

Audit Report : Performance Audit Report on Tourism Sector (AIN: 14110)
Schedule of Audit : 5th May 2016 to 30th August 2016
Date of Issue : 21st December 2016
Period covered by Audit : 2011 to 2015
Name of Agency (s) : Tourism Council of Bhutan

	Recommendations	Action taken (as per the detailed action plan/report submitted)	Status/progress of corrective actions taken by the auditee agency	Reasons for non-completion of action
1	<p>TCB should prioritize the finalization of Tourism Policy and Act</p> <p>The draft Tourism Bill and policy were under discussion since 2005 at various levels, and no comprehensive legal and policy instruments could still be materialized to give much needed boost in the tourism sector. In absence of comprehensive legislations and policy guidelines, the legitimacy of the efforts of the implementing agencies may be undermined without adequate legal backing. The legal framework and policy guide should also provide for clear guidance on embracing the principle of ‘High Value, Low Impact’ which is seeing an increasing relevance in today’s context.</p> <p>Therefore, there is an urgent need for the TCB to formulate comprehensive tourism policy and legislations to give adequate legal teeth and ensure effective implementation of plans and programs through enhanced enforcement mechanism and monitoring of tourism activities. The adequate legal instruments would also provide the implementing agencies the legitimacy of their efforts towards reaping sustained economic advantage from this economic jewel of the country.</p>	<p>The TCB has submitted Action Plan as follows:</p> <ul style="list-style-type: none"> • TCB to submit the final draft of the tourism policy to the government through GNHC; <i>(time frame given is November and December 2017);</i> • The Draft tourism bill to be reviewed and submitted after the adoption of the tourism policy; <i>(time frame given is January and February 2018);</i> 	<p><u>Partially Implemented</u></p> <p>The TCB reported that it is in the process of drafting a tourism policy for submission to GNHC during the current financial year which will be followed by drafting of tourism bill during the first year of 12FYP.</p> <p>Since both the documents are in drafting stage, RAA maintains status as Partially Implemented.</p>	<p>The deadline for implementation falls due from November 2017 through February 2018.</p>

