	19964	26833	6869	Commercial
10	late Dasho Ugen Dorji	PGT-2363	23214	30647	7433	Commercial
11	late Dasho Ugen Dorji	PGT-2758	8081	18574	10493	Commercial
12	late Dasho Ugen Dorji	PGT-2754	5971	29666	23695	Commercial
13	Late Dasho Ugyen Dorji	259	5575	7288	1713	commercial
14	Late Dasho Ugyen Dorji	PGT-574	73454	81519	8065	commercial
15	Late Dasho Ugyen Dorji	204	468	11874	11406	commercial
16	Late Dasho Ugyen Dorji	PGT-573	1488	14103	12615	Commercial
17	M/S H & K Com.	PGT-1517	243917	261184	17267	commercial
18	Mr. Chimi Dorji Karma Dorji	PGT-1472	1420	3054	1634	commercial
19	Mr. Dechen Wangdi	PGT-805	1600	1942	342	commercial
20	Mr. Eka Dukpa	PGT-344	2000	2520	520	commercial
21	Mr. Sangay Rinchen	PGT-2335	1470	2098	628	commercial
22	Mr. Gyem Thinley	PGT-2545	1248	1934	686	Commercial
23	Mr. Karma Dhendup, Dorji Wangdi Namgay Wangchuk	PGT-820	2150	2819	669	commercial
24	Mr. Karma Dorji	PGT-1139	1600	2224	624	commercial
25	Mr. Kencho Dorji	PGT-522	1743	1859	116	commercial
26	Mr. Kinley Dorji	PGT-471	2700	4067	1367	commercial
27	Mr. Kipchu Tshering Miss Deki Phuntsho	PGT-425	3565	4253	688	commercial
28	Mr. Kota	PGT-965	1020	1232	212	commercial
29	Mr. Lepa	PGT-2922	900	1444	544	commercial
30	Mr. Mika Dukpa	PGT-920	2250	2894	644	commercial
31	Mr. Namcha Namgyal Penjor	PGT-307	1600	2065	465	commercial
32	Mr. Pawa Rimpoche	PGT-475	750	2313	1563	commercial
33	Mr. Pem Gyeltshen	PGT-472	1590	3193	1603	commercial
34	Mr. Penden Dukpa	PGT-531	4452	6318	1866	commercial
35	Mr. Pop Tshering	PGT-305	1600	1905	305	commercial
36	Mr. Rinchen Tshering	PGT-813	625	1335	710	commercial
37	Mr. Sonam Tobgay	PGT-991	2024	3644	1620	commercial
38	Mr. Tshewang Namgyal	PGT-933	2950	3718	768	commercial
39	Mr.Loday	PGT-2079	600	3088	2488	commercial
40	Mrs. Choden	PGT-829	1440	1828	388	commercial
41	Mrs. Choden	PGT-2138	1440	1836	396	commercial
42	Mrs. Dhan Maya Rai	PGT-1095	1134	1340	206	commercial

43	Mrs. Geenta Pem	PGT-455	2250	3164	914	commercial
44	Mrs. Kezang Dolkar & Tshering Choden	PGT-2833	415	1789	1374	commercial
45	MRS. Lham Karma	PGT-890	1544	2141	597	commercial
46	Mrs. Sangay Dema	PGT-449	836	1638	802	commercial
47	Mrs. Sangay Zangmo Pema Sonam	PGT-444	2250	3266	1016	commercial
48	Mrs. Sonam Choden	PGT-369	3000	4740	1740	commercial
49	Mrs. Thinley Zom	PGT-308	1970	2500	530	commercial
50	Mrs. Tshering Pema	PGT-983	2400	2917	517	commercial
51	Mrs. Yangtse Pema	PGT-1121	1200	1851	651	commercial
52	Tshering Zangmo	PGT-533	5000	25731	20731	commercial
53	Kunlay Wangdi	PGT-2503	8000	11644	3644	commercial
54	Dasho Dorji Wangdi	PGT-2340	2500	9434	6934	Residential
55	Dasho Jigme Norbu	PGT-884	3915	4451	536	Residential
56	Dasho Passang Dorji	PGT-2433	1458	10666	9208	Residential
57	Dasho Passang Dorji	PGT-2339	64918	92335	27417	Residential
58	Late Dasho Ugen Dorji	PGT-2469	1200	3622	2422	Residential
59	Mr. K.R Pradhan	PGT-2348	1560	3645	2085	Residential
60	Mr. Kinley Gyelpo	PGT-2925	3600	7359	3759	Residential
61	Mr. Omtay Penjor Mrs. Phub Zam	PGT-2338	8908	12259	3351	Residential
62	Mr. Sonam Tobgay	PGT-459	1432	2445	1013	residential
63	Mrs. Dechen Wangmo, Ugen Penjor Sonam Penjor	PGT-1109	65430	92880	27450	Residential
64	Mrs. Sangay Bidha Mr. Penjor	PGT-870	3739	4585	846	Residential
65	Sheka Choden	PGT-545	17577	19141	1564	Residential
66	Dechen Wangmo	PGT-925	8316	184334	176018	Residential
67	Denki Lhamu	PGT-556	10000	14439	4439	Residential
68	Gaki Om	PGT-564	5015	7917	2902	Residential
69	Kinley Gyelpo	PGT-2925	3600	7359	3759	Residential
70	Shema Rinchen	PGT-931	4950	5660	710	Residential
71	Namgay Dema	PGT-1588	3036	4709	1673	Residential
72	Phub Zam	PGT-2832	2460	5702	3242	Residential
73	Ful Maya Sunwar	PGT-2341	3600	7581	3981	Residential





བསམ་གྲུབ་ལྗོངས་མཁར་ཁྲོམ་སྡེ།

**THROMDE ADMINISTRATION  
SAMDRUP JONGKHAR**



SJT/Accts-07/2017-2018/ 2214

12<sup>th</sup> April 2018

Deputy Auditor General  
Department of Performance and Commercial Audits  
Royal Audit Authority  
Thimphu.