<p>2</p>	<p>TCB should strengthen coordination and monitoring mechanism</p> <p>Monitoring and coordination were generally lacking which impeded effective implementation and enforcement of regulations and policy directives. There should be smooth coordination and monitoring mechanisms in the tourism sector to ensure effective enforcement of regulations to promote Bhutan as an exclusive destination. The TCB should have a proper coordination mechanism through defined roles and responsibilities and protocols for cooperation. Better Collaboration and improved understanding of work relations amongst all stakeholders and agencies in the tourism sector is vital for effective monitoring. The TCB should also enforce uniform application of regulations and monitor the quality of services rendered by the tour operators in the areas of transportation, accommodation, guide services and other facilities. The strict regulation and effective monitoring mechanism will help to check on the incidences of any undesirable practices in the tourism industry.</p> <p>Therefore, instituting effective control and monitoring mechanism is fundamental in enforcing the policy directives of Government to promote Bhutan as an exclusive destination for visitors. For effective monitoring, the TCB should also be adequately strengthened in its human resources capacity.</p>	<p>The TCB has submitted Action Plan as follows:</p> <ul style="list-style-type: none"> • Development of guidelines for monitoring officials (<i>time frame given is July and August 2017</i>); • Monitoring of tour guides during peak season and major Tshechus and festivals; (<i>time frame given is September, October, November 2017 & March April May 2018</i>); • Monitoring of TCB registered accommodation facilities and restaurants; (<i>August and October 2017, and February and April 2018</i>) • Monitoring of tour Operators offices and infrastructures; (<i>July 2017, February 2018, May 2018</i>) • On the spot Checks of trekking groups during trekking season to ensure proper waste management by the trekking staff (<i>September and October 2017 & March and April 2018</i>) 	<p>Implemented</p> <p>TCB reported the following:</p> <ul style="list-style-type: none"> • The guideline for monitoring was approved in July 2017 and is being used for monitoring; • Monitoring of tour guides during peak season and major Tsechus is on-going. A total of 74 guides were monitored in the month of September coinciding with Thimphu Tsechu, Monitoring will continue in October, November, March, April and May as planned; • This is on-going. A total of 10 accommodation facilities and restaurants were monitored in August 2017; • This is on-going. 14 existing tour operators has been monitored and 77 new tour operators have been inspected and registered with TCB since July; • This could not be done in September since the officials were engaged in monitoring of tourist guides, accommodation facilities, tour operators. 	<p>The TCB has initiated coordination and monitoring through several measures. It is an ongoing activity and the time frame has been defined from July 2017 through May 2018.</p> <p>However, TCB may provide details of mechanisms for coordination & strengthening HR.</p>
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3	<p>Information sharing mechanism should be instituted for TCB, DRC and RTIO</p> <p>There was lack of proper information sharing mechanism amongst TCB, DRC and RTIO. In absence of which, effective monitoring, proper decision-making and enforcement of compliance to laws, rules and regulations were rendered difficult. There should be proper coordination and information sharing mechanism between the RTIO, DRC and TCB so that information can be shared on a real time basis which would enable effective monitoring and ensuring tax compliance.</p> <p>Information relating to issuance of new tourism licenses, cancellation and transfer of licenses should be shared between RTIO, DRC and TCB in order to curb the possibility of non-filing of business tax. With timely information, the TCB should be able to do proper monitoring of the Tour Operators License and thus, necessitate the Tour Operators to file taxes on time.</p>	<ul style="list-style-type: none"> • TCB to share TOs earning statement with DRC for filing of BIT by TOs (<i>time frame given is January and February 2018</i>); • DRC to issue Tax clearance certificate to TOs for the purpose of license renewal (<i>time frame given is February and March 2018</i>); • RTIO will carry out the renewal of TO license (<i>April, May & June 2018</i>); • RTIO to share the updated list of TO license with TCB (<i>time frame given is June 2018</i>); • TCB to take over the tourism licensing as proposed in the new tourism rules and regulations 2015 approved by the cabinet; (<i>time frame given is January 2018</i>); 	<p>Implemented</p> <p>TCB reported that a meeting was held between TCB, DRC and RTIO on 18th July 2017 to discuss and develop mechanisms to ensure regular sharing / dissemination of information amongst the three organizations related to tour operation.</p> <p>The following outcomes and the recommendations from the meeting were reported being implemented:</p> <ul style="list-style-type: none"> • Set up a mechanism for effective coordination between TCB and MoEA to address the concerns of the TCB while at the same time fulfilling the mandate of the MoEA; • TCB to issue sectorial clearance with one month validity for issuance of new Tour Operator’s license issued by MoEA; • TCB to either send a compiled 	<p>The TCB has initiated mechanism on Information sharing with relevant agencies.</p> <p>However, the actual implementations are yet to be verified. Details may be provided.</p>

			<p>valid list of Tour Operators to RTIO for the purpose of renewal during renewal or to send a list of delinquent tour operators so that the RTIO could instruct the operator to obtain TCB clearance;</p> <ul style="list-style-type: none"> • MoEA in consultation with the TCB to prepare a Note to Tengye Lyonpo seeking the Cabinet’s intervention in resolving the licensing authority issue between the two rules and regulations. 	
4	<p>TCB should regulate regional tourists in conformity to its principle of ‘High Value, Low Impact’</p> <p>As per the directives from the Cabinet issued in the year 2011, TCB should not apply double standards in the “definition” of tourist. However, TCB does not have a system of regulating the regional tourists.</p> <p>Therefore, whether it is international or regional tourists, it should be properly regulated through appropriate framework and mechanism. The TCB should also monitor tour operators to ensure uniform and quality services provided to all types of tourists and promote Bhutan as an exclusive destination for tourists.</p> <p>Therefore, the regional tourists should also be subjected to uniform application of regulations consistent to the country’s tourism principle of ‘High Value, Low Impact’.</p>	<p>Implement an online permit system that the regional tourist can use as an option to visit Bhutan:</p> <p>Monitor to ensure that regional tourist who availed online permit to stay in 3 star and above accommodation facilities and use Bhutanese licensed tour guide;</p> <ul style="list-style-type: none"> • <i>The TCB reported that it is being monitored on a regular basis</i> <p>Make the online mandatory for all regional tourists visiting Bhutan, subject to government approval; The TCB had given timeline as July 2017.</p>	<p><u>Implemented</u></p> <p>The e-permit system was introduced on a trial basis to provide options for regional tourists to enter Bhutan. Following the pilot implementation, a comprehensive review of the system was carried out and the report was presented during the 8/2 Tourism Council Meeting held on 22nd June 2017. Based on the directive of the meeting, a proposal for full implementation of the e-permit system commencing from November 2017 was submitted for Cabinet</p>	<p>The TCB had made efforts to encourage regional tourists to also route through Bhutanese Tour operators.</p> <p>However, there is no comprehensive enabling policy / strategy to regulate regional tourists.</p>