**Sub: - Performance Audit on Revenue Collection and Management in Thromdes.**

Dear Sir,

With reference to your letter No. RAA/DPCA (TAD/PA-RM Thromde)/2017-2017/759 dated March 16, 2018. We are pleased to submit the replies pertaining to our Thromde for the performance Audit on Revenue Collection and Management in the Thromde.

The Thromde Administration accepts the shortfalls and lapses pointed out by the RAA and we pledge to bridge those gaps and improve our efficiency in managing the revenue at Thromde towards optimum level.

Thimphu.

Sincerely,

(Karma Sherab Thobgyal)  
Thrompon  
Samdrupjongkhar Thromde.

Cc:-

1. Executive Secretary, Thromde administration for information.
2. Office Copy.

Sincerely,

PABX: +975 7 251616, +975 7 251619, +975 7 251629 General fax: +975 7 251305

**Dasho Thrompon:** +975 7 251773 **fax:** +975 7 251770 **Executive Secretary:** +975 7 251557

(Karma Sherab Thobgyal)  
Thrompon  
Samdrupjongkhar Thromde.

#### **3.2.1.4. Weak mechanism to enforce tax payments**

##### ***Auditees's Response;***

With respect to Table 9: Outstanding land taxes, Thromde Administration would like to clarify that out of 3 defaulters who had not paid their land taxes, a sum of Nu. 5,799.00 (Five thousand seven hundred Ninety nine) only have been realized from Two of the defaulting party along with the Penal interest. (Non-revenue receipt no. 450345 dated 22/01/2018 & 450579 dtd.5/4/2018 is attached for reference)

For the remaining amount of Nu. 2,295.00 (Two Thousand two hundred ninety five) only, the same has been forwarded to Land Record Officer for further action as per the land act. The copy of the letter from the Land Record Officer is attached herewith which is self explicit.

#### **3.2.2.1. Lack of strategies to achieve financial sustainability**

##### ***Auditees's Response;***

With regard to Table 11: Fixed deposit details, Thromde Administration with prior endorsement from the ThromdeTshogde had deposited the sum with the BDBL for the period of one year as fixed deposit. Before depositing into the fixed deposit the Administration had taken into account all the provision that was required to be kept for meeting the anticipated expenditures from the Revenue Account and hence the balance amount would have been idle in the Revenue Account. Therefore, in order to generate revenue such move was initiated from the Thromde's side.

#### **3.2.2.10. Inadequate management of revenue receipts (b. Stock keeping and usage)**

##### ***Auditees's Response;***

As mentioned in the table 13 & 14: Non-accountal of receipt book issued by DPA, it was observed that the total number of receipt book which was issued as per the DPA record is 221 and the total number of receipt book received as per Thromde's record is 134, thereby a variance of 87 receipt book is shown. However the Revenue Assistant has maintained and recorded 195 books in his register from year 2014. Therefore difference in numbers of receipt books are recorded separate by the Store section from year 2012-2013 and physically available during the auditing. The Xerox copy of Stock Register is attached herewith for the kind references.

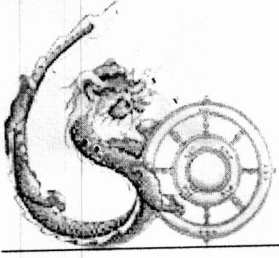
### **3.2.2.11 Inadequacies in expenditure control**

#### ***Auditees's Response;***

The case study 4: SamdrupJongkharThromde, whereby it is mentioned that the defects occurred within the defect liability period was not done. However, Thromde Administration would like to clarify that the Contractor was asked to rectify the defective works and the work was successfully completed. The copy of the rectification report made to the Assistant Auditor General, RAA, Samdrup Jongkhar is attached for your kind reference.

## Outstanding Land Taxes for Samdrup Jongkhar Thromde 2012-2017

Organization/Owners Name/Location	Total area (Sq. ft)	Tax Amount	Penalty	Total tax payable (Nu.)	Duration (Years)	Thromde
Dechen Choden	3000	1500		2295.00	3	SAMDRUP JONGKHAR
✓ Late Sonam Rinchen	4025	1006		1258.00	3	SAMDRUP JONGKHAR
	4143	1036		1295.00	3	SAMDRUP JONGKHAR
	4133	1033		1292.00	3	SAMDRUP JONGKHAR
✓ Sonam Gyeltshen	6252	1563		1954.00	3	SAMDRUP JONGKHAR
Grand Total				8094.00		



ཐར་མེད་འཛིན་སྐྱོང་ཁུངས་ཀྱི་འཕྲིན་ཁུངས་

## THROMDE ADMINISTRATION SAMDRUP JONGKHAR



**Audit Observation of Thram no. 179 /RP No. 161/Plot no. SGT-316/3000 Sq ft (Mrs. Dechen Choden)**

The plot of the above land owner is still under process for relocation and not yet completed. Although the said plot is legally reflected in the Thromde Thram Records, it was left out during the Planning process and cadastral survey as the owner did not follow up o time.

As per the application received by Thromde Administration, the land owner had paid the land tax till 2003 and did not pay after that as the then Municipal Corporation did not accept to collect the tax. Upon verification, it was found that the land genuinely belonged to her and there was no issues related to it. So, Thromde had forwarded for thram regularization to National land Commission and endorsed according to our report.

However, the land owner had again proposed for relocation as the plot falls under Environment precinct which is under process. So the land tax will be collected after approval from NLCS.

Nangay Wangdi  
Land Registrar

**Land Record Officer**  
Samdrup Jongkhar Thromde



ROYAL GOVERNMENT OF BHUTAN

དངུལ་ཅིན་ལྷན་ཁག་།

MINISTRY OF FINANCE

འོང་བབས་མིན་པའི་འབྲིར་རྟགས་།

NON-REVENUE RECEIPT

འཕྲོད་ཤིག་ 3.1

FAM - 3.1

450345

AP-A

ལས་ཁུངས་.....

Agency.....

81, Thud.

10500-120  
No.

PNO-122 Anu-40

PNO-501 Anu-2142

PNO-592 Anu-415

22/1/2018

བྱང་བ/ཅིན་གྲགས་པ་དངུལ་ཁྲིམས་

Received/adjusted a sum of Nu.....

14468/-

བྱང་ཡུལ་

From.....

towards.....

ཁག་སྐུ་ལྔ་ལྔ་ལྔ་ལྔ་ལྔ་

Details of which are given below:

1st Sonam Rinchen

Level 6 for 2015, 2017 & 2019.

དངུལ་རྒྱང་ཤོག་དངུལ་ཁྲིམས་ལྟར་ Details of cash/cheque	ཅིན་གྲགས་པ་ཕྱི་ལྟངས་ལྟར་ Details of adjustment
ཀ) དངུལ་རྒྱང་དངུལ་ཁྲིམས་ a) Cash Nu.....	ཀ) སྤྲོད་འགན་མཁུ་ལྟངས་ a) Disbursement Journal.....
ཁ) ཤོག་དངུལ་/དངུལ་འཛིན་ལའང་ b) Cheque/Draft No.....	ཁ) ཅིན་ཤོག་ལའང་ b) Voucher No.....
གཏུན་ཆེན་ Date.....	གཏུན་ཆེན་ Date.....
བསྐྱེད་མཉམས་དངུལ་ཁྲིམས་ Amount Nu.....	བསྐྱེད་མཉམས་དངུལ་ཁྲིམས་ Amount Nu.....

14468/-

14468/-

151-769/-

151-1901 (952 days)

151-3025/-

151-769/-

151-979 (387 days)

151-3025/-

151-769/-

151-56 (22 days)

Cin-11503001254

ཅིན་འགན་ཤོག་ཤོག་

Drawing & Disbursing Officer

མིང་དང་ཤོག་ཁག་

Name and Designation

ངེས་དོན་: འཕྲོར་རྟགས་འདིའི་ཆ་ཐད་ཤོག་དངུལ་/དངུལ་བཏོད་/དངུལ་འཛིན་ནང་གསལ་ལྟར་གྱི་མ་དངུལ་ངོམ་འབྱུང་མ་དང་བཞག་ནི་ཡིན།

Note: Validity of the receipt is the subject to realisation of cheque/draft/cash warrant/ proceeds.



Note: Validity of the receipt is the subject to realisation of cheque/draft/cash warrant/ proceeds.



Date	Name of Party	GRN/GIN	Recd
			Qty.
22/9/11	Ministry of Finance	-	50 N.
- do -	For depositing of Revenue Collection use.	-	
	Souam pelmo.	-	
- do -	For water billing section use. (22500 - 25600)	-	
	Namcho Yangmo.	-	
- do -	For Asst. Engineer Office use.	-	
		-	
10/7/12	Pema Yang zom.	-	
- do -	For Admin Asst. use. (259301 - 259400)	-	
		-	
29/7/12	Thienly Wangmo	-	
- do -	For Sanitary Inspector use. (289101 - 289200) (Return back)	-	
		-	
20/8/12	Souam pelmo.	-	
- do -	For water billing section use.	-	
		-	
10/9/12	Namgay thamo. Pema Yang zom.	-	
- do -	For Admin Asst. use (Tender purpose) 259201 - 259300	-	
		-	
17/11/12	Ministry of Finance	-	20 N.
- do -	For depositing of Revenue Collection use.	-	
		-	
5/2/13	Souam pelmo.	-	
- do -	for water billing section use.	-	
	162001-162100, 162101-162200, 162201-162300, 162301-162400, 162401-162500, 162501-162600, 162601-162700, 162701-162800, 162801-162900, 162901-163000,	-	

17/11/12 Ministry of Finance

- do - For depositing of Revenue Collection use.

5/2/13 Souam pelmo.

for water billing section use.

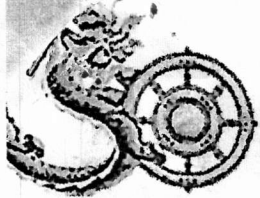
Name of Article

Item Code

Unit

Non-Revenue Receipt

Date	Name of Party	GRN/GIN	Receipts
			Qty.
	Ministry of finance		10 Nos
- do -	for depositing of Revenue Collection	-	-
9/10/12	(Sonam pelmo) water filling Surfer.		
	329001-329100, 329101-329200,		
	329201-329300, 329301, 329400,		
	329401-329500, 329501, 329600,		
	329601-329700, 329701-329800,		
	329801-329900, 329901-330000		
8/24/12	Sonam pelmo ministry of finance	-	2 Nos
- do -	for depositing of Revenue Collection	-	-
	(Sonam pelmo)		
	(319701-319800, 319801-319900		
	319901-320000,		
12/12/12	Tenzin phuntsok ministry of finance	-	10 Nos
- do -	for depositing of revenue collection	-	-
	342001-342100)		
	342101-342200)		
	<del>342201</del>		
"	Tenzin phuntsok	-	-
- do -	for depositing of revenue collection	-	-
	342201-342300		
	342301-342400		
	342401-342500		
	342501-342600		
12/12/12	Tenzin phuntsok ministry of finance	-	10 Nos



समदुप जङ्खार प्रशासन

THROMDE ADMINISTRATION  
SAMDRUP JONGKHAR



SJT/ID/19/2016-2017/481

Date: 17/05/2017

The Assistant Auditor General  
Office of the Assistant Auditor General,  
Royal Audit Authority,  
Samdrup Jongkhar

Subject: Submission of rectification report

Respected Sir,

Undersigned would like to inform your esteemed office that the rectification work for the following memo is being successfully completed.