		<p>Introduce entry fee system for popular sites;</p> <ul style="list-style-type: none"> <i>TCB in collaboration with Dratshang Lhentshog implemented entry fee for Tashichhodzong and Paro Taktsang;</i> 	<p>approval in July 2017.</p> <p>Monitoring is on-going to ensure that e-permit holders comply with the requirements to use Bhutanese vehicle, certified guide and stay in a minimum of 3 star accommodations. Defaulters are penalized as per the relevant rules and regulations.</p> <p>In order to manage visitors in important religious sites, entry fee has been introduced in Memorial Chorten, Kyichu Lhakhang and Punakha Dzong in addition to Tashichhodzong and Taktsang.</p> <p>Additionally, Sustainable development fee collection from the regional tourists is also being considered.</p>	
5	<p>TCB should institute proper internal control mechanism in tariff regulations</p> <p>On review of tariff payment procedures, control weaknesses were observed in the areas of tariff deposits, visa endorsements based on tariff deposits and refund to tourists which may provide avenues for undesirable practices viz., under-cutting the applicable minimal tariff. Therefore, the RAA recommends the following to control incidences of such</p>	<p>TCB reports that the recommendations is being implemented as follows:</p> <p>Any refund due to tour cancellations shall be made directly to the client or agent abroad depending upon the cancellation policy;</p>	<p><u>Partially Implemented</u></p> <p>The recommendations have been partially implemented as TCB reports of having instituted the process of refunds due to tour cancellations directly to the clients or agent. It is reported that Tourism Rules</p>	<p>The RAA reiterates that the visa to be endorsed based on the tariff deposit made group wise and not based on the</p>