Sl. #	Memo #	Name of Work	Date of rectification	Remarks
1	4	Construction of Suspension Bridge at Samdrup Jongkhar	12 <sup>th</sup> May 2017	<ul style="list-style-type: none"> <li>Structure fitness certificate attached</li> <li>Site photography after rectification</li> </ul>
2 ✓	8 ✓	Construction of New road from NHDC colony to Hospital Junction	21 <sup>st</sup> April 2017	<ul style="list-style-type: none"> <li>Rectification report</li> <li>Site Photography</li> </ul>
3	10	Construction and Blacktopping of Garpawong road at Dewathang	27 <sup>th</sup> March 2017	<ul style="list-style-type: none"> <li>Rectification report</li> <li>Site Photography</li> </ul>

Therefore, kindly drop the aforementioned memo.

Thanking You,

Your's faithfully,

(Dechen Norbu)

Engineer,

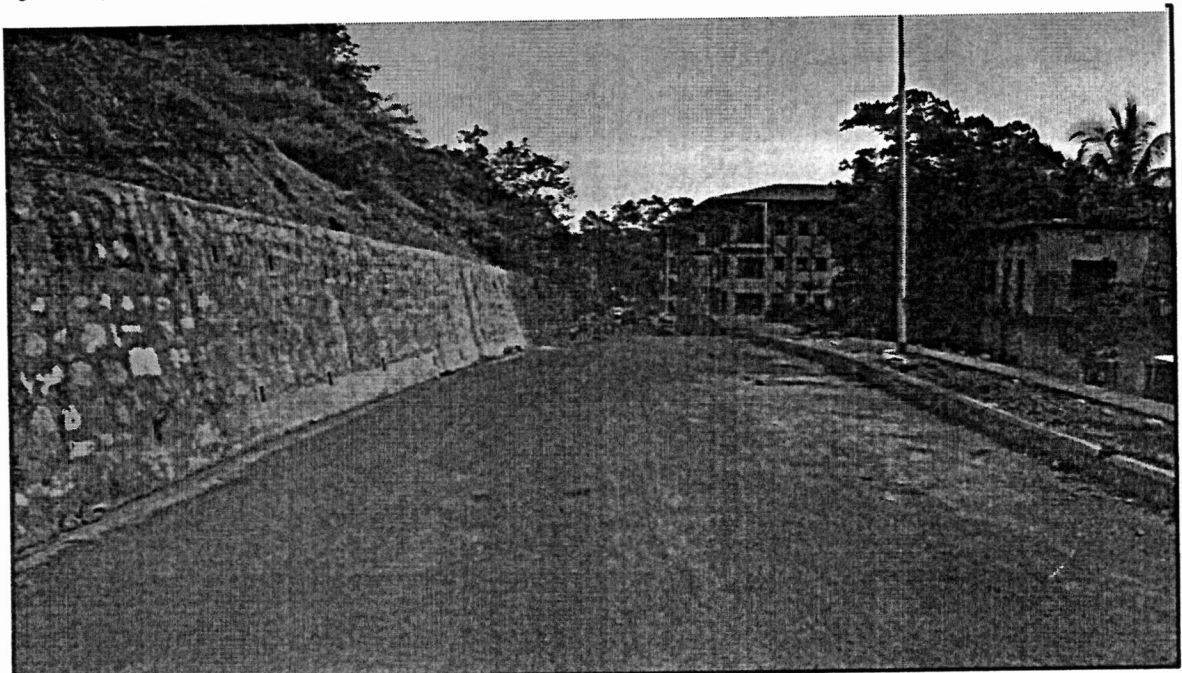
CC:

1. Executive Secretary, SJT for kind information
2. IDD head, SJT for kind information
3. Accounts officer, SJT for kind information
4. Office Copy

## NHDCL road

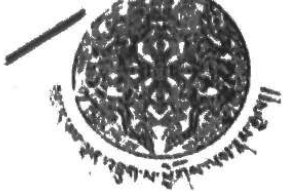


*Figure 1 Before rectification*

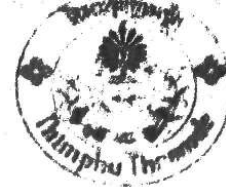


*Figure 2 After rectification*





ཐིམ་ཕུ་ཐ་རྩེ།  
Thimphu Thromde  
Building No: 08  
Gongdzin lam  
Thimphu - 11001: Bhutan



TT/Rev-02/2017-18/ 1864

08/05/2018

Deputy Auditor General  
Department of Performance & Commercial Audits  
Royal Audit Authority  
Thimphu, Bhutan

Subject: *Re-submission of Reply for Performance report on Revenue Collection and Management in Thromde*

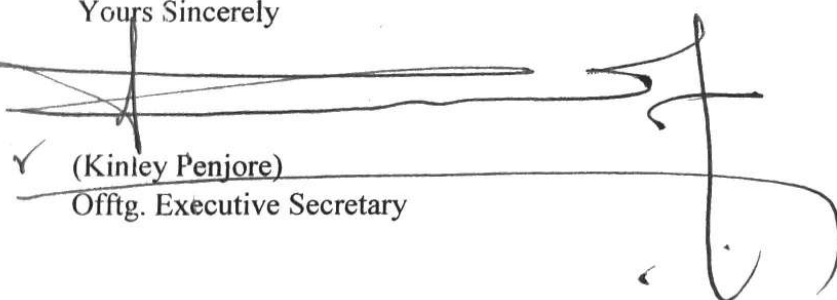
Sir,

Thimphu Thromde would like to re-submit the reply on the audit findings for the performance report on Revenue Collection and Management for Thimphu thromde.

We are very grateful to the RAA for extending the time line for submission of reply.

Thanking you

Yours Sincerely

  
(Kinley Penjore)  
Offtg. Executive Secretary

CC:

1. Dasho Thrompon, TT for his kind information
2. Chief Adm. Officer, TT for information
3. Office Copy

Royal Audit Authority  
Thimphu : Bhutan  
Dairy No... 60594  
Date... 8/5/2018



***Memo no 3.2.1, Revenue assessment, collection and accountal***

***Para no 3.2.1.1- Incomplete central registry of source of revenue.***

The Thromde Revenue Management System (RMS) is a comprehensive system which maintains the database of the following components but not limited to:

1. Taxpayer details (individuals and institutional)
2. Vendors details
3. Land property details(land type, land category, precinct, location)
4. Building property details(class, use type, unit type, number of unit)
5. Street lighting details
6. Garbage collection details(residential, commercial)
7. Water meters details(different sizes)
8. Water connection details(residential, commercial, institutional and industrial)
9. Sewerage connection details

These are the revenue heads maintained in the RMS but not limited to:

Sl. No.	Revenue Heads
	<b>Property taxes</b>
1	Land Tax – Commercial
2	Land Tax – Residential
3	Urban House Tax-Shops and Restaurants
4	Urban House Tax-Residential
5	Garbage Collection Charges Commercial
	Garbage Collection Charges
6	Amenities service fee Commercial
7	Amenities service fee
8	Penalty-Commercial Property Tax
9	Penalty-Residential Property Tax
	<b>Underdevelopment taxes</b>
10	Underdevelopment Tax-Commercial
11	Underdevelopment Tax-Residential
	<b>Water and Sewerage Charges</b>
12	Water Charges
13	Sewerage Charges



14	Water Connection Charges-Water Line Shifting
15	Water ReConnection Charges
16	Water Connection Charges-Chamber Shifting
17	Water Connection Chages-Permanent
18	Water Connection Chages-Temporary
19	Sewerage Connection Charges-Permanent
20	Service Charges-Vacuum Tanker
21	Security Deposits/Water Meter Cost
22	Penalty-Water & Swerage Charge
	<b>Rental Collections</b>
23	House Rent
24	Rent from Civic Amenities-Ground
25	Rental Deposits-Parking
26	Rent from Civic Amenities-Market
27	Rental Deposits-Market
28	Rent from Lease Land
29	Penalty-Rent from Lease Land
30	Penalty-Rental Deposits-Market
	<b>Land lease/CPCL</b>
31	Lease Deposits-Land Lease- Long term
32	Cost of excess land
33	CPCL
34	Penalty-Lease Deposits-Land Lease
	<b>Documents fees</b>
35	Building plan processing fees
36	Site plan fee
37	Land transaction/registration fees
38	Sub-division fees
39	Demarcation fees
40	Library fees
41	Documents-Application(Building application)
42	Documents-Certificate(OC)





43	Environmental Clearance
44	Lagtharm-Fee
45	URC fees
46	Sale Of Tender
	<b>5% Property Transfer Tax</b>
47	5% Property Transfer Tax
48	Fines and Penalties

Till late 2015, the records were all maintained in the physical ledger books which were completed replaced by the RMS system. Till that time, we admit that our inventory registry including the registry of revenue sources were poor and inconsistent. RMS system along with Digitize Asset Register (DAR) were officially launched on 10<sup>th</sup> July, 2015 by the Hon'ble Minister, Ministry of Information and Communication.

RMS-citizen portal system integration is initiated and it will be completed by August, 2018. The updation of missing data will be completed by 31<sup>st</sup> December, 2018.

### **3.2.1.2 Revenue leakages as result of inadequate administration**

a) We will notify the defaulters to demolish the structures as per DCR 2016 which will take maximum of 30 days. The first notice will be served on 8<sup>th</sup> of May, 2018. However, we will not be able to collect the lease rent as it would be construed as the legally leased. Hence we are initiating the demolishing notice.

### **e) Expired short lease in Thimphu Thromde-**

(Thromde management will recommend in the forthcoming Thromde Tshogde to resolve this issues and report to RAA)

### **Para no 3.2.1.3 irregularities in levy of taxes, fee and charge.**

- a. **Vacant land tax-** Taxation policy 1992 and LG Act 2009 allows Thromdes to collect vacant land tax but TT has not collected VLT from 241 plots. This is not that Thromde has given any consideration for free. By keeping in view of all the urban facilities not being provided in the Agri-based Zones/Environment Zone, 9<sup>th</sup> Thromde Tshogde discussed and decided to exempt 25% vacant land tax in E4 zones and Traditional Village with effect from 3<sup>rd</sup> January, 2018. Attached is the council resolution. However, the past collections will be verified and submitted to RAA within 30<sup>th</sup> June, 2018.



(The term underdevelopment tax and vacant land tax is used interchangeably, commonly the underdevelopment tax is used in Thimphu Thromde. Further, we will seek clarification from the ministry of Finance)

- b. **House Tax-** House tax collections were not consistent in Thimphu Thromde before the implementation of Revenue Management System. The discretions were completely left to the tax payers about the taxable properties every year. This was because taxes were calculated manually and couldn't ascertain property details of the past. Revenue Collector in the counter used to ask the tax payers whether s/he owns a buildings or not and if yes, tax was calculated on hear-say basis and if there is no building/house, 25% UDF was imposed. But in this manner house tax collection was inconsistent. But this was all happening when we were collecting the tax manually. After the implementation of Revenue management system and after the building property survey, the taxes are computed by the input data by the building inspectors after they verify and issue the occupancy certificates. The Occupancy certificate is generated from the system and directly linked to calculation of UHT and Services charges.
- c. **Service charges-** Few building owners are left without collecting service charges due to the error made during the bulk upload by consultant where there was a check to be made in the input parameter about the structure availability. This was left out in few cases as pointed out in report. The problem is rectified with immediate effect. Further, we will cross verify and the defaulters will be made to pay as per the actual services provided within December, 2018.
- d. **Services & amenity fee of the new construction approval-**  
Since no such cases are reflected in the audit findings, no concrete reply could be furnished here. However, the findings could be adhered to while scrutinizing the drawing for proposed construction.
- e) **Renovation and vertical & horizontal extension approval fee in Thimphu Thromde-**  
The observations made by Royal Audit Authority will be verified and appropriate actions will be taken within 30<sup>th</sup> June, 2018. Moreover, the necessary scrutiny, service and amenities fees will be incorporated in the DCR.