<p>practices:</p> <p>i. Visa for tourists should be endorsed by TCB based on tariff deposit made group-wise. The existing practice of endorsing visa solely based on the availability of usable amount balance in tour operators' account maintained with TCB does not ensure that minimal applicable tariff for all tourists were actually received for the intended group.</p> <p>ii. TCB should institute a proper system for cancellation of tour programs and the refunds thereof. As required by the Tour Payment Rules and Procedures, the tour operators should inform TCB in writing about the amount to be deducted and paid to their account before refund is made. In order to ensure that the correct refund is made for the intended purpose and to the actual beneficiary, the TCB should be able to track the inflow of the actual tariff, the details of tour cancellation and the out-flow of tariff after the deduction of applicable cancellation charges. The refundable amount should be remitted to the account of the client/travel agent overseas directly by TCB upon debiting the bank charges to the amount being refunded. The existing practice of refund for cancellation is made without exercising due diligence in terms of cross-checking receipt of actual tariff.</p> <p>iii. As required by the banking norms, the tour operators make a request to the TCB for any transfer of funds out of the Tour Operators accounts. While it is an established control instituted to check on any unauthorized transactions from the tour operators' account, it is invariably breached when the TCB recommends the transfer of funds from the Tour Operators account without actually authenticating or verifying the payments. Therefore, the TCB should first establish the legitimacy of payments before it recommends</p>	<p>TCB to implement new Tashel System opening of FC account in different banks and all transactions will be done in USD (timeline given is July 2017).</p>	<p>and Regulations 2017 (TRR 2017) has been endorsed by Cabinet in February and it is being implemented. The provision of TRR 2017 will address these issues.</p> <p>Additionally, it is informed that new Tashel system has been implemented with opening of TCB FC account in all the banks since June 2017 for issuance of visa to international leisure tourists.</p>	<p>availability of usable amount balance in tour operators' account maintained with TCB.</p> <p>Controls mechanism instituted, if any, on transfer of funds out of the tour operators accounts and ensure adequate controls on flow of foreign exchange from the tour operators' accounts has not been indicated.</p>
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<p>for any transaction from the Tour Operators' account. The due diligence should also be exercised by verifying the proof of remittances into their account and out of their account with the details of sender or receiver. For the transfer of fund on account of cancellation of the tour programs, the details of remittances and proof of cancellation of the tour programs should be verified and documented.</p> <p>iv. TCB should also require the Tour Operators to produce adequate proof of travels outside for which they recommend the Bank to issue foreign currency. All authorized travels by the tour operators should be properly endorsed and documented, and control instituted to check on the flow of foreign exchange from the tour operators' accounts.</p>			
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<p>6</p>	<p>TCB should integrate tourism activities in Dzongkhag Plans</p> <p>Currently, the TCB manages and executes all the construction of buildings and road-side amenities. As evident from the successive annual budget and work plans of TCB, the tourism products development and promotion were concentrated in the western and central parts of the country despite requirement to spread the benefits across the country. The TCB was also not effective in controlling trashes and wastes, building road side amenities and other tourism products due to none or little engagement of Dzongkhags. Thus, decentralization of tourism related activities to the local government was felt necessary to address the current challenges of budget ceiling and sector representation faced by the local government. Therefore, as per the executive orders and directives from the Cabinet, the TCB should institute a mechanism to proactively share information, consult and engage Dzongkhags to foster integration of tourism development activities in the Dzongkhag annual work performance agreement.</p>	<ul style="list-style-type: none"> • Establishment Of regional office in the east depending upon RCSC’s approval (July and August 2017); • Coordinate with GNHC and integrate tourism activities from 12th Plan (June 2018); 	<p><u>Partially Implemented</u></p> <p>TCB reported that it is in the process of preparing 12FYP. The first working draft of the plan has been submitted to GNHC. TCB with support from GNHC will initiate consolidation of 12FYP programmes of Local Governments / Dzongkhags with TCB plans to integrate tourism activities in the plans. It is also informed that TCB is in the process of working with RCSC on opening of Regional Tourism Office in east (to start with) and central regions to facilitate / support tourism development and promotion in the Dzongkhags.</p>	<p>The initiatives taken by TCB are noted. However, details of other actions taken to promote integration of tourism activities in Dzongkhag Plans are yet to be implemented.</p>
<p>7</p>	<p>TCB should review its pricing structure timely to make it more responsive to the pace of global economic developments</p> <p>The tariff structure of USD 200 per night per tourist for lean season was applicable as early as 1995 with revision of tariff for high season to USD 250 in 2012. Therefore, there may be a need for timely review of existing tariff structure to make it more responsive to the pace of global economic developments. The timely and dynamic tariff structure may help the government to yield the optimum economic advantage from tourism sector. However, the</p>	<p>Initiated tariff rationalization discussion as per EDP recommendation (timeline Nov. December, 2017)</p>	<p><u>Implemented</u></p> <p>The TCB has reported of having initiated actions as follows:</p> <ul style="list-style-type: none"> • Government has approved the Sustainable Development Fee waiver for six eastern Dzongkhags for three years. • TCB has submitted a guideline for implementation of SDF 	<p>The actions taken by the TCB is noted. However, the recommendations are not addressed fully.</p>

<p>review should not at any cost be conflicting to the principle of ‘High Value, Low Impact’, the policy which withstood the test of time.</p> <p>The possibility of having uniform tariff structure without classifying as high or lean season may also be explored to consistently promote Bhutan as year-round exclusive destination. To do this, the Government should encourage for more innovative tourism product diversification spread across the year and different regions in the country. The review may also explore for such pricing mechanism or discounts offered on daily tariff for those loyal tourists to encourage more re-visits. However, such arrangement should be consistent to the immigration policy of the Royal Government of Bhutan.</p>		wavier including timeline for implementation.	
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