### *Sewerage charges*

**Response:** Sewerage management is one of the most challenging and resource intensive area looked after by the Thromde. Technically, whether the sewer line is connected to our common main line or maintained separately, we are responsible to manage it in more safe and tidy manner. Moreover, the maintenance of local septic tank is not encouraged in the urban areas due to hygienic issue. Non-levy of charges will encourage them to build their own septic tank. We are providing one free vacuum tanker service to empty the sewer tank once a year, or as and when required at a minimum charge, if the sewer line is not connected to our main line.

#### *g) Water charges*

Use of water is charged as per the rates approved by Thromde Tshogde and calculated as per the consumption. On review of the water bills in Thimphu Thromde, it was observed that water bills reflecting no water consumption are also charged at varying amounts. Non-consumption of water was mainly because of residents having private water source, they do not use the Thromde's water.

On enquiry, the dealing officials cited that the sewer charges is dependent on water charges (50% of the water charges), for no consumption the charges are levied for the following reasons:

- To adjust wrong readings as a result of non-functional or defective water meters, and
- To raise the bills even when the meter readers could not access water meters due to pet dogs in the compound, locked gate, water meter hidden underground, etc.
- To levy sewerage charges as sewerage charges is dependent on water charges (50% of the water charges).

In addition, Thimphu Thromde had not installed water meters in 102 households in Babesa, Olakha and Lungtenphu area availing Thromde water services resulting in non-levy of water charges and resultant loss of Nu.20.365 million. Similarly, nine car washing units in Olakha Automobile Workshop area and 34 households in Dechencholing Dangrayna provided with Thromde water was found not levied water charges (AIN: 14732 & 14467)

**Response:** Immediately after the audit observation made in the previous year, the water billing was started from 1<sup>st</sup> of July, 2017 in the areas of Babesa, Olakha, Lungtenphu, Simtokha and Dechencholing Dangrayna. As of now the status of water meter connection is tabled below:

Sl. No	Area (Zones)	No. of connections
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1	Zone 9- Dechencholing	80
2	Zone 10-Babesa	132
3	Zone 11- Olakha	153
4	Zone 12- Simtokha/Lungtenphu	133
<b>Total</b>		<b>498</b>

Way forward: Following initiatives have been initiated to overcome this issues:

1. Water meter chamber requirement is put into the checklist in the issuance of occupancy certificate
2. Task of defective meters replacement exercise has be initiate to rectify, replace and make meters accessible to meter readers for actual readings.

**h) *Lease rate***

The letter is issued to Kuensel Corporation Limited to furnish the exemptions letter mention below.

In this, we would like to clarify that according to the former dealing officials the collection of the lease rent @ NU. 1/- per sq.ft. is collected from Kuensel Corporation based on the letter forwarded to NLCS letter vide: MoF/PED/02/2012/150 dated 9/4/2012 and the government directives issued vide letter no. COM/04/06/975 dated 12/4/2006.

***Para No 3.2.1.4. Weak mechanism to enforce tax payment.***

As per the Land Act of Bhutan 2007 withholding agency can collect taxes for 3 (Three) year in advance and can keep collection open for round the clock. This practice is being already implemented and till date few tax payers had already paid taxes for 2018..

Way forward:

1. Alternative payment options are provided for making tax payments through mobile application
2. SMS gateway will be installed for sending alert messages
3. Disconnection of services like water and electricity to be done.
4. The list of defaulters are periodically uploaded in our website and announcements in media are served.



### ***3.2.1.5 Non-accountal of revenue collection***

As the Royal Audit Authority has pointed out that receipt books were missing which amounts to Nu. 12,055,542.57. This has happened due to improper recording and maintain of books of accounts before, now we have systems in place and books of accounts are well maintained. Out of missing booklets, only five booklets were not recovered rest of the receipts books were recovered. We would like to request RAA to review in the next audit.

**Response:** we are in the process of tracing out the missed out receipts. As of now, Nu. 4,460,321.00 has been found accounted. The further exercise is being carried out to ascertain the non-accountal revenue. We will report final result to RAA upon scrutiny of all possible documents as soon as possible

### ***3.2.2 Governance in Revenue Collection and Management.***

#### ***3.2.2.1 Lack of strategies to achieve financial sustainability***

There is an understanding between Thimphu Thromde and Ministry of Finance that annual grant in form of capital and current grant will transfer by MoF until Thimphu Thromde sustain from the internal revenue generation. There is no specific timeline drawn between TT and MoF to phase out the grants until the TT is fully sustain itself from the revenue generations.

**Response:** Second Bhutan Urban Development Project(BUDP-II) has three components, of which one of the components is the Municipal Finance and Management Reforms. Under this component, there are five sub-components:

1. Revenue management system
2. Digitize Asset Register
3. Accrual based Accounting system
4. Business process re-engineering
5. Performance reporting.

Implementation of these components have brought in drastic improvements and also increase in revenue generations and collections. It's an ongoing process and expected to systematize with increased efficiency in governance in revenue generation and management. We have already ascertained our sustainability in terms of current expenditure from our internal revenue for the first year of 12<sup>th</sup> five years plan. Subsequently, we will plan and manage our revenue to meet at least the current expenditures.

The audit observation was made with regards to subsidy was accounted both current and capital expenses. However, the capital expenses will not be possible at this point of time.

#### ***3.2.2.2 Inadequate subsidy provision process for current grants***

The revenue sources and the forecasting are interdependent. Once we have the complete central registry in place, the realistic revenue forecast could be projected.





### **3.2.2.3 *Lack of revenue enhancement strategy***

**Response:** Thimphu Thromde, through the fund support from World Bank, is carrying out a comprehensive building survey for all the standing structures to update our building database. This will have a long run impact in effectively collecting property taxes and also to keep tract of any illegal happenings. These data will be useful for forecasting our revenue, making analysis for various services including waste collection and water consumptions. We have also initiated GIS-based asset management system to maintain and manage all the assets our own. This will help us in management and maintenance our assets on timely manner reducing the cost. We are also already in the process of implementation of accrual based accounting system where details of assets will be valued and our financial statements will be periodically produced for making any management decision.

Since Thimphu Thromde is not a profit making body, no specific revenue enhance strategy has been adopted. However, we continue to diversify our revenue sources in terms of fees and charges in lieu of investment made in infrastructure. Parking fees collection in the places of Olakha, Changzamtok, Motithang and Kawazangsa are looked into which will bring is recurrent revenue. We have also constructing vegetable sheds and meat shops in various location. Further, we have also initiated to minimize current expenses by replacing all the high energy consuming halogen streetlights bulbs to energy efficient LED bulbs. This is bringing our monthly electricity consumption bills to less than half the earlier amount

### **3.2.2.4 *Lack of strategies to encourage taxpayers to pay voluntarily***

**Response:** The taxpayers are notified for the tax payment through media. The usual period for payment of tax has been only for three months, but starting from this year, tax payment dates have been open from 1<sup>st</sup> of January to 31<sup>st</sup> of December. We have also developed and implemented online payment of property taxes and water bills through mobile application. Now, the property owners can make payments online. Now people can walk in to our revenue counter with just water account number for water bill payments and just a CID number for property tax payment. All the requirements of producing other documents like lagtharms, etc. has been made non-mandatory. Further, the integration with mBoB and mPAY will be made available.

### **3.2.2.5 *Lack of outsourcing policy***

**Response:** So far, we don't have any policy related to outsourcing. Therefore, Thimphu Thromde would like to request ministry of works and human settlement for their support.

### **3.2.2.6 *Non-revision of taxes in the last 26 years.***



Thromde has proposed twice for the revision of taxes but the proposal was not approved by the parliament. Thromde has no authority to revise taxes whenever the Thromde wishes.

**3.2.2.7 Lack of overall internal control framework.**

**Response:** We will strive to improve our internal controls hereafter. The separate ToR will be developed for relevant revenue handling officials specifying their job responsibilities. Further, implementation of 10 online G2C services systems, 3 mobile applications, RMS, DAR, BPR, Performance Reporting mechanisms and integration of these systems wherever possible is expected to handle 90% of internal controls mechanism. Further, Thromde Tshogde and the Thromde Management will make sure that the internal control mechanisms will be put in place as the RAA has pointed.

**3.2.2.8 Non- development of Revenue Manual**

**Response:** Thimphu Thromde has developed revenue administration manual through the fund support from BUDP-II. Though the manual is still in draft form, we are in the process of improving our processes and smart way of doing things. Even Thromde Accounting Manual and Thromde Budgeting Manuals are developed and submitted to MoF for their official endorsement. Once these manuals get endorsed, we will strictly implement it.

**3.2.2.9 Inadequate financial reporting framework**

**a) Cash basis accounting in Thromdes**

**Response:** Till now all the government institutions are following cash basis of accounting and Thromdes are not the exceptions. Lately, through the Municipal Finance and Management reforms projects, one of the outcomes is accrual basis of accounting system. The key advantage of the accrual basis is that it matches revenues with related expenses, so that the complete impact of the business transaction can be seen within a single reporting period.

We are waiting for the official endorsement of Thromde Accounting manual and Thromde Budgeting Manuals so that our accountants are trained to use accrual basis of accounting. Thereafter, all the financial statements will be periodically generated for various decision making purposes. The project which is still ongoing has assured us about the implementation strategies.

**b) Revenue projections are not forecasted using forecasting techniques or models**

**Response:** The annual revenue generation is inconsistent every year due to the fact that the major source of revenue is 5% property transaction service fee which is very



unpredictable. We don't have any specific forecasting tools for revenue. Once we have the complete central registry in place, the realistic revenue forecast could be projected.

**c) *Inadequate financial reports***

Before the current systems was not implemented, Thimphu Thromde has maintained the collection & deposit of revenues in the excel sheet. The revenue unit has not maintained other books of accounts except cash book. Now the systems are in place and few revenue codes are not accepted by the systems, revenue unit till now has to issue a manual receipt. For the manual receipt, we maintained a cash book in excel sheet separately. All the books of accounts are maintained. Basically, after the implementation of accrual basis of accounting, the actual financial reporting will be periodically generated and implemented.

**d) *Unclear line of reporting***

Now the systems are in place and the proper books of accounts are well maintained, the revenue collected and deposited and the bank statement are shared through emails to Thrompon, Executive Secretary, Chief Administrative Officer and Dy. Chief Accounts Officer for further actions and directives.

**3.2.2.10 *inadequate management of revenue receipt***

**a) *Printing of revenue receipts.***

After the implementation of the systems, we don't require manual receipts in huge numbers but few numbers are required to facilitate the clients when the systems goes down or when there is no power line. The revenue division put the requisition to the procurement section and the procurement then sends the work order for printing. Now every receipt book is recorded in the register with the signature of who receive the booklets.

The manual receipts will be punched into the system after the system is restored. This will be made possible by 30<sup>th</sup> of August, 2018.

**b) *Stock keeping and usage***

Now Thimphu Thromde is maintaining the stock register and recording the details of receipt book received and issued strictly.

**3.2.2.11 *Inadequacies in expenditure control***

Although there are systems in place we will try to improve the expenditure control for optimum utilization of scarce resources/revenue



### 3.2.2.12 *Inadequacies in Human Resources Management*

#### a) *Unrealistic approved staffing plan of the revenue section*

There are two approved posts for Revenue Inspector in the CSC and another Revenue Inspector in the Revenue Section under the AFD.

#### b) *Deputation of muster roll staff and water technicians in the revenue section*

With regard to the Water Technicians being deployed in the CSC, the Infrastructure Division used to deal with the water meter and billing, therefore the Technicians were placed there. Moreover, they have been working in the CSC for more than a decade now and they are well versed with the system.

However, in the 12th FYP, relevant Administrative Assistants will be recruited in the Complaints counter and the Technicians will be redeployed to the Infrastructure Division. There are no muster roll staff in the revenue section anymore. All of them have been redeployed to other Divisions.

### 3.2.2.13 *Lack of segregation of incompatible duties*

The duties of the three revenue officials are segregated. The ToR will be developed specifying their job responsibilities. Mr. Kunzang Chopel deals with depositing the money, Mr. Jigme Namgyel collects the cash and Mr. Sonam Penjor looks after the reconciliation.

### 3.2.2.14 unclear *vacant land tax*

**Response: We** will seek clarification from Ministry of Finance about the interpretation of the terms Underdevelopment tax and vacant land tax. This will be done within 30<sup>th</sup> of May, 2018 and report to RAA.

### 3.2.2.15 *Revenue Management Systems and Digitised Asset Register System.*

The audit finding has been forward to MoWHS for reply.

### 3.2.2.16 *Lack of performance tracking and reporting for Thromde services*

Thimphu Thromde has put in place the performance reporting mechanism in periodic manner. However, due to inconsistent in performance indicators which needs to be further reviewed and adopted. This will be done within 31<sup>st</sup> December, 2018.

### 3.2.2.17 *Inaction of the management on past audit findings and recommendations*

With interim measure is put in place with relevant divisions the Thromde management is following up the past audit observation.



## **Recommendations**

**4.1.** RMS-citizen portal system integration is initiated and it will be completed by August, 2018. The updation of missing data will be completed by 31<sup>st</sup> December, 2018.

**4.2.** We have already ascertained our sustainability in terms of current expenditure from our internal revenue for the first year of 12<sup>th</sup> five years plan. Furthermore, we will plan and manage our revenue to meet atleast the current expenditures. However, the capital expenses will not be possible at this point of time.

**4.4.** Since Thimphu Thromde is not a profit making body, no specific revenue enhance strategy has been adopted. However, we will continue to diversify our revenue sources in terms of fees and charges in lieu of investment made in infrastructures.

**4.5.** We will strive to improve our internal controls hereafter. The separate ToR will be developed for relevant revenue handling officials specifying their job responsibilities.

**4.6.** Thromde Accounting and Thromde Budgeting Manuals will specifically define the reporting mechanism. Once, it's officially implemented. Currently the manuals are submitted to ministry of finance for official endorsement.

**4.7.** Although there are systems in place we will try to improve the expenditure control for optimum utilization of scarce resources/revenue. We will try to abide by the recommendations provided by RAA to the possible extent.

**4.8.** We will try to abide by the recommendations provided by RAA to the possible extent.

**4.9.** We will continue to pursue with the Ministry of Works and Human Settlement and MoF.

**4.10.** Thromde will take necessary action as per the land act 2007 and DCR.

**4.11.** We will streamline the implementation of existing rules and policies to institute uniform application of taxes, fees and charges.

**4.12.** Agreed.

**4.13.** We are in the process of tracing out the missed out receipts. As of now Nu. 4.460,321.0 has been found accounted. The further exercise is being carried out to ascertain the non-accountal revenue.

**4.14.** Agreed.



19. Changangkha Lhakhang (Parking and site development)
20. Water supply maintenance, footpath maintenance and streetlight maintenance -- Nu. 250 Million
21. Neighbourhood nodes -- 5 nos. @ Nu.9 Million each -- Nu.45 Million
22. Development of Dechencholing Town (Construction of road, street light, footpath etc.) -- Nu. 150 Million
23. Construction of underpass -- 5 nos.
24. Construction of overhead bridges -- 3 places (Chubachu/near Druk School/Lungtenzampa)
25. Construction of alternative National Highway.
26. Riverfront areas
27. Preparation of LAP (Lubding, Pamtsho, Serbithang) -- 5 nos.
28. Review of Thimphu Structural Plan
29. Construction of Parks (additional) - 4 nos.
30. Plantation and beautification -- 15 nos.
31. Waste management
32. Construction of public toilets -- 10 nos.
33. Landfill site
34. CCTV- 100 nos.
35. Development of Municipal Information System
36. Online approval system
37. Utility vehicle -- 20 nos.
38. Development of On-line Municipal Services -- more than existing 10 services
39. Digitalization of municipal asset
40. Mass education of online municipal services
41. Development and review of SoP & FAQ
42. Thromde Education System -- Nu. 6 Million

#### **Agenda 5: Discussion on collection of underdevelopment fee**

**Discussion:** The House discussed on principle underlying the collection of underdevelopment tax. The Chairperson said that areas such as core areas, Local Area Plans (LAP) where Government incurring huge expenditure on water supply, construction of roads will be levied the underdevelopment tax while areas such as E4 zone will not levied underdevelopment tax.

**Decision:** The Tshogde deliberated to levy 25% underdevelopment tax. LAP invested areas including Changzamtog and Core areas will be levied underdevelopment tax while Hejo, Samtenling, Jungshina and E4 areas will not be levied underdevelopment tax.

#### **Agenda 6: Change of precinct for upper Changzamtog areas**

**Discussion:** UPD made a presentation on change of precinct for upper Changzamtog areas. The UPD was asked to report on change of precinct following the petition by fourteen plot owners of upper Changzamtog area. The upper Changzamtog falls under UV 2- (Sub Cat 1)



## ANNEXURE

The Annexures are given in the accompanying CD.



**AIN: 15086**

